

# *Annual Report: Budget Review*

*Board of Governors of the Federal Reserve System*

2009

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## Introduction

The Federal Reserve System—the nation’s central bank—consists of the Board of Governors in Washington, D.C., the 12 Federal Reserve Banks with their 24 branches distributed throughout the nation, the Federal Open Market Committee (FOMC), and three advisory councils—the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council. The System was created in 1913 by the Congress to establish a safe and flexible monetary and banking system. Over the years, the Congress has given the Federal Reserve more authority and responsibility for achieving broad national economic and financial objectives.

The duties of the Federal Reserve fall into four general areas: (1) conducting the nation’s monetary policy by influencing the monetary and credit conditions in the economy in the pursuit of maximum employment, stable prices, and moderate long-term interest rates; (2) supervising and regulating banking institutions to ensure the safety and soundness of the nation’s banking and financial system and to protect the credit rights of consumers; (3) maintaining the stability of the financial system and containing systemic risk that may arise in financial markets; and (4) providing financial services to depository institutions, the U.S. government, and foreign official institutions.

The Federal Reserve System plays a major role in the nation’s payment system. The Reserve Banks issue currency and distribute coin; process Fedwire, automated clearinghouse, and securities transfers; and collect checks. In addition, the Reserve Banks serve as the fiscal agents of the United States and

provide a variety of financial services for the Treasury, other government agencies, and other fiscal principals. For a fuller discussion of the Federal Reserve’s responsibilities, see the Board publication *The Federal Reserve System: Purposes & Functions*.

### Summary of 2008 Income and Expenditures

In carrying out its responsibilities in 2008, the Federal Reserve System incurred \$2.5 billion in net expenses.<sup>1</sup> Total spending of \$3.9 billion was offset by \$1.4 billion in revenue from priced services, claims for reimbursement, and other income. Total 2008 expenses were \$149.3 million, or 3.7 percent, less than the amount budgeted for 2008 (table I.1).<sup>2</sup>

The major source of Reserve Bank income is earnings from the portfolio of U.S. government securities in the System Open Market Account, totaling \$27.5 billion in 2008. Earnings in excess of expenses, dividends, and surplus are transferred to the U.S.

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1. With this *2009 Annual Report: Budget Review*, there has been a change in the way expenses are presented: the costs of printing and transporting currency, and related expenses, are now included in total System expenses, to align with the presentation in the *2008 Annual Report of the Board of Governors of the Federal Reserve System*. In past reports, currency expenses were shown as a memo item.

2. Beginning with the 1998–99 budget, the Board of Governors has operated on a two-year budget cycle and a four-year planning cycle. Given their business needs, the Federal Reserve Banks maintain an annual budget cycle. For more information on the budget processes, see appendix A.

*Table I.1*  
 Total Expenses of the Federal Reserve System, 2008  
 Millions of dollars, except as noted

	Budgeted	Actual	Variance	
			Amount	Percent
Reserve Banks .....	3,067.0	3,020.8	-46.2	-1.5
Board.....	352.3 <sup>1</sup>	351.2	-1.1	-0.3
Currency.....	602.4	500.4	-102.0	-16.9
<b>Total System expenses.....</b>	<b>4,021.7<sup>1</sup></b>	<b>3,872.4</b>	<b>-149.3</b>	<b>-3.7</b>

NOTE: Components may not sum to totals and may not yield percentages shown because of rounding.  
 1. Restated.

Treasury—in 2008, a total of \$31.7 billion.<sup>3</sup> (These net earnings are treated as receipts in the U.S. budget accounting system and as anticipated earnings projected by the Office of Management and Budget in the U.S. budget.)

### Operational Areas

In 2008, the Federal Reserve System accounted for costs using the following categories: monetary and economic policy, supervision and regulation of financial institutions, services to financial institutions and the public, services to the U.S. Treasury and other government agencies, and System policy direction and oversight.

#### Monetary and Economic Policy

The monetary and economic policy operational area encompasses Federal Reserve actions to influence the availability and cost of money and credit in the nation’s economy. In 2008, the Federal Open Market Committee held eight regularly scheduled meetings and adjusted the federal funds rate seven times.

A vast amount of banking and financial data flows through the Reserve Banks to the Board, where the data are compiled and made available to the public. The research staffs at the Board and the Banks use the data, along with information collected by other public and private institutions, to assess the state of the economy and the relationships between the financial markets and economic activity. Staff members provide background information to the Board of Governors and at each meeting of the FOMC by preparing detailed economic and financial analyses and projections for the domestic economy and international markets. The Board and the FOMC use these analyses and projections in setting reserve requirements, setting the discount rate (which affects the cost of borrowing), and conducting open market operations. Staff members also conduct longer-run economic studies on regional, national, and international issues.

#### Supervision and Regulation of Financial Institutions

The Federal Reserve plays a major role in the supervision and regulation of banks and bank holding companies. The Board of Governors adopts regulations to carry out statutory directives

3. For more detailed information on the income and the distribution of income, refer to the Board’s *2008 Annual Report*.

and establishes System supervisory and regulatory policies. The Reserve Banks conduct on-site examinations and inspections of state member banks and bank holding companies; review applications for mergers, acquisitions, and changes in control from banks and bank holding companies; and take formal supervisory actions. In 2008, the Federal Reserve conducted 486 examinations of state member banks (some of them jointly with state agencies), 500 examinations of large bank holding companies, and 3,048 inspections of small, noncomplex bank holding companies; it acted on 1,057 proposals, representing 1,910 individual applications involving bank holding company formations and acquisitions, bank mergers, and other transactions.

The Board also enforces compliance by state member banks and certain foreign banking organizations with federal laws protecting consumers in their use of credit and deposit accounts. Between July 1, 2007, and June 30, 2008, the System conducted 268 consumer compliance examinations: 263 covering state member banks and five covering foreign banking organizations. Also during that period, the System conducted 243 Community Reinvestment Act examinations.

The Board's supervisory responsibilities also extend to the foreign operations of U.S. banks and, under the International Banking Act, to the U.S. operations of foreign banks. Beyond these activities, the Federal Reserve System maintains continuous oversight of the banking industry to ensure the overall safety and soundness of the financial system. This broader responsibility is reflected in the System's presence in financial markets, through open market operations, and in its role as lender of last resort.

## Services to Financial Institutions and the Public

The Federal Reserve System plays a central role in the nation's payment systems by ensuring that enough currency and coin are in circulation to meet the public's demand. The Federal Reserve Board orders new currency from the Bureau of Engraving and Printing, and the Reserve Banks order new coin from the U.S. Mint. The Federal Reserve pays for the printing and transportation of currency. The Reserve Banks issue currency and distribute coin to the public through depository institutions to meet demand. The Reserve Banks also receive deposits of currency and coin from depository institutions; identify suspect counterfeit currency, which they forward to the U.S. Secret Service; and destroy currency that is unfit for circulation. In 2008, the Reserve Banks issued approximately \$732.1 billion in currency, and they distributed \$7.0 billion in coin to depository institutions. The Reserve Banks also received approximately \$671.1 billion in currency and \$6.3 billion in coin from depository institutions and destroyed \$148.5 billion in unfit currency. In 2008, the cost of printing and transporting currency was \$500.4 million.

The Reserve Banks also play a central role in the nation's payment systems by collecting checks and providing a variety of electronic services for depository institutions. In 2008, the Banks collected approximately 9.5 billion commercial checks, with a total value of about \$15.2 trillion. The Banks' automated clearinghouse (ACH) service allows depository institutions to send or receive credit transfers, such as direct payroll payments and corporate payments to vendors, and debit payment transactions authorized by consumers, such as payments of insurance premiums, mortgages, loans, and other



bills from their accounts. In 2008, the Reserve Banks processed approximately 11.2 billion ACH transactions, valued at about \$19.7 trillion. Approximately 10 percent of the transactions were for the federal government; the rest were for commercial establishments.

The Reserve Banks' Fedwire Funds Service allows participants in the service to use their balances at the Reserve Banks to transfer funds to other participants. In 2008, the Banks processed approximately 131 million Fedwire funds transfers, valued at approximately \$755 trillion.

The Reserve Banks' National Settlement Service allows participants in private clearing arrangements to settle transactions through their Federal Reserve accounts. Approximately 42 local and national private arrangements, primarily check clearinghouse associations, use the National Settlement Service. In 2008, the Banks processed more than 468,000 settlement entries for these arrangements, with a debit value of more than \$20.9 trillion.

The Reserve Banks' Fedwire Securities Service provides securities services to participants, including the settlement of book-entry transfers of securities issued by the U.S. Treasury, federal government agencies, government-sponsored enterprises, and certain international organizations. In 2008, participants originated approximately 26 million transfers, valued at about \$429 trillion.

