

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: December 16, 2003
To: Board of Governors
From: Mark W. Olson
Subject: 2004 Final Reserve Bank Budgets

The Committee on Federal Reserve Bank Affairs has reviewed staff's recommendation that the Board approve the Reserve Bank budgets for 2004. In aggregate, the 2004 Reserve Bank budgets total \$2,666.4 million, an increase of \$39.1 million or 1.5 percent over 2003 estimated expenses. I am forwarding the attached staff memorandum to the Board for its consideration.

Attachment

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

Date: December 8, 2003

To: Committee on Federal Reserve Bank Affairs

From: Lauren Oriente, Cathie Austin, Stuart Sperry, Dorothy LaChapelle, and Paul Bettge

Subject: 2004 Final Reserve Bank Budgets

ACTION REQUESTED

Staff requests Committee review of its recommendation that the Board approve the 2004 Reserve Banks' budgets totaling \$2,666.4 million, an increase of \$39.1 million or 1.5 percent over 2003 estimated expenses.¹ Staff also requests Committee review of its recommendation that the Board approve the 2004 Reserve Bank, FRIT, and OEB capital budgets totaling \$467.4 million. The capital budgets are approved with the understanding that approval for actual capital outlays will be in accordance with the Board's Policies and Guidelines Concerning Reserve Bank Operations (S-2619).

We have included additional statistical information and project descriptions in separate appendices to this document. Appendix A is a statistical supplement providing detail on expenses, staffing and capital outlays. Appendix B provides a description of check modernization and Treasury projects referenced throughout this memorandum.

¹ These expense include those budgeted by Federal Reserve Information Technology (FRIT) and the Office of Employee Benefits (OEB). Expenses from these entities have been charged to the Reserve Banks, as appropriate, and included in their budgets.

TOTAL EXPENSE AND EMPLOYMENT SUMMARY

The modest increase in the 2004 Reserve Banks' budgets reflects continued initiatives to streamline operations and improve operational efficiency.² The Banks' budgets reflect reductions in several areas, primarily in support services and check functions. Banks have been able to limit overall cost increases through the consolidation of selected operations and through continued efforts to realize efficiencies in workflow and service delivery. Lower costs in the check operation reflect efficiencies as the Reserve Banks near completion of a multi-year effort to modernize the check services environment, as well as the effect of a check restructuring initiative, which reduces the number of check processing sites and consolidates check adjustment and administrative functions. Spending restraint has been facilitated in part by voluntary retirement programs in the majority of Reserve Banks.

After considering the effect of revenue and reimbursements, the Reserve Banks' 2004 budgeted net operating expenses are \$1,368.7 million, or 3.1 percent lower than the 2003 estimate.

The decrease reflects a 6.9 percent increase in revenue and reimbursements and stringent spending targets established by System business leaders as the Reserve Banks strive to

Table 1
Change in Net Expenses
(dollars in millions)

Expenses	2003	2003	2004	Percent Change	
	Budget	Estimate	Budget	03B-04B	03E-04B
Reserve Banks	2,629.9	2,627.3	2,666.4	1.4%	1.5%
Less:					
Priced service revenue	925.6	888.0	929.2	0.4%	4.6%
Reimbursable claims	329.0	326.8	368.4	12.0%	12.7%
Net expense	\$1,375.4	\$1,412.6	\$1,368.7	-0.5%	-3.1%

improve priced service cost recovery performance. Approximately 49 percent of Reserve Bank expenses in the 2004 budget are offset by priced service revenues (35 percent) and reimbursable claims for services provided to the Treasury and other agencies (14 percent). The budgeted 2004 service revenue is higher than the 2003 estimated level due in large part to higher imputed net income on clearing balances (NICB) and, to a lesser

² The 2004 budget is \$36.6 million above the Reserve Bank Budget Outlook (RBBO) provided to the Board in July. The increase from the RBBO projection primarily is due to higher-than-anticipated costs in the check area.

extent, price increases.³ Reimbursable claims will increase 12.7 percent in 2004, reflecting additional efforts by the Reserve Banks on behalf of the Treasury.