### Services to the U.S. Treasury and Other Government Agencies

Pursuant to the Federal Reserve Act, the Reserve Banks provide fiscal agency and depository services to the U.S. government and other fiscal principals. These services relate to securities custody and transfer, payments,

deposits, and customer support. The federal government and other fiscal principals reimburse the Banks for the cost of providing these services. In 2008, the Reserve Banks sought reimbursement of approximately \$461.1 million. Reimbursement was received or is expected for all of the expenses incurred.<sup>4</sup>

The Reserve Banks issue, service, and redeem marketable Treasury securities and savings bonds, and they process secondary-market Fedwire securities transfers. In 2008, the Banks conducted 263 Treasury securities auctions and printed and mailed more than 22 million savings bonds. The Reserve Banks operate two book-entry (computer-based) securities systems for the custody of Treasury securities—the Fedwire Securities Service and a separate computer application designed for retail investors who plan to hold these securities until maturity. Almost all book-entry Treasury securities are maintained on Fedwire, which is also the nation's principal securities-transfer mechanism.

The Reserve Banks collect and disburse funds on behalf of the federal government. They maintain the Treasury's bank account, accept deposits, pay checks drawn on the Treasury's account, and make Fedwire and automated clearinghouse payments for the Treasury. In 2008, the Banks continued to assist the Treasury in its efforts to receive and make payments electronically. For example, they operate the Pay.gov Internet portal, which enables the public to make payments to the Treasury and other federal government agencies over the Internet.

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4. The Reserve Banks are required by the Federal Reserve Act to serve as fiscal agents and depositories of the United States. By statute, the Department of the Treasury has appropriations to pay for these services.

The Reserve Banks also provide fiscal agency and depository services to other domestic and international entities. Depending on the authority under which the services are provided, the Banks may maintain book-entry accounts of securities; provide custody for the stock of unissued, definitive (physical) securities; maintain and update balances of outstanding book-entry and definitive securities for issuers; and maintain related funds accounts.

### System Policy Direction and Oversight

This operational area encompasses activities by the Board of Governors in supervising Board and Reserve Bank programs. At the Reserve Bank level, the expenses for these activities are considered support and are therefore allocated across the other operational areas. ■



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# *The Budgets*



## Chapter 1

# Federal Reserve System

Total net expenses for the Federal Reserve System for 2009 are budgeted at \$4,084.4 million, an increase of 5.5 percent from 2008 actual expenses. Of this total, \$3,086.2 million is for the Reserve Banks, \$366.7 million is for the Board of Governors, and \$631.5 million is for the cost of new currency (tables 1.1 and 1.2).<sup>1</sup> Revenue from priced services provided to depository institutions is expected to total \$692.4 million, or 17 percent of total budgeted expenses. This revenue, combined with claims for reimbursement and other income, results in the recovery of 28 percent of the System's budgeted 2009 expenses.<sup>2</sup> When these items are deducted

from budgeted 2009 expenses, net expenses of the System are 15.5 percent higher than 2008 net expenses (table 1.1), primarily because of a decline in priced services revenue and an increase in currency costs.

The distribution of budgeted expenses is similar to that in previous years, with the Reserve Banks' expenses accounting for 76 percent of the total, new currency expenses accounting for 15 percent, and Board expenses accounting for the remainder (chart 1.1).

System employment is budgeted at 20,018 for 2009, a decrease of 727 from the 2008 level, largely because of planned staff reductions by the Reserve Banks.

1. The Board of Governors budgets on a two-year cycle; in this chapter, 2009 values shown for the System and the Board reflect the estimated second-year effect of the Board's 2008-09 budget.

2. *Claims for reimbursement* refers to costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies,

and other fiscal principals that are billed to these agencies. *Other income* comes from services provided on behalf of the U.S. Treasury that are paid for by the depository institutions using the services, which include the transfer of funds between depository institutions and the Treasury.

Table 1.1

Total Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 2007–2009

Millions of dollars, except as noted

Item	2007 (actual)	2008 (actual)	2009 (budgeted)	Percent change	
				2007 to 2008	2008 to 2009
Total System expenses <sup>1</sup> .....	3,883.0 <sup>2</sup>	3,872.4	4,084.4	-0.3	5.5
LESS					
Revenue from priced services .....	1,012.4	873.8	692.4	-13.7	-20.8
Other income .....	1.4	1.3	1.3	-9.5	0.0
Claims for reimbursement <sup>3</sup> .....	458.2	461.1	461.7	0.6	0.1
EQUALS					
<b>Net System expenses .....</b>	<b>2,411.1<sup>2</sup></b>	<b>2,536.2</b>	<b>2,929.0</b>	<b>5.2</b>	<b>15.5</b>

NOTE: Components may not sum to totals and may not yield percentages shown because of rounding. Total expenses reflect all redistributions for support and overhead and exclude capital outlays.

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2. Restated to include Office of Inspector General expenses and extraordinary items.

3. Costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals that are billed to these agencies.

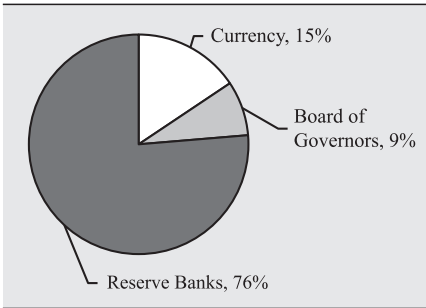
**Table 1.2**  
 Expenses of the Federal Reserve System for Operations and Currency, 2007–2009  
 Millions of dollars, except as noted

Item	2007 (actual)	2008 (actual)	2009 (budgeted)	Percent change	
				2007 to 2008	2008 to 2009
Reserve Banks <sup>1</sup> .....	2,983.5	3,020.8	3,086.2	1.3	2.2
Personnel .....	2,013.7	2,021.3	2,102.4	0.4	4.0
Nonpersonnel .....	969.8	999.5	983.8	3.1	-1.6
Board of Governors <sup>2</sup> .....	323.5 <sup>3</sup>	351.2	366.7	8.6	4.4
Personnel .....	237.1 <sup>3</sup>	268.2	274.1	13.1	2.2
Nonpersonnel .....	86.4 <sup>3</sup>	83.0	92.6	-3.9	11.6
Currency <sup>4</sup> .....	576.0	500.4	631.5	-13.1	26.2
<b>Total System expenses</b> .....	<b>3,883.0<sup>3</sup></b>	<b>3,872.4</b>	<b>4,084.4</b>	<b>-0.3</b>	<b>5.5</b>

NOTE: Expenses exclude capital outlays. Components may not sum to totals and may not yield percentages shown because of rounding.

1. For detailed information on Reserve Bank expenses, see chapter 3.
2. Includes extraordinary items and expenses of the Office of Inspector General. See also chapter 2.
3. Restated to include Office of Inspector General expenses and extraordinary items.
4. For more information on currency expenses, see chapter 4.

**Chart 1.1**  
 Distribution of Budgeted Expenses of the  
 Federal Reserve System, 2009



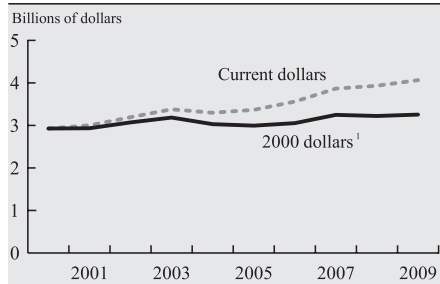
**2009 System Budget Initiatives**

The Reserve Bank budgets are funding increases in the central bank functions, specifically monetary policy and public programs, supervision and regulation functions, and cash operations, offset by reductions in the check operations. The major factors affecting the 2009 Reserve Bank budgets are outlined in more detail in chapter 3.

**Trends in  
 Expenses and Employment**

From the actual 2000 level to the budgeted 2009 amount, the total expenses of the Federal Reserve System have increased an average of 3.8 percent per year (1.2 percent per year when adjusted for inflation) (chart 1.2). Over the same period, nondefense discretion-

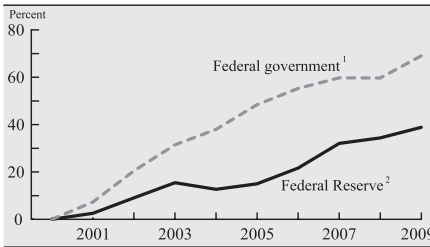
**Chart 1.2**  
 Total Expenses of the Federal Reserve  
 System, 2000–2009



NOTE: Expenses for 2007 have been restated so that all years include Office of Inspector General expenses and extraordinary items. For all years, includes the costs of new currency. For 2009, budgeted.

1. Calculated with GDP price deflator.

**Chart 1.3**  
Cumulative Change in Federal Reserve System Expenses and Federal Government Expenses, 2000–2009



NOTE: For 2009, budgeted.

1. Discretionary spending less expenditures on defense. Source: *Budget of the United States Government, Fiscal Year 2009: Historical Tables*, Table 8.1 Outlays by Budget Enforcement Act Category, 1962–2013.

2. Includes the cost of new currency and Office of Inspector General expenses and extraordinary items.

ary spending by the federal government has increased an average of 6.0 percent per year (chart 1.3). Over the 2000–2009 period, Federal Reserve System employment has decreased 4,853 (chart 1.4).