Total 2004 projected employment for the Reserve Banks, FRIT, and OEB is 21,300 ANP, a decrease of 860 ANP or 3.9 percent from 2003 estimated staff levels.⁴

If the Reserve Banks

realize this staffing

decrease, it will be the

Banks' largest annual

workforce reduction since

the System began

collecting automated cost

accounting information in 1977. Most Banks are reducing staff in check as a result of the successful transition to the standardized check platform, the check restructuring effort, declining volumes, and additional efficiency efforts to improve priced service performance. The remainder of the reduction is the net effect of several System and District efforts to meet System cost reduction initiatives and improve operational efficiencies. Voluntary retirement incentive programs announced at nine Reserve Banks and FRIT help achieve these reductions.

**Table 2
Employment**

	2003 Budget	2003 Estimate	2004 Budget	Change	
				03B-04B	03E-04B
Reserve Banks	21,607	21,366	20,551	-1,057	-815
FRIT	779	759	713	-66	-46
OEB	36	36	37	1	1
Total	22,422	22,160	21,300	-1,122	-860

2003 BUDGET PERFORMANCE

Total 2003 expenses are estimated to be \$2,627.3 million, which represents a decrease of \$2.6 million or 0.1 percent from the approved 2003 budget of \$2,629.9 million. The Banks, FRIT, and OEB estimate ANP at 22,160, a decrease of 262 ANP from approved 2003 levels.

The decrease in the estimate reflects reductions in support and overhead areas totaling \$18.0 million. Reserve Banks noted costs savings from major staff reductions in general administrative services (89 ANP), information technology (IT)

³ The increase in NICB is associated with a change in methodology to calculate imputed investment income and a change in the rate at which earnings credits are paid to depository institution holders of clearing balances. Both changes were approved by the Board in October 2003.

⁴ 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.

services (40 ANP), human resource functions (30 ANP), business development (19 ANP), and accounting functions (13 ANP). These reductions were achieved through consolidation of operations, operational efficiencies, and a change in service levels as areas better align resources with business activity. In addition, operational efficiencies and lower-than-expected volumes in the cash area result in a \$9.9 million and 25 ANP decrease, and the cancellation by the Treasury of a project to integrate savings bonds sites with a single customer service contact number will save \$3.7 million.

These savings are partially offset by higher-than-budgeted costs in the check area related to initiatives to improve cost-recovery performance in the long term. Check-related projects are adding \$33.2 million to estimated 2003 expenses. Three major projects account for this cost overrun: 1) the System's decision to restructure the provision of check services will result in one-time expenses of approximately \$26.2 million that were recognized in 2003 for separation payments, lease buyouts, retirement of impaired assets, and facilities expenses associated with closing selected check processing operations that were not included in the original budget; 2) conversion to the national, standardized check processing platform is estimated to be \$5.0 million over budget due to the use of unbudgeted staff support, additional overtime, and travel; and 3) the conversion of the legacy check image files to the new FedImage system required an additional \$4.0 million for additional staff, software costs, and fees due to an unplanned software upgrade and the three-month extension of consultant services.⁵ Partially offsetting the check project overruns is a decrease in the check standardization special project costs (\$2.9 million) due to earlier Reserve Bank conversions and severance payments for this project that were budgeted but not paid.

FACTORS AFFECTING THE 2004 BUDGET

The Reserve Banks continue to be challenged by check cost recovery shortfalls. In 2004, the System will continue to see cost reductions from two major initiatives in check: the end of check modernization, which includes four projects – Check Standardization, Enterprise Wide Adjustments, FedImage, and Check Electronic Access and Delivery – and the completion of the current check restructuring effort. With

⁵ Staff includes outside agency and hourly help.

the completion of the check modernization initiative, the 2004 costs for supporting and implementing further enhancements to the check modernization systems will be \$32.6 million less than during 2003.

Check restructuring, which was announced early in 2003, will better align the Federal Reserve check processing infrastructure with the evolving market environment, provide greater flexibility in managing check operations, and improve resource allocation. The 2003 estimate and 2004 budget currently reflect plans to reduce the number of check processing locations from 45 to 32 and to consolidate the number of check adjustment functions from 43 locations to 12 regional sites. Although the planned restructuring efforts will be completed by the end of 2004, many costs associated with this initiative, such as one-time separation pay and asset impairment expenses, are being accrued in 2003. The 2004 budget includes \$29.0 million to fund additional efforts to streamline check operations and to support resource needs anticipated as the Banks prepare for changes associated with Check Clearing for the 21st Century Act (Check 21).