The primary factors influencing both Reserve Bank spending restraint and the substantial staffing decreases over the past 10 years have been restructuring efforts in the check-processing function and efficiency measures in the support and overhead functions. Over the same ten-year period, check costs decreased an average of 4.3 percent and the staffing level declined an average of 11.9 percent annually as a result of increased efficiencies and investments in technology. Local support and overhead costs increased an average of 1.6 percent annually and the staffing level de-

**Chart 1.4**  
Employment in the Federal Reserve System, 2000–2009



NOTE: For 2009, budgeted.

clined an average of 3.9 percent annually over the same ten-year period.

## 2009 Capital Budgets

The capital budgets for the Reserve Banks and the Board total \$550.3 million, with \$519.4 million budgeted for the Reserve Banks and Federal Reserve Information Technology (FRIT) and \$30.9 million budgeted for the Board. As in previous years, the 2009 capital budgets include funding for projects that support the strategic direction outlined by the individual Reserve Banks, System business leaders, and the Board. These strategic goals focus on investments that continue to improve operational efficiencies, enhance services to bank customers, and ensure a safe, high-quality work environment. More detailed discussions of the Board and Reserve Bank capital budgets are included in chapters 2 and 3, respectively.





## Chapter 2

# Board of Governors

The Board of Governors operates under a two-year budget. The budget for 2008–09 was approved in December 2007 and subsequently amended in April 2009.

### 2008–09 Budget

#### Board of Governors

The Board's approved operating budget for 2008–09 was originally set at \$706.3 million—\$526.6 million (74.6 percent) for salaries and benefits and the remaining \$179.7 million for goods and services (table 2.1; also see appendix C). The Board's approved capital budget for 2008–09 was \$47.8 million, representing funds to be used primarily to replace or upgrade computing systems, renovate aging facilities, and expand office space to accommodate workforce growth.

In 2009, \$30.1 million, or 4.3 percent, was added to the Board's operating budget, bringing the two-year bud-

get to \$736.4 million. The increase in operating funds was driven by the extraordinary demands put on Board staff, Board operations, and technology support related to the financial crisis. Demands for information and technology and general services support have increased in order to provide real-time analysis and make changes to reports frequently based on new or revised regulatory and lending practices. There have been no changes to the Board's capital budget.

#### Office of Inspector General

In keeping with its statutory independence, the Office of Inspector General (OIG) prepares its proposed budget apart from the Board's budget and presents it directly to the Chairman of the Board of Governors for Board members' consideration. The OIG's 2008–09 operating budget was \$12.7 million. During 2009, an additional \$1.3 million

Table 2.1

Operating Expenses and Capital Expenditures of the Board of Governors, 2006–2009

Millions of dollars, except as noted

Operational area or Office of Inspector General	2006–07 (budgeted)	2006–07 (actual)	2008–09 (budgeted)	2008 (actual)	2008 actual expenses as a percent of the 2008–09 budget
Monetary and economic policy.....	143.1	137.9	169.1	78.1	46.2
Supervisory, regulatory, and legal services...	206.4	200.5	232.0	117.1	50.5
Federal Reserve System policy direction.....	55.6	55.9	66.3	31.0	46.7
Support and security services .....	195.4	198.8	236.9	119.6	50.5
Extraordinary items .....	9.0	8.3	2.0	0.1	6.3
<b>Total, Board operations .....</b>	<b>609.5</b>	<b>601.4</b>	<b>706.3</b>	<b>345.9</b>	<b>49.0</b>
<b>Total, capital<sup>1</sup> .....</b>	<b>31.4</b>	<b>24.7</b>	<b>47.8</b>	<b>8.9</b>	<b>18.6</b>
Office of Inspector General .....	10.2	9.5	12.7	5.3	42.1

NOTE. Components may not sum to totals and may not yield percentages shown because of rounding.

1. Includes Office of Inspector General.

Table 2.2  
Positions Authorized at the Board of Governors, 2006–2009

Operational area or Office of Inspector General	Position count			
	2006–07 (initial)	2006–07 (ending)	2008–09 (initial)	2008 (ending)
Monetary and economic policy.....	466	467	481	484
Supervisory, regulatory, and legal services....	567	577	576	585
Federal Reserve System policy direction.....	173	176	179	179
Support and security services <sup>1</sup> .....	770	805	805	832
Extraordinary items.....	...	...	...	...
<b>Total, Board operations.....</b>	<b>1,976</b>	<b>2,025</b>	<b>2,041</b>	<b>2,080</b>
Office of Inspector General.....	36	36	37	37

1. Includes summer interns and youth positions and positions that support the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

... Not applicable.

was added, bringing the two-year budget to \$14.0 million. The capital budget increased by \$11,000.

### Authorized Positions

At the beginning of the 2008-09 budget cycle, the Board had 2,041 authorized positions (table 2.2). The number of authorized positions for the OIG was 37.

To meet increased workload demands, the Board added 39 positions in 2008. In 2009, the Board added another 63 positions, bringing the total authorized positions to 2,143. The OIG’s total authorized positions remained at 37 during 2008, but 8 positions were added during 2009.

### Areas of Risk

Despite careful planning, future developments could necessitate resources beyond those currently approved. Examples of such developments include

- significant changes in or shocks to the economy or financial system that create a material increase in workload,

- heavier workload required by laws, decisions to expand or modify central bank operations, or compliance requirements,
- pressure in key areas requiring additional salary or benefit packages in order for the Board to remain competitive, and
- an unforeseen external event requiring additional security or contingency enhancements.

### 2008 Budget Performance

#### Board of Governors

The Board’s 2008 operating expenses totaled \$345.9 million. Personnel-related expenses totaled \$263.4 million, or 2.1 percent over the \$258.0 million budgeted for the first half of the biennium. Expenses for goods and services totaled \$82.5 million, or 6.4 percent below the \$88.1 million budgeted. The underage was due to lower-than-expected expenses for contractual professional services, repairs, and furniture and equipment. Capital expenditures for 2008 totaled \$8.9 million, or 62.0 percent below the \$23.4 million budgeted, primarily because of changes in the timing of several capital projects.

## Office of Inspector General

OIG expenses for 2008 totaled \$5.3 million, compared with a budgeted amount of \$6.2 million. ■



## Chapter 3

# Federal Reserve Banks

The 2009 operating budgets of the 12 Reserve Banks total \$3,086.2 million.<sup>1</sup> The 2009 total is \$65.4 million, or 2.2 percent, above 2008 actual expenses. This growth is driven by increases in central bank functions, specifically related to growth in monetary policy and public programs, supervision and regulation, and cash operations. These increases are significantly offset by decreases in priced services due largely to the decline in paper-check volume, as a result of the electrification of check services, and the associated reductions in the check-processing infrastructure.

Budgeted net expenses for 2009, after revenue and reimbursements, are expected to increase by \$246.1 million, or

14.6 percent, over 2008 actual net expenses (table 3.1). Nearly 40 percent of Reserve Bank expenses in the 2009 budget are offset by priced service revenues (22 percent) and reimbursable claims for services provided to the Treasury and other agencies (15 percent).<sup>2</sup> Budgeted 2009 priced services revenue is lower than the 2008 actual level, primarily as a result of declining paper-check volume. Reimbursable claims are expected to increase only slightly in 2009, reflecting an ongoing effort by the Treasury and the Reserve Banks to contain costs while maintaining support for key programs and advancing new initiatives.

1. These expenses include those budgeted by Federal Reserve Information Technology (FRIT) and the Office of Employee Benefits (OEB) that are chargeable to the Reserve Banks.

2. Reimbursable claims include costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals that are billed to and reimbursed by these agencies.

Table 3.1

Operating Expenses of the Federal Reserve Banks, Net of Receipts and Claims for Reimbursement, 2008 and 2009

Millions of dollars, except as noted

Item	2008 (actual)	2009 (budgeted)	Change	
			Amount	Percent
Total operating expenses.....	3,020.8	3,086.2	65.4	2.2
LESS .....				
Revenue from priced services.....	873.8	692.4	-181.4	-20.8
Other income .....	1.3	1.3	0.0	0.0
Claims for reimbursement <sup>1</sup> .....	461.1	461.7	0.6	0.1
EQUALS .....				
<b>Net expenses .....</b>	<b>1,684.6</b>	<b>1,930.8</b>	<b>246.1</b>	<b>14.6</b>

NOTE: Excludes capital outlays. Includes expenses budgeted by Federal Reserve Information Technology and Office of Employee Benefits. Expenses from these entities have been charged to the Reserve Banks, as appropriate, and included in their budgets. Components may not sum to totals and may not yield percentages shown because of rounding. Operating expenses reflect all redistributions for support and allocations of overhead.

1. Costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals that are billed to these agencies.

Table 3.2

Employment at the Federal Reserve Banks, FRIT, and OEB, 2008 and 2009

Average number of personnel, except as noted

Item	2008 (actual)	2009 (budgeted)	Change	
			Amount	Percent
Reserve Banks .....	17,824	17,086	-738	-4.1
Federal Reserve Information Technology (FRIT) .....	880	889	9	1.0
Office of Employee Benefits (OEB) .....	43	45	2	4.7
<b>Total</b> .....	<b>18,747</b>	<b>18,020</b>	<b>-727</b>	<b>-3.9</b>

NOTE: Components may not sum to totals and may not yield percentages shown because of rounding. See text footnote 3 for definition of average number of personnel (ANP).

Total 2009 projected employment for the Reserve Banks, FRIT, and OEB is 18,020 ANP, a decrease of 727 ANP, or 3.9 percent, from the 2008 actual staff level (table 3.2).<sup>3</sup> The 2009 staffing decrease continues the trend of workforce reductions that began in the late 1990s; the staffing level is the lowest in the past 30 years. The 2009 budgeted staff reductions are largely due to the effect of infrastructure changes and paper-check volume declines, slightly offset by staffing increases in central bank functions.

### 2008 Budget Performance

Total 2008 actual expenses are \$3,020.8 million, which represents a decrease of \$46.2 million, or 1.5 percent, from the approved 2008 budget of \$3,067.0 million. Total 2008 actual staffing of 18,747 ANP represents a decrease of 508 ANP from 2008 budgeted levels of 19,255 ANP.

The expense decrease compared to budget was driven in part by the accelerated closing of check-processing sites

in 2008. System check-service costs decreased \$17.3 million, or 2.7 percent, because of significant cost-containment efforts and a reduction in resources commensurate with the faster-than-expected decline in paper-check volumes. In 2007, the Reserve Banks planned to reduce check-processing sites from 22 to 4 by 2011 but now plan to contract to one full-service paper check-processing site by late 2009 or early 2010.

Also contributing to the underrun is a decrease in cash operation costs of \$16.5 million, or 3.7 percent, under the approved 2008 budget. The underrun reflects lower personnel costs of \$6.4 million, including lower staffing levels in response to volume declines and delays in equipment upgrades of \$2.7 million. Timing shifts in projects account for the majority of the remainder of the underrun. Treasury services were under budget by \$8.8 million, or 2.0 percent, largely as a result of the Treasury Web Application Infrastructure (TWA) optimization program, an effort to identify efficiencies and cost savings, and delays in the Treasury's Collections and Cash Management Modernization (CCMM) initiative.<sup>4</sup>

3. ANP is the average number of employees in terms of full-time positions for the period. For instance, a full-time employee who works one-half of the year counts as 0.5 ANP for that calendar year; two half-time employees who work the full year count as 1 ANP.

4. CCMM is a comprehensive multi-year enterprise architecture initiative to streamline, modernize, and improve the services, systems, and

Partially offsetting the underrun were increased expenses in the supervision and regulation area. Expenses were over budget by \$1.8 million, or 0.3 percent, for enhanced automation resources.

The underrun of 508 ANP, as compared with the approved budget, reflects lower staffing in several areas. Check operations are 295 ANP under budget because of higher-than-projected volume declines. Treasury services is 62 ANP below budget, reflecting the CCMM initiative and volume reductions. Cash operations is 43 ANP under budget, primarily because of volume declines and productivity gains. The facilities management function is 32 ANP under budget because of outsourced housekeeping in one district and reduced building and housekeeping needs in some of the Branch operations. Efficiencies and hiring delays in several areas account for the remaining staff reductions.

### **Initiatives Affecting the 2009 Budget**

For 2009, the Reserve Banks' budgets reflect funding for several initiatives that will address financial stability and deteriorating banking conditions as well as enhance resiliency. The 2009 budget also supports the Reserve Banks' efforts to modernize and increase efficiencies in both the cash and check areas.

#### **Central Bank Services**

In the central bank area, which includes monetary policy, public programs, su-

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processes supporting the Treasury's collections and cash-management programs. The goal is to improve efficiency and reduce costs to the Treasury, which provides a savings to the taxpayers.

per vision and regulation, and cash operations, expenses are increasing \$194.6 million, or 10.9 percent, in 2009. The staffing level is increasing 208 ANP, in part because of the full-year effect of staff additions in 2008 and personnel needed to support resiliency efforts. Total costs for monetary policy and public programs are increasing \$54.1 million, or 10.4 percent, driven primarily by salary-related costs and resiliency enhancements in central bank functions and other aspects of open market operations.

The budget for the supervision and regulation function is increasing \$72.0 million, or 11.2 percent, over actual 2008 expenses, primarily for additional resources to address financial stability issues and increased supervision needs. The staffing level is increasing by 111 ANP.

Expenses in cash operations are increasing \$48.5 million, or 11.3 percent. The Currency and Coin Handling Environment (CACHE) project and increased support charges, primarily for building and protection services, are driving the increase.<sup>5</sup> These expenses are slightly offset by staffing reductions resulting from lower-than-expected volumes.

#### **Treasury-Related Functions**

The budget for services to the Treasury, which are fully reimbursed, are increasing \$2.3 million, or 0.5 percent. The CCMM initiative, which transitioned several Treasury business lines to

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5. The CACHE project was formerly named the Future Cash Automation Project (FCAP). The aim of CACHE is to develop and deploy a new cash software application and technical architecture in the Federal Reserve Banks to streamline operations, improve controls, provide more robust data-management tools, and present a more standardized face to the customer.



private-sector financial agents at the end of 2008, and continued volume declines in Treasury retail securities, government checks, and postal money orders will reduce costs and the staffing level, which will decline by 44 ANP. These reductions are largely offset by increased charges from FRIT and the TWAI. Expenses related to the TWAI are increasing as the number of applications hosted in the infrastructure expands in connection with the CCMM initiative.

### Priced Services

Total check expenses are decreasing \$145.1 million, or 23.6 percent, because of check-restructuring costs recognized in 2008, the accelerated restructuring changes planned for 2009, and continued paper-check volume declines. In response to the continuing decline in paper-check volumes, the Reserve Banks recently decided that, likely by late 2009 or early 2010, the Federal Reserve Bank of Cleveland will serve as the System's single paper-check processing and adjustments site and that the Federal Reserve Bank of Atlanta will serve as the System's single electronic-check processing site. The check staffing level is decreasing 1,039 ANP as a result of these actions. Despite these cost reduction efforts, the Reserve Banks have budgeted a recovery rate of 92.3 percent in 2009. The Reserve Banks will be reviewing additional steps needed to meet long-term cost-recovery objectives. The other priced services provided by the Federal Reserve—including operating an automated clearinghouse (ACH) service, transferring funds and securities, and providing a multilateral settlement service—did not result in any major expense or staffing initiatives in the 2009 budget.

### Support Services

Support costs are increasing \$51.6 million, or 5.8 percent. The expense increases are driven primarily by increases for information technology (\$30.5 million) and law enforcement (\$7.1 million), mainly in salary-related costs. The staffing level is increasing 106 ANP to support application development and server and data center operations.

### Five-Year Trend in Reserve Bank Expenses

Total expenses for the Reserve Banks have grown an average of 4.2 percent annually over the past five years.

### Central Bank Services

Central bank services have grown an average of 8.0 percent annually over the past five years. The increase is primarily in the monetary policy and public programs areas, where expenses have grown on average 9.6 percent annually; the Banks have increased resources dedicated to community outreach, financial literacy, and regional economic research efforts. Expenses in the supervision and regulation function have grown an average of 8.1 percent annually over the past five years, reflecting the need for additional resources to recruit and retain staff with specialized skills, to implement the Basel II capital accord, and, more recently, to address financial market turmoil and deteriorating banking and economic conditions. There have been ongoing efficiency improvements in the cash area over the past five years. Overall, however, expenses in cash operations have increased an average of 5.0 percent annually, reflecting in-

creased costs to modernize the cash-processing and inventory-tracking infrastructure and higher support costs, particularly protection costs.

### Treasury Services

Treasury services expenses have grown on average 4.8 percent annually since 2004. Recent efforts by the Treasury to limit expense growth and delays in some projects have resulted in modest 2009 budgeted growth from 2008 actual expenses. The growth from 2004 to 2007 was driven primarily by the expansion of the TWAI to host a growing number of Treasury applications.

### Priced Services

Priced services expenses have been declining an average of 4.2 percent annually, driven by the check service. Efforts to reduce the size of the System's check operations, consistent with declining volumes, have resulted in an average annual decline of 7.2 percent in check-service costs since 2004. The downward trend in check expenses reflects staff reductions of 2,873 ANP since 2004.