As in the previous year, the budget reflects cost savings from staff reductions in the support service areas. These reductions are the result of consolidations and efficiency measures as well as a shrinking base of internal customers demanding support services. Support service savings are driven in large part by aggressive multi-year savings targets established by the IT, human resource, and business development areas.

Local IT costs are decreasing \$14.3 million from the 2003 estimate. This reduction is part of a multi-year cost reduction initiative to reduce IT costs.⁶ Cost savings, when compared to the 2001 budget, total \$37.8 million. These savings have been realized through several cost reduction initiatives, including an e-mail server administration and management centralization project, standardization of desktop PC configurations, implementation of active directory, and server management.⁷ The human resource area also has a multi-year cost reduction initiative. These costs are declining \$3.1 million from the 2003 estimate and have declined \$8.3 million or 13 percent from

⁶ The IT multi-year target excludes support for Treasury initiatives, check modernization projects, and economic research.

⁷ The active directory project is a centralized and standardized system that automates network management of user data, security, and distributed resources, enabling interoperability with other directories.

2001 actual expenses. The savings are a result of the consolidation of benefits and payroll functions and other workflow efficiencies.

Local customer support and marketing costs are declining as well. The \$5.4 million reduction from the 2003 estimate is due in large part to the consolidation of electronic access customer support to two sites by April 2004. Total business development costs have declined \$11.8 million or 14 percent from 2001 actual expenses. In addition to the reductions in IT, HR, and customer support and marketing, costs for administrative services are slightly below the estimate, reflecting overall staff reductions, lower printing costs, use of digital technology, and a decline in printing volume. The savings in support services are exclusive of security enhancement efforts, which are increasing \$6.7 million.

The Treasury continues to request services from the Reserve Banks on its behalf. These projects are reimbursed fully by the Treasury. All projects are reviewed by the Reserve Banks' Treasury Relations and Support Office (TRSO), along with Board staff, to ensure that Federal Reserve resources are used effectively. A majority of the projects involve converting paper-based processes to electronic payments and the use of web technology for increased efficiency. Cost increases for Treasury initiatives are largely driven by Treasury Web Application Infrastructure (\$11.5 million), Pay.gov/Paper Check Conversion (\$9.3 million), Treasury Check Information System (\$1.2 million), and Treasury Web Central Reporting System (\$0.9 million). In addition, at the request of the Financial Management Service (FMS), the TRSO will manage two market research projects and a marketing campaign to support the FMS goal of increasing Federal benefits payments made electronically (\$8.5 million). Slightly offsetting these increases are savings from lower support and overhead costs charged to the Treasury and staff reductions and associated expenses in *TreasuryDirect* and saving bonds operations due to declining volumes.

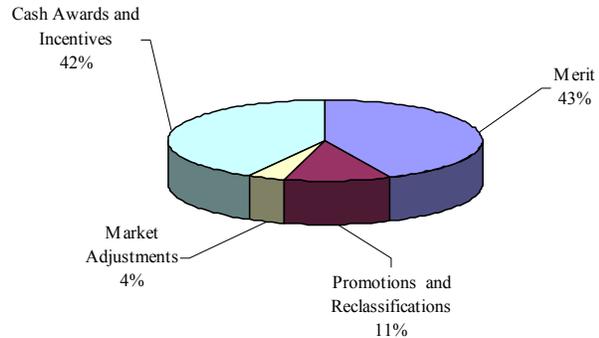
Supervision and regulation expenses are increasing 5.2 percent from the 2003 estimate. The increase is driven largely by annual merit, higher salary costs related to hiring more experienced staff, and resource needs in two Banks.

2004 PERSONNEL EXPENSES

Personnel expenses, which include both salaries and benefits, represent 62 percent of the budget. The budgets include \$88.8 million to fund salary administration programs for officers and employees.⁸

Expenses associated with merit programs and cash awards and incentives account for about 85 percent of salary administration. A total of \$38.5 million has been included for merit programs. The average merit increase is budgeted at 3.4 percent for officers and 3.2 percent for employees, lower than the 2003 average merits of 3.6 percent for officers and 3.5 percent for employees.