### 2009 Personnel Expenses

Budgeted officer and employee salaries and other personnel expenses for 2009 total \$1,613.0 million, representing an increase of \$59.3 million, or 3.8 percent, compared with 2008 actual expenses. The increase represents the combined effect of the budgeted salary administration program, including the staff reductions mentioned previously, partially offset by reductions in staff related to restructuring and consolidation. Funding for officer and employee salary

administration programs reflects an increase of \$72.1 million. The increase is due largely to base-salary programs; merit pools for officers and employees total \$52.7 million, and promotions and market-based salary adjustments total \$19.4 million. The merit budget reflects weighted-average increases of 4.2 percent and 4.0 percent in base salaries for officers and employees, respectively. Variable pay programs are increasing \$18 million in 2009. The increase primarily is attributed to an increase in variable pay pools, which average 12.3 percent for officers, 5.2 percent for exempt staff, and 1.6 percent for non-exempt staff.

The 2009 employee turnover projection of 13.3 percent reflects continued System downsizing, particularly in the check area. Excluding positions that will not be replaced (36 percent of the total), employee turnover is 8.6 percent. The Reserve Banks project 6.1 percent officer turnover in 2009, 5.3 percent after excluding positions that will not be replaced.

### Risks in the 2009 Budget

There are several risks in the 2009 budget. The ongoing challenges in the financial industry and the broader economy present a considerable amount of risk. Additional staff will be needed to meet the supervision and regulation challenges presented by the current declining banking and economic conditions as well as to support the emergency liquidity facilities. In addition, there is uncertainty about the resource needs resulting from any further market events or new legislation that might affect the Federal Reserve's responsibilities.

Cash and Treasury project changes and delays could increase budgeted expenses. The ongoing CACHE develop-

ment effort poses risks to the 2009 budget, as project details continue to be refined and as business resources to support the implementation are fully assessed. Unforeseen requests from the Treasury or changes in project scope and direction could add costs and require additional resources in 2009. In connection with the CCMM initiative, the Treasury continues to refine its future vision for collections, payments, and cash-management systems, along with the timing of different components of the project. These efforts create a risk because of the potential changes in project timing and scope. In addition to the expense risks mentioned above, unforeseen delays or changes in the development of the new Check 21 platform could pose a risk to the 2009 capital budget.

## **2009 Capital Plan**

The 2009 capital budget submitted by the Reserve Banks and FRIT totals \$519.4 million, a \$199.0 million, or 62.1 percent, increase from the 2008 actual level. More than 70 percent of the increase is related to information technology and cash-services initiatives; the 2009 budget reflects the CACHE project and initiatives by the Federal Reserve Bank of New York to enhance resiliency.<sup>6</sup> The 2009 budget also includes outlays for multi-year efforts to migrate applications off the mainframe, including FedACH, Fedwire, and the internal accounting system.

As in previous years, the 2009 capital budget includes funding for projects that support the strategic direction outlined by the individual Reserve Banks

and the System. These strategies focus on investments that improve operational efficiencies, enhance services to Bank customers, and ensure a safe and quality work environment. In support of these strategies, the 2009 budget identifies seven categories of capital outlays: building projects and facility improvements, payment system improvements, cash-services initiatives, Treasury initiatives, information technology initiatives, security enhancements, and miscellaneous acquisitions.

The proposed capital budget includes \$179.2 million for building-related projects and facility improvements. Of the total building capital, \$64.8 million is related to major projects begun in previous years in Boston, New York, Philadelphia, Richmond, and St. Louis. The remaining outlays in this category will fund various building renovation and refurbishment projects, as well as miscellaneous facility improvement projects.

Initiatives related to cash, payment systems, and Treasury initiatives represent \$182.4 million in the capital budget. Of this total, \$72.6 million represents cash-services initiatives, including the CACHE development effort (\$39.5 million) and the Systemwide upgrade of cash-processing machines (\$21.0 million). The total capital budget for payment systems initiatives is \$65.1 million and primarily is related to the check-distribution computing platform project. The budget also includes \$44.7 million for reimbursable Treasury initiatives, including support of the Treasury Debt Management System, CCMM-related efforts, and various other initiatives.

The Reserve Banks and FRIT included \$105.8 million in funding for major information technology initiatives. These initiatives do not include the automation components of building or payment systems initiatives dis-

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6. The New York resiliency project, a multi-year project with total capital outlays of \$56.3 million, accounts for \$43.4 million of the 2009 capital budget.

cussed separately. Of the total automation-related outlays, FRIT projects and acquisitions account for \$25.6 million and New York Reserve Bank projects, including resiliency, account for \$54.5 million. In addition, the budget includes \$5.8 million in funding for local server equipment at the Reserve Banks.

The proposed capital budget includes \$48.7 million for security enhancements and \$3.3 million for equipment and software not falling into the defined categories above. ■



## Chapter 4

# Currency Budget

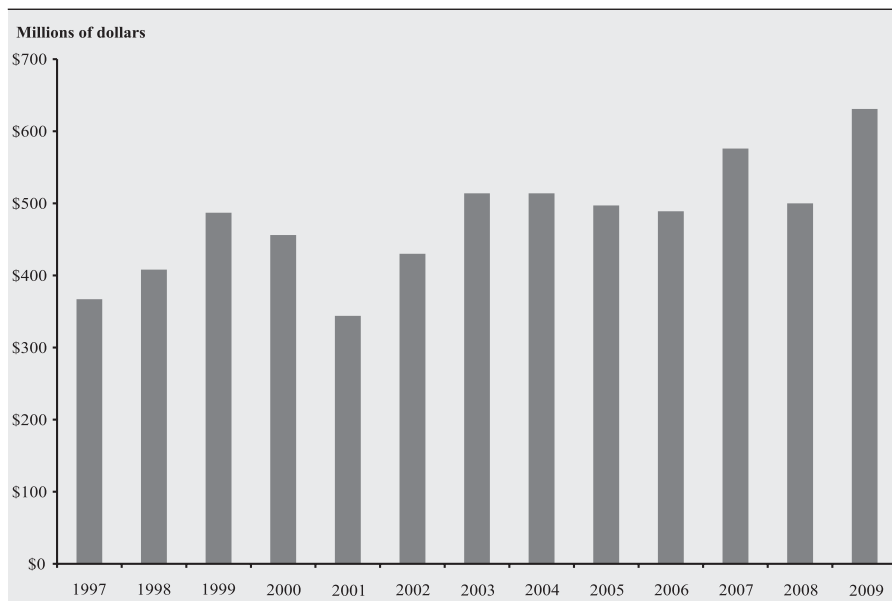
Federal Reserve Banks issue new and fit currency to the public through depository institutions and destroy currency already in circulation as it becomes unfit or when a new design is issued. Each year, under authority delegated by the Board, the director of the Division of Reserve Bank Operations and Payment Systems orders new currency from the U.S. Department of the Treasury's Bureau of Engraving and Printing (BEP). Upon reviewing the order, the BEP establishes billing rates for new currency, which the Board staff uses to prepare the annual budget for new currency. Once the Board approves the new currency budget, it assesses the costs of new currency to each Federal Reserve Bank through an accounting

procedure similar to that used in assessing the costs of the Board's operating expenses to the Banks. Total new currency expenses for 2008 were under budget by \$102.0 million, or 16.9 percent, primarily because the BEP produced 899 million (10.8 percent) fewer notes than budgeted.

The approved 2009 new currency budget of \$631.5 million is 26.2 percent higher than 2008 costs (chart 4.1). Printing costs for Federal Reserve notes represent 96 percent of the new currency budget, and expenses for currency transportation, counterfeit-deterrence research, and the Treasury's Office of Compliance account for the remaining 4 percent (table 4.1).

*Chart 4.1*

Federal Reserve Costs for New Currency, 1997–2009



NOTE: For 2009, budgeted.

Table 4.1

Federal Reserve Budget for New Currency, 2008 and 2009

Thousands of dollars, except as noted

Item	2008 (actual)	2009 (budgeted)	Percent Change
Printing of new Federal Reserve Notes .....	477,870	606,070	26.8
Currency transportation .....	15,034	17,145	14.0
Counterfeit-deterrence research .....	3,686	4,240	15.0
Reimbursement to the U.S. Treasury's Office of Compliance ..	3,812	4,022	5.5
<b>Total cost of currency .....</b>	<b>500,402</b>	<b>631,477</b>	<b>26.2</b>

**Printing of Federal Reserve Notes**

The calendar-year 2009 currency order will cost \$606.1 million to print, a 26.8 percent increase from the cost for the 2008 order. The average billing rate increased 24 percent, from \$69.66 in 2008 to \$86.36 in 2009 (table 4.2); this increase is influenced strongly by the estimated cost for the Series 2004 \$100 note, which accounts for about 19 percent of the 2009 order, and changes in both print-order volume and denomination mix. In particular, we estimate that the incremental cost to produce the more-expensive Series 2004 \$100 notes accounts for 50 percent of the billing rate increase and that BEP fixed costs spread over the smaller print order will account for an additional 33 percent. Excluding these factors, the average billing rate would have increased only

4 percent, to \$72.48 per thousand notes. In addition to the increase in billing rates, the 2009 print budget is also higher than 2008 costs because it contains a larger share of more-expensive Series 2004 notes than did the 2008 budget. Series 2004 notes account for 49 percent of the calendar-year 2009 budget, compared with 46 percent of the 2008 calendar-year budget (table 4.2). Specifically, the proposed 2009 budget includes 1.3 billion Series 2004 \$100 notes at the billing rate of \$134.97 per thousand, amounting to \$178.4 million, or 29.4 percent, of the total proposed printing costs for the new currency budget.

**Currency Transportation**

The 2009 currency transportation budget is \$17.1 million, which includes the

Table 4.2

Projected Federal Reserve Costs of Printing New Notes, by Type of Note, 2009

Type of note	Number of notes (millions)	Percent of total notes	Cost per thousand notes (dollars)	Total cost (thousands of dollars)
Unthreaded (\$1, \$2) .....	2,745.6	39.1	52.68	144,638
Series 1996 (\$100) .....	851.2	12.1	97.23	82,762
Series 2004 .....				
\$5 .....	780.8	11.1	90.08	70,334
\$10 .....	140.8	2.0	93.50	13,165
\$20, \$50 .....	1,177.6	16.8	99.18	116,794
\$100 <sup>e</sup> .....	1,321.6	18.8	134.97	178,376
Volume-weighted average cost .....	...	...	86.36	...
<b>Total .....</b>	<b>7,017.6</b>	<b>100.0</b>	<b>...</b>	<b>606,070</b>

NOTE: Components may not sum to totals and may not yield percentages because of rounding.

... Not applicable.

e Estimate.

costs of shipping new currency from the BEP to Reserve Banks (\$10.2 million), of intra-System shipments of fit and unprocessed currency (\$6.9 million), and of returning currency pallets to the BEP (\$55,000).

The 2009 budget for currency transportation increased 14 percent from 2008 costs. The overall increase reflects only a slight change in intra-System shipment costs, but a 29.5 percent increase in new currency shipment costs. Intra-System shipment carriers adjusted costs throughout 2008 to reflect fuel price changes. For budget planning purposes, therefore, we assumed no significant price changes in 2009 for intra-System shipments. The new currency shipment budget, however, increased 29.5 percent over 2008 expenses, primarily because we assumed significant price increases for carriers that did not seek fuel surcharge relief in 2008.

### **Counterfeit-Deterrence Research**

The 2009 budget for counterfeit-deterrence research is \$4.2 million, which includes costs associated with the Central Bank Counterfeit Deterrence Group (CBCDG) and the Reprographic Research Center (RRC). The CBCDG operates under the auspices of the G-10 central bank governors to

combat digital counterfeiting and includes 30 central banks. The Board's \$4.2 million share of the 2009 CBCDG budget, which accounts for 99 percent of the Federal Reserve's counterfeit-deterrence budget, is 15.2 percent higher than the Board's share of the 2008 CBCDG costs.<sup>1</sup> Most of this increase is attributable to new research initiatives and legal fees.

### **Reimbursement to the Treasury's Office of Compliance**

The 2009 budget to reimburse expenses to the Treasury's Office of Compliance (OC) is \$4.0 million. The OC develops Reserve Bank standards for cancellation and destruction of unfit currency and for note accountability; the OC also reviews Reserve Banks' cash operations for compliance with its standards. As a public service, the OC also processes claims for the redemption of damaged or mutilated currency. The OC budget increase of 5.5 percent results primarily from increased travel costs. ■

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1. The estimated RRC payment of \$35,000 represents the remaining 1 percent of the counterfeit-deterrence research budget. The RRC is a state-of-the-art facility hosted by the National Bank of Denmark to conduct adversarial testing of banknote designs and counterfeit-deterrent features for its 13 member countries.





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# *Appendixes*



## Appendix A

# Federal Reserve Budget Processes

The Board of Governors and the Federal Reserve Banks have separate budgets and separate budget processes.

directly to the Chairman for action by the Board.

### Board of Governors

The Board's budget covers a two-year period. The budget process is as follows:

- Each Board division examines its operating environment and considers whether any adjustments to its mission, priorities, activities, and associated resources might improve the efficiency and effectiveness of the Board's operations. A proposed budget based on Boardwide priorities and planning assumptions is prepared for each division.
- The divisions provide their proposed budgets to the Staff Planning Group (SPG), a group composed of senior-level officers from across the Board, which develops a preliminary Boardwide budget. The Board's Committee on Board Affairs (CBA) then reviews the preliminary budget and clarifies outstanding planning issues with SPG.
- The CBA submits the proposed budget to the Board for its consideration and approval.
- If events warrant any changes to the approved budget, the CBA seeks additional Board approval.

The Board's Office of Inspector General (OIG), in keeping with its statutory independence, prepares its proposed budget apart from the Board's budget. The OIG presents its two-year budget

### Federal Reserve Banks

The Reserve Banks' budgets cover one year. Each year, each Bank establishes major operating goals for the coming year, devises strategies for attaining those goals, estimates required resources, and monitors results. The Banks' budgets are structured by operational area, with support and overhead attributable to each area charged to that area.

The operations and financial performance of the Reserve Banks are monitored throughout the year by way of a cost-accounting system, the Planning and Control System (PACS). Under PACS, the costs of all Bank services, both priced and nonpriced, are grouped by operational area, and the associated costs of support and overhead are charged to these areas accordingly. PACS makes it possible to compare budgets with actual expenses, and it facilitates comparison of the financial and operating performances of the Banks. During the budget year, the Banks must submit proposals for major purchases of assets to the Board for further review and approval.

Following is a summary of the Reserve Bank budget process:

- The business leaders in each functional area provide guidance to assist the Banks as they develop their budget projections for the upcoming year. The budget information is submitted to Board staff for review.

- Board staff review the Banks' budgets, both individually and in the context of Systemwide issues and other Banks' plans.
- The Committee on Federal Reserve Bank Affairs is briefed on the Bank budgets.
- The budgets are provided to the members of the Board for final action.

## Appendix B

### *Priced Services*

The Monetary Control Act of 1980 requires the Federal Reserve to charge depository institutions for certain services. The fees charged for providing these priced services are set to recover, over the long run, all direct and indirect costs of providing the services plus imputed costs, including the interest on items credited before actual collection (float) and the private-sector adjustment factor (PSAF). To calculate the PSAF, the Federal Reserve Banks impute the costs that would have been incurred, such as taxes that would have been paid, and the profits that would have been earned (return on equity) had the priced services been provided by a private business firm.

#### **Annual Pricing Process**

To meet the requirement for the full recovery of costs over the long run, the Federal Reserve has developed an annual pricing process that involves projecting Reserve Bank expenses, volumes, and revenues, as well as the PSAF and net income on clearing balances, for each service category.

Fees for Federal Reserve services must be approved by the product director for the respective service, by the Reserve Banks' Financial Services Policy Committee (FSPC), and, ultimately, by the Board of Governors.<sup>1</sup>

The cost of float is projected by applying the federal funds rate to an estimate of the level of float to be generated in the coming year. The PSAF targeted return-on-equity (ROE) capital is based on a capital-asset pricing model using data from the equity market as a whole. The ROE is applied to the level of priced services equity that is imputed to finance the assets the Federal Reserve expects to use in providing priced services in the coming year. Estimates of income taxes are based on the tax rates derived from the financial data of the 50 largest U.S. bank holding companies, based on deposit balances.

The other components of the PSAF are derived from the budgets of the Reserve Banks and the Board: the imputed sales tax (based on budgeted outlays for materials, supplies, and capital); the imputed assessment for insurance by the Federal Deposit Insurance Corporation (based on expected clearing balances and amounts deferred to depository institutions for items deposited for collection with the Reserve Banks); and the portion of the expenses of the Board of Governors directly related to priced services.<sup>2</sup>

To estimate net income on clearing balances, the priced services investment income is imputed and netted with related direct costs associated with clearing balances. The pro forma financial statements for the priced services are

1. The product directors are those first vice presidents at selected Reserve Banks with responsibility for day-to-day policy guidance over specific services. The FSPC is responsible for the overall direction of financial services for the Federal Reserve Banks.