Figure 1
Salary Administration



Officer incentive payments and cash awards total \$11.7 million.⁹ Most Banks targeted more than half of the officer variable pay pool toward incentives. Employee incentive payments and cash award funds total \$25.6 million.¹⁰ The mix between incentive and cash awards in the employee category continues to be heavily weighted toward cash awards.

Officer turnover, including retirements, is projected to increase from an estimate of 5.4 percent in 2003 to 7.3 percent in 2004.¹¹ Average employee turnover is projected to increase from an estimate of 9.8 percent in 2003 to 12.9 percent in 2004. The rise in turnover in large part is due to the voluntary retirement programs and the check restructuring efforts. Approximately 80 officers and 900 employees are projected

⁸ Salary administration represents the budgeted funds that are available to increase compensation to officers and employees in the upcoming year. It does not include adjustments for changes in staffing levels, turnover and lag in hiring, and overtime.

⁹ For 2004, the officer variable pay threshold remained at 8.0 percent of salary liability.

¹⁰ The 2004 employee variable pay threshold remains at 2003 levels: 8.0 percent for the special professional grades, 4.0 percent for the top three grades, and 1.7 percent for all other grades.

¹¹ Turnover rates include full-time, part-time, and hourly voluntary and involuntary departures regardless of whether the positions will be refilled.

to leave the System under the voluntary retirement programs, with the majority of departures occurring in 2004. The average cost recovery period is estimated at 1.4 years, with the expected replacement rates for these programs varying by Reserve Bank and ranging from 34 percent to 80 percent.

Retirement and other benefit expenses, which account for 14 percent of Reserve Bank budgets, are anticipated to increase by \$20.2 million or 5.4 percent in 2004. The primary factors driving the high cost increases in nonsalary-related benefits are increases in health care and group life insurance costs. The increases in employer contributions for health benefits average 13.8 percent for non-HMO plans and less than one percent for HMOs. An estimated \$4.2 million in savings from the System's new consolidated health care program has helped to offset some of the increase in employer contributions.

POTENTIAL VARIANCES FROM THE 2004 BUDGET

Every Reserve Bank recognizes the challenges and risks in the check service in the 2004 budget. The effect of check restructuring changes, volume declines, and revenue loss poses a higher risk than usual to the check area in 2004. Delays in the check restructuring project, as check operations are consolidated and volumes are transitioned to consolidated offices, could result in higher-than-budgeted staffing, overtime, and facility costs. The budget also would be affected by higher overtime costs in order to resolve reconciliation issues or unanticipated write-offs. The budget reflects a projected 8.9 percent decrease in processed check volume. Check revenues would be affected adversely by further volume declines.

Banks also noted some risk associated with unanticipated requests for work performed on behalf of the Treasury, the loss of key staff, and possible structural changes in the business development and marketing areas. As in the past, changes to the services the Reserve Banks provide as fiscal agent may result in differences between budgeted and actual costs for 2004. In addition, the voluntary retirement programs offered in nine Reserve Banks and FRIT present the risk of losing key staff. Although many Banks have noted that they have developed succession plans, there is the risk that the loss of experienced staff and difficulty filling key positions with skilled staff could

adversely affect Bank operations. Finally, the CRSO recently announced an initiative to review the structure of Reserve Bank business development and customer support functions. System leaders believe that a more focused and coordinated approach to business development could yield substantial savings in these largely decentralized functions.

2004 CAPITAL PLAN

The 2004 capital budget submitted by the Reserve Banks, FRIT, and OEB totals \$467.4 million, a \$60.9 million increase from the 2003 estimated levels. The increase in 2004 outlays from the 2003 estimate is due largely to planned new building programs.

As in previous years, the 2004 capital budget includes funding for projects that support the strategic direction outlined by the individual Reserve Banks' and the System's plans. These strategic goals focus on investments that improve operational efficiencies and services to Bank customers, and on providing a safe, quality work environment. In support of these strategies, the 2004 budget identifies five major categories of capital outlays: building projects and facility improvements, payment system improvements, automation and communication initiatives, security enhancements, and miscellaneous acquisitions.

The proposed capital budget includes an estimated \$249.9 million for building-related projects and facility improvements. Over half of this total, \$143.3 million, is related to the new building projects in Detroit, Houston, Kansas City, and Seattle. The remaining outlays in this category will fund various other building renovation and refurbishment projects (\$55.6 million), as well as miscellaneous facility improvement and energy efficiency projects.

The budget includes \$97.1 million for initiatives related to payment system improvements. Almost half of these funds (\$41.6 million) support reimbursable initiatives for the Treasury. Although the majority of the System's investment in the standard software platform for check standardization is complete, the 2004 capital budget includes outlays to prepare for check restructuring, Check 21, and customer demand for image services (\$14.8 million). Funding also is included in the 2004 capital budget,

mainly at FRIT, to support the growth in processing capacity (\$7.3 million). Other outlays are for improvements in the cash services area (\$9.8 million) and to support FRIT's Web Applications Infrastructure initiative (\$11.9 million).

Banks have included \$61.6 million in funding for major automation and communication initiatives.¹² These initiatives do not include the automation components of building or payment systems initiatives that are discussed separately. Of the total automation-related outlays, FRIT projects and acquisitions account for over 40 percent, or \$27.0 million. Aside from FRIT, the District budgets include the replacement of aging servers in compliance with the System's Server Management Initiative (\$7.2 million) and telecommunications projects in several Banks (\$4.2 million). The remainder of the budget is for various equipment and software to support local and System initiatives.

Finally, the proposed capital budget includes \$53.9 million in funding for security enhancements and \$4.9 million for miscellaneous capital items. Miscellaneous capital includes funding for other equipment and software not falling into the other defined categories.

¹² These initiatives do not include the automation components of building or payment systems initiatives that are discussed separately.

APPENDIX A
Statistical Supplement

Table 1	Total Expenses of the FR Banks, by District
Table 2	Ongoing Operations of the FR Banks, by District
Table 3	Total Employment of the FR Banks, by District
Table 4	Total Expenses of the FR Banks, by Service Line
Table 5	Total Employment of the FR Banks, by Service Line
Table 6	Salary Administration Expenses of the FR Banks, Officers and Employees, by District
Table 7	Capital Outlays of the FR Banks, by District
Table 8	Capital Outlays of the FR Banks, by Category

Note: In the following tables, components may not add to totals because of rounding. Table-to-table comparisons may also differ due to rounding.

2004 Final Budget

TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS
by District, 2003 and 2004
(Dollars in Thousands)

District	2003 Budget	2003 Estimate	2004 Budget	Percent Change	
				03B to 03E	03E to 04B
Boston	167,228	164,078	161,412	-1.9%	-1.6%
New York	497,362	489,971	494,436	-1.5%	0.9%
Philadelphia	127,758	126,685	129,646	-0.8%	2.3%
Cleveland	146,181	152,810	163,398	4.5%	6.9%
Richmond	205,593	212,333	201,217	3.3%	-5.2%
Atlanta	297,992	298,209	323,960	0.1%	8.6%
Chicago	247,443	252,746	263,081	2.1%	4.1%
St. Louis	154,319	171,671	186,643	11.2%	8.7%
Minneapolis	147,318	137,071	135,191	-7.0%	-1.4%
Kansas City	174,960	175,655	166,730	0.4%	-5.1%
Dallas	162,630	165,430	166,540	1.7%	0.7%
San Francisco	286,523	268,921	274,112	-6.1%	1.9%
Subtotal	2,615,307	2,615,581	2,666,366	0.0%	1.9%
Special Projects	14,627	11,757	0	-19.6%	na
Total	2,629,934	2,627,338	2,666,366	-0.1%	1.5%

2004 Final Budget

ONGOING OPERATIONS OF THE FEDERAL RESERVE BANKS
by District, 2003 and 2004
(Dollars in Thousands)