2. On March 31, 2009, the Board of Governors requested public comment on a proposal to replace the current correspondent bank model underlying the PSAF calculation with a model based on elements derived from publicly traded firms more broadly.

presented in the *2008 Annual Report of the Board of Governors of the Federal Reserve System*. ■

## Appendix C

# Expenses and Employment at the Board of Governors

Table C.1

Operating Expenses of the Board of Governors, by Division, Office, or Special Account, 2006–2009

Millions of dollars

Division, office, or special account	2006–07 (budgeted)	2006–07 (actual)	2008–09 (budgeted)	2008 (actual)	2008 actual expenses as percent of the 2008–09 budget
Board Members .....	26.4	24.7	30.2	13.8	45.8
Secretary .....	12.4	12.3	14.6	7.0	48.2
Staff Director for Management .....	16.8	18.9	21.6	10.2	47.1
Research and Statistics .....	82.7	81.2	98.7	45.9	46.5
International Finance .....	32.0	29.1	36.7	16.4	44.8
Monetary Affairs .....	28.4	27.6	33.8	15.7	46.6
Banking Supervision and Regulation .....	99.4	96.8	106.0	55.9	52.8
Consumer and Community Affairs .....	29.5	30.8	38.2	19.8	51.9
Legal .....	26.1	23.1	29.4	13.7	46.5
Reserve Bank Operations and Payment Systems .....	51.4	49.8	58.5	27.7	47.3
Information Technology .....	91.2	89.5	105.8	50.2	47.5
Management Division .....	122.2	127.4	148.4	72.8	49.0
Information Resources Management income account ..	-39.8	-39.5	-44.4	-23.2	52.2
Residual retirement .....	9.8	13.5	13.3	11.1	83.3
Special projects .....	12.0	7.9	13.7	8.7	63.4
Extraordinary items .....	9.0	8.3	2.0	0.1	6.3
<b>Total, Board operations .....</b>	<b>609.5</b>	<b>601.4</b>	<b>706.3</b>	<b>345.9</b>	<b>49.0</b>
Office of Inspector General .....	10.2	9.5	12.7	5.3	42.1

NOTE: Components may not sum to totals and may not yield percentages shown because of rounding.



**Table C.2**  
**Operating Expenses of the Board of Governors, by Account Classification, 2006–2009**  
 Millions of dollars, except as noted

Account classification	2006–07 (budgeted)	2006–07 (actual)	2008–09 (budgeted)	2008 (actual)	2008 actual expenses as a percent of the 2008–09 budget
<i>Personnel services</i>					
Salaries .....	380.2	372.7	441.4	215.7	48.9
Retirement .....	35.7	38.8	48.3	24.5	50.7
Insurance .....	31.4	35.3	36.8	23.2	62.9
Subtotal .....	447.3	446.8	526.6	263.4	50.0
<i>Goods and services</i>					
Travel .....	15.7	17.2	18.5	9.3	50.4
Postage and shipping .....	1.0	1.0	1.1	0.5	42.2
Telecommunications .....	10.8	9.8	11.6	5.6	48.7
Printing and binding .....	2.7	2.6	2.8	1.2	42.9
Publications .....	1.2	0.9	1.1	0.6	56.9
Stationery and supplies .....	2.3	2.5	2.3	1.6	68.8
Software .....	14.6	13.3	15.8	7.3	46.0
Furniture and equipment .....	7.5	8.1	8.7	2.9	33.0
Rentals .....	1.2	1.1	4.9	2.4	49.2
Books and subscriptions .....	2.0	1.7	2.2	0.8	38.1
Utilities .....	7.8	8.3	8.5	4.3	51.0
Building repairs and alterations .....	4.6	4.0	4.8	1.8	36.2
Furniture repairs and maintenance .....	2.5	2.6	2.7	1.5	54.4
Contingency processing center expenses .....	1.7	2.2	2.3	1.2	53.8
Contractual professional services .....	62.8	59.8	67.9	29.6	43.7
Tuition/registration and membership fees .....	4.8	5.2	6.5	2.9	44.8
Subsidies and contributions .....	1.3	1.4	1.2	1.2	101.5
Depreciation .....	28.8	26.6	29.8	13.7	46.1
All other <sup>1</sup> .....	-11.4	-13.7	-13.1	-6.0	46.1
Subtotal .....	162.2	154.6	179.7	82.5	45.9
<b>Total, Board operations .....</b>	<b>609.5</b>	<b>601.4</b>	<b>706.3</b>	<b>345.9</b>	<b>49.0</b>
Office of Inspector General .....	10.2	9.5	12.7	5.3	42.1

NOTE: Components may not sum to total and may not yield percentages shown because of rounding.

1. All other includes, among other items, Accounts, Risk and Credit (ARC) System expenses and income; Information Resources Management income and user charges; and interest expenses.

Table C.3

Positions Authorized at the Board of Governors, by Division, Office, or Special Account, 2006–2009<sup>1</sup>

Division, office, or special account	Position count			
	2006–07 (initial)	2006–07 (ending)	2008–09 (initial)	2008 (ending)
Board Members .....	78	80	81	81
Secretary .....	50	50	50	50
Staff Director for Management .....	45	46	48	48
Research and Statistics .....	275	275	285	287
International Finance .....	116	114	115	115
Monetary Affairs .....	75	78	81	82
Banking Supervision and Regulation .....	254	258	253	262
Consumer and Community Affairs .....	94	101	105	105
Legal .....	80	80	80	80
Reserve Bank Operations and Payment Systems .....	139	138	138	138
Information Technology <sup>1</sup> .....	301	318	318	333
Management Division <sup>2</sup> .....	469	487	487	499
<b>Total, Board</b> .....	<b>1,976</b>	<b>2,025</b>	<b>2,041</b>	<b>2,080</b>
Office of Inspector General .....	36	36	37	37

NOTE: Includes only those divisions, offices, and special accounts that have authorized position counts.

1. Includes positions that support the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

2. Excludes summer interns and youth positions.



*Appendix D*  
*Expenses and Employment*  
*at the Federal Reserve Banks*

*Table D.1*

Operating Expenses of the Federal Reserve Banks, by District, 2008 and 2009

Thousands of dollars, except as noted

District	2008 (budgeted)	2008 (actual)	2009 (budgeted)	Percent change	
				2008 actual compared with 2008 budgeted	2009 budgeted compared with 2008 actual
Boston .....	157,796	154,255	153,479	-2.2	-0.5
New York.....	599,736	613,746	646,993	2.3	5.4
Philadelphia.....	157,028	157,418	152,724	0.2	-3.0
Cleveland.....	218,332	214,317	171,007	-1.8	-20.2
Richmond.....	245,270	237,070	283,005	-3.3	19.4
Atlanta .....	355,650	354,951	387,155	-0.2	9.1
Chicago .....	277,736	264,647	274,078	-4.7	3.6
St. Louis.....	227,877	216,098	222,717	-5.2	3.1
Minneapolis.....	168,218	160,552	154,652	-4.6	-3.7
Kansas City.....	181,033	175,546	169,232	-3.0	-3.6
Dallas .....	190,820	193,304	182,399	1.3	-5.6
San Francisco.....	287,474	278,860	288,730	-3.0	3.5
<b>Total .....</b>	<b>3,066,970</b>	<b>3,020,763</b>	<b>3,086,172</b>	<b>-1.5</b>	<b>2.2</b>

NOTE: Excludes capital outlays. Includes expenses budgeted by Federal Reserve Information Technology and the Office of Employee Benefits. Components may not sum to totals and may not yield percentages shown because of rounding.

Table D.2

Employment at the Federal Reserve Banks, by District, and at FRIT and OEB, 2008 and 2009

Average number of personnel

District	2008 (budgeted)	2008 (actual)	2009 (budgeted)	Change	
				2008 actual compared with 2008 budgeted	2009 budgeted compared with 2008 actual
Boston.....	1,000	959	899	-41	-60
New York.....	2,764	2,775	2,877	11	102
Philadelphia.....	1,063	1,022	1,009	-41	-13
Cleveland.....	1,581	1,516	1,367	-65	-149
Richmond.....	1,827	1,739	1,638	-88	-101
Atlanta.....	1,939	1,890	1,776	-49	-114
Chicago.....	1,457	1,404	1,339	-53	-65
St. Louis.....	1,074	1,020	964	-54	-56
Minneapolis.....	1,235	1,178	1,082	-57	-96
Kansas City.....	1,330	1,323	1,213	-8	-110
Dallas.....	1,316	1,277	1,235	-39	-42
San Francisco.....	1,781	1,721	1,686	-60	-35
<b>Total, all Districts.....</b>	<b>18,366</b>	<b>17,824</b>	<b>17,086</b>	<b>-542</b>	<b>-738</b>
Federal Reserve Information Technology (FRIT).....	844	880	889	36	9
Office of Employee Benefits (OEB).....	45	43	45	-2	2
<b>Total.....</b>	<b>19,255</b>	<b>18,747</b>	<b>18,020</b>	<b>-508</b>	<b>-727</b>

NOTE: The term *average number of personnel* (ANP) describes levels and changes in employment. ANP is the average number of employees in terms of full-time positions for the period. For instance, a full-time employee who starts work on July 1 counts as 0.5 ANP for that calendar year; two half-time employees who start on January 1 count as 1 ANP. Components may not sum to totals and may not yield variances shown because of rounding.