District	2003 Budget	2003 Estimate	2004 Budget	Percent Change	
				03B to 03E	03E to 04B
Boston	105,351	103,653	98,948	-1.6%	-4.5%
New York	430,963	424,604	432,484	-1.5%	1.9%
Philadelphia	103,919	102,405	105,516	-1.5%	3.0%
Cleveland	112,877	113,449	113,983	0.5%	0.5%
Richmond	174,856	175,727	170,371	0.5%	-3.0%
Atlanta	219,990	217,963	211,209	-0.9%	-3.1%
Chicago	218,585	218,811	208,423	0.1%	-4.7%
St. Louis	106,858	112,976	110,291	5.7%	-2.4%
Minneapolis	93,236	87,536	88,401	-6.1%	1.0%
Kansas City	125,929	123,580	122,543	-1.9%	-0.8%
Dallas	120,717	121,205	120,505	0.4%	-0.6%
San Francisco	247,869	234,292	242,944	-5.5%	3.7%
Total	2,061,149	2,036,200	2,025,619	-1.2%	-0.5%

2004 Final Budget

TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS
by District, 2003 and 2004
(Average Number of Personnel)

District	2003 Budget	2003 Estimate	2004 Budget	Change	
				03B to 03E	03E to 04B
Boston	1,270	1,260	1,152	-10	-108
New York	3,185	3,155	3,066	-30	-89
Philadelphia	1,241	1,230	1,206	-11	-25
Cleveland	1,348	1,387	1,409	39	22
Richmond	2,085	2,080	1,995	-5	-84
Atlanta	2,317	2,338	2,178	21	-159
Chicago	2,053	1,988	1,857	-65	-131
St. Louis	1,310	1,279	1,284	-31	4
Minneapolis	1,323	1,284	1,248	-39	-36
Kansas City	1,701	1,650	1,609	-51	-41
Dallas	1,446	1,437	1,365	-9	-72
San Francisco	2,328	2,278	2,182	-50	-96
Subtotal	21,607	21,366	20,551	-241	-815
FRIT	779	759	713	-20	-47
OEB	36	36	37	0	1
Total	22,422	22,160	21,300	-262	-860

2004 Final Budget

TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS
by Service Line
(Dollars in Thousands)

Year	Total	Monetary and Economic Policy	Services to U.S. Treasury and Gov't Agencies	Services to Financial Institutions and the Public	Supervision and Regulation	Fee Based Services to Financial Services
2001	2,451,270	232,829	261,272	580,436	443,483	933,250
2002	2,532,512	241,732	286,729	603,385	463,349	937,317
2003 Estimate	2,627,338	259,744	307,286	634,845	494,489	930,974
2004 Budget	2,666,366	270,789	347,982	645,711	520,137	881,747

AAGR 2001-2004	2.8%	5.2%	10.0%	3.6%	5.5%	-1.9%
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2004 Final Budget

TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS¹
by Service Line
(Average Number of Personnel)

Year	Total	Monetary and Economic Policy	Services to U.S. Treasury and Gov't Agencies	Services to Financial Institutions and the Public	Supervision and Regulation	Fee Based Services to Financial Services	Support, Overhead, and Centralized Providers
2001	23,205	885	1,384	2,819	2,574	5,397	10,146
2002	22,993	856	1,291	2,848	2,604	5,139	10,255
2003 Estimate	22,160	870	1,252	2,819	2,576	4,754	9,889
2004 Budget	21,300	858	1,293	2,795	2,607	4,464	9,283
AAGR 2001-2004	-2.8%	-1.0%	-2.2%	-0.3%	0.4%	-6.1%	-2.9%

¹ Includes average number of personnel at FRIT and OEB.

2004 Final Budget

SALARY ADMINISTRATION EXPENSES OF THE FEDERAL RESERVE BANKS
Officers and Employees by District, 2004
(Dollars in Thousands)