Table D.3

Operating Expenses of the Federal Reserve Banks, FRIT, and OEB, by Operational Area, 2008 and 2009

Thousands of dollars, except as noted

Operational area	2008 (budgeted)	2008 (actual)	2009 (budgeted)	Percent change	
				2008 actual compared with 2008 budgeted	2009 budgeted compared with 2008 actual
Monetary and economic policy..	390,209	389,219	433,013	-0.3	11.3
Services to the U.S. Treasury and other government agencies.....	449,530	440,669	442,978	-2.0	0.5
Services to financial institutions and the public.....	775,855	758,595	837,378	-2.2	10.4
Supervision and regulation.....	640,450	642,238	714,224	0.3	11.2
Fee-based services to financial institutions.....	810,926	790,043	658,578	-2.6	-16.6
<b>Total.....</b>	<b>3,066,970</b>	<b>3,020,763</b>	<b>3,086,172</b>	<b>-1.5</b>	<b>2.2</b>

NOTE: Excludes capital outlays. Includes expenses budgeted by Federal Reserve Information Technology (FRIT) and the Office of Employee Benefits (OEB). Components may not sum to totals and may not yield percentages shown because of rounding.

Table D.4

## Employment at the Federal Reserve Banks, FRIT, and OEB, by Operational Area, 2008 and 2009

Average number of personnel

Operational area	2008 (budgeted)	2008 (actual)	2009 (budgeted)	Change	
				2008 actual compared with 2008 budgeted	2009 budgeted compared with 2008 actual
Monetary and economic policy..	1,018	1,010	1,067	-8	57
Services to the U.S. Treasury and other government agencies .....	1,246	1,184	1,140	-62	-44
Services to financial institutions and the public .....	2,542	2,477	2,517	-66	40
Supervision and regulation .....	2,673	2,674	2,785	1	111
Fee-based services to financial institutions.....	2,155	1,936	1,033	-219	-903
Support and overhead .....	9,621	9,468	9,478	-154	11
<b>Total .....</b>	<b>19,255</b>	<b>18,747</b>	<b>18,020</b>	<b>-508</b>	<b>-727</b>

NOTE: Components may not sum to totals and may not yield variances shown because of rounding.  
FRIT, Federal Reserve Information Technology; OEB, Office of Employee Benefits.

Table D.5

## Expenses of the Federal Reserve Banks for Salaries of Officers and Employees, by District, 2008 and 2009

Thousands of dollars, except as noted

District	2008 (budgeted)	2008 (actual)	2009 (budgeted)	Percent change	
				2008 actual compared with 2008 budgeted	2009 budgeted compared with 2008 actual
Boston.....	81,081	77,869	78,925	-4.0	1.4
New York.....	290,068	294,537	325,011	1.5	10.3
Philadelphia.....	70,018	68,500	71,544	-2.2	4.4
Cleveland.....	90,268	86,987	85,802	-3.6	-1.4
Richmond.....	119,432	116,117	119,514	-2.8	2.9
Atlanta .....	130,154	129,229	130,786	-0.7	1.2
Chicago .....	108,595	104,910	111,039	-3.4	5.8
St. Louis.....	73,310	71,378	73,757	-2.6	3.3
Minneapolis.....	74,819	72,757	73,570	-2.8	1.1
Kansas City.....	89,354	87,847	87,848	-1.7	0.0
Dallas .....	81,949	80,516	83,535	-1.7	3.7
San Francisco.....	142,469	139,621	146,594	-2.0	5.0
<b>Total, all Districts .....</b>	<b>1,351,515</b>	<b>1,330,267</b>	<b>1,387,925</b>	<b>-1.6</b>	<b>4.3</b>
Federal Reserve Information Technology .....	77,844	78,760	83,826	1.2	6.4
Office of Employee Benefits .....	5,028	5,074	5,558	0.9	9.6
<b>Total .....</b>	<b>1,434,387</b>	<b>1,414,101</b>	<b>1,477,309</b>	<b>-1.4</b>	<b>4.5</b>

NOTE: Components may not sum to totals and may not yield percentages shown because of rounding.

**Table D.6**  
 Capital Outlays of the Federal Reserve Banks, by District, and of FRIT and OEB,  
 2008 and 2009

Thousands of dollars, except as noted

District	2008 (budgeted)	2008 (actual)	2009 (budgeted)	Percent change	
				2008 actual compared with 2008 budgeted	2009 budgeted compared with 2008 actual
Boston.....	28,439	21,441	27,241	-24.6	27.0
New York.....	138,452	47,390	154,713	-65.8	226.5
Philadelphia.....	22,615	12,598	21,648	-44.3	71.8
Cleveland.....	24,817	12,042	11,669	-51.5	-3.1
Richmond.....	69,707	63,352	32,224	-9.1	-49.1
Atlanta.....	22,889	10,668	36,735	-53.4	244.3
Chicago.....	23,768	18,858	23,259	-20.7	23.3
St. Louis.....	33,298	26,525	21,507	-20.3	-18.9
Minneapolis.....	7,008	7,465	10,444	6.5	39.9
Kansas City.....	16,193	21,297	7,152	31.5	-66.4
Dallas.....	25,776	8,722	29,729	-66.2	240.8
San Francisco.....	56,691	33,871	62,239	-40.3	83.8
<b>Total, all Districts.....</b>	<b>469,654</b>	<b>284,229</b>	<b>438,560</b>	<b>-39.5</b>	<b>54.3</b>
Federal Reserve Information Technology (FRIT).....	64,908	35,920	79,758	-44.7	122.0
Office of Employee Benefits (OEB).....	0	262	1,050	...	300.5
<b>Total.....</b>	<b>534,562</b>	<b>320,411</b>	<b>519,368</b>	<b>-40.1</b>	<b>62.1</b>

NOTE: Components may not sum to totals and may not yield percentages shown because of rounding.  
 ... Not applicable.

**Table D.7**  
 Capital Outlays of the Federal Reserve Banks, FRIT, and OEB, by Asset Classification,  
 2008 and 2009

Thousands of dollars, except as noted

Asset classification	2008 (budgeted)	2008 (actual)	2009 (budgeted)	Percent change	
				2008 actual compared with 2008 budgeted	2009 budgeted compared with 2008 actual
Equipment.....	153,252	77,587	150,235	-49.4	93.6
Furniture, furnishings, and fixtures.....	24,725	16,351	24,789	-33.9	51.6
Land and other real estate.....	9,197	3,873	4,415	-57.9	14.0
Building.....	203,431	129,708	147,069	-36.2	13.4
Building machinery and equipment.....	41,134	21,706	45,002	-47.2	107.3
Leasehold improvements.....	370	3,180	3,065	759.5	-3.6
Software.....	101,761	67,080	143,988	-34.1	114.7
Art.....	692	926	805	33.8	-13.1
<b>Total.....</b>	<b>534,562</b>	<b>320,411</b>	<b>519,368</b>	<b>-40.1</b>	<b>62.1</b>

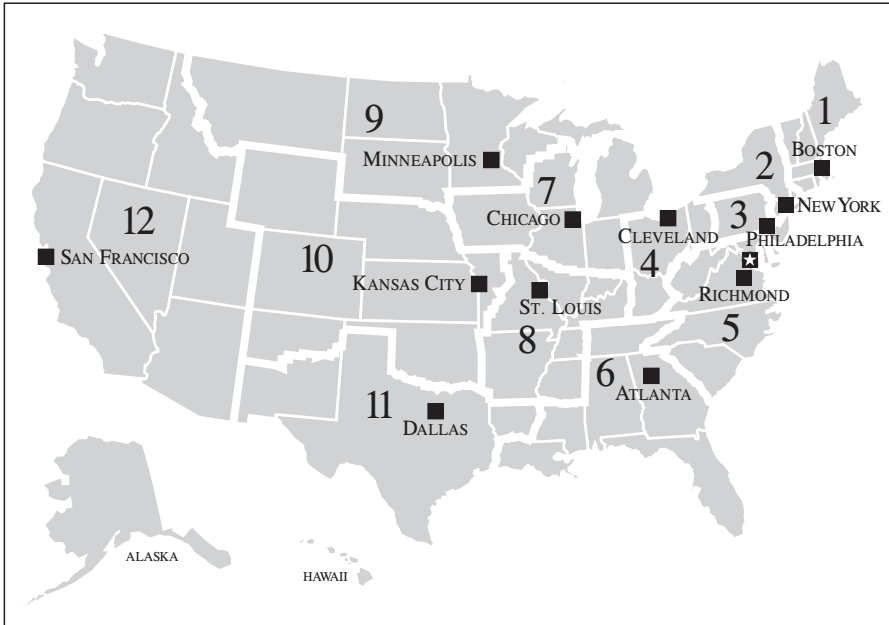
NOTE: Components may not sum to totals and may not yield percentages shown because of rounding.  
 FRIT, Federal Reserve Information Technology; OEB, Office of Employee Benefits.

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*Maps of the  
Federal Reserve System*



## Maps of the Federal Reserve System



### LEGEND

#### *Both pages*

- Federal Reserve Bank city
- ☆ Board of Governors of the Federal Reserve System, Washington, D.C.

#### *Facing Page*

- Federal Reserve Branch city
- Branch boundary

### NOTE

The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the facing page).

In the 12th District, the Seattle Branch serves Alaska and the San Francisco Bank serves Hawaii.

The System serves commonwealths and territories as follows: the New York

Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The maps show the boundaries within the System as of year-end 2008.