District	Salary Base				Variable Pay (Change 03E-04B)			Total	Percent ¹
	Merit	Promo & Reclass	Market Adjustment	Subtotal	Cash Awards	Incentive Payments	Subtotal		
Boston	2,254	704	302	4.3%	-27	-222	-0.3%	3,011	4.0%
New York	8,421	1,448	1,120	4.2%	393	-85	0.1%	11,296	4.3%
Philadelphia	1,833	452	167	3.6%	-34	36	0.0%	2,453	3.6%
Cleveland	2,093	366	8	3.3%	-56	69	0.0%	2,479	3.3%
Richmond	3,459	1,136	629	4.6%	105	40	0.1%	5,369	4.7%
Atlanta	3,345	979	117	3.7%	42	90	0.1%	4,573	3.8%
Chicago	3,211	850	436	3.8%	113	308	0.4%	4,917	4.2%
St. Louis	2,246	381	72	3.7%	-65	106	0.1%	2,740	3.8%
Minneapolis	1,541	308	0	2.8%	112	38	0.2%	1,999	3.0%
Kansas City	2,646	1,588	50	4.6%	-124	116	0.0%	4,276	4.6%
Dallas	2,163	186	237	3.5%	243	-99	0.2%	2,730	3.7%
San Francisco	3,714	1,021	123	3.4%	453	789	0.9%	6,099	4.2%
FRIT	1,380	277	0	2.8%	103	18	0.2%	1,778	3.0%
OEB	201	0	18	5.8%	0	23	0.6%	242	6.4%
Total	38,506	9,696	3,279	3.8%	1,257	1,226	3.7%	53,964	4.0%

Merit: the amount of budgeted salary expense that reflects the cumulative impact of planned salary increases based on performance.

Promo & Reclass: the amount of budgeted salary expense that reflects the cumulative impact of salary increases for individuals as a result of grade promotions and reclassifications resulting from a job evaluation.

Market Adjustment: the amount of budgeted salary expense to bring individual salaries to the minimum of a grade range or to better align salaries with the market.

Cash Awards: the change in the amount of payments for awards in recognition of exceptional achievements.

Incentive Payments: the change in the amount of other personnel expense that represent payments for the achievement of pre-determined goals.

¹Percent represents the total of the stated payments as a percentage of total salary and other personnel expense.

2004 Final Budget

CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS
by District, 2003 and 2004
(Dollars in Thousands)

District	2003 Budget	2003 Estimate	2004 Budget	Percent Change	
				03B to 03E	03E to 04B
Boston	24,909	19,903	20,140	-20.1%	1.2%
New York	56,454	44,526	56,379	-21.1%	26.6%
Philadelphia	15,804	15,067	10,178	-4.7%	-32.5%
Cleveland	21,609	31,855	29,086	47.4%	-8.7%
Richmond	17,522	39,042	22,005	122.8%	-43.6%
Atlanta	20,809	20,895	12,633	0.4%	-39.5%
Chicago	89,437	29,426	77,219	-67.1%	162.4%
St. Louis	36,709	17,929	29,375	-51.2%	63.8%
Minneapolis	6,330	7,488	3,766	18.3%	-49.7%
Kansas City	39,251	31,065	22,204	-20.9%	-28.5%
Dallas	56,271	43,580	86,151	-22.6%	97.7%
San Francisco	45,383	34,127	29,709	-24.8%	-12.9%
Subtotal	430,489	334,904	398,845	-22.2%	19.1%
FRIT	60,870	71,387	67,408	17.3%	-5.6%
OEB	-	225	1,150	NA	NA
Total	491,358	406,516	467,402	-17.3%	15.0%

2004 Final Budget

CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS¹
by Category, 2003 and 2004
(Dollars in Thousands)

	2003 Budget	2003 Estimate	2004 Budget	Percent Change	
				03B to 03E	03E to 04B
Building Related Projects and Facility Improvements	268,678	170,360	249,884	-36.6%	46.7%
Payment System Improvement Initiatives					
Retail Payment Initiatives	35,507	53,946	45,708	51.9%	-15.3%
Cash Services Initiatives	29,709	32,533	9,813	9.5%	-69.8%
Treasury Initiatives	43,600	45,178	41,551	3.6%	-8.0%
Automation and Communication Initiatives	55,207	55,169	61,566	-0.1%	11.6%
Security Enhancements	49,213	39,157	53,950	-20.4%	37.8%
Miscellaneous ²	9,444	10,172	4,930	7.7%	-51.5%
TOTAL	491,358	406,516	467,402	-17.3%	15.0%

¹ Capital outlays for the Federal Reserve System include the twelve Districts, FRIT, and OEB.

² Miscellaneous includes other equipment purchases.

APPENDIX B Glossary of Projects

Check Modernization Projects

Check Standardization – This initiative has standardized Reserve Bank item processing on a single platform and software suite. Data processing and software applications support for this platform are now centralized at single sites within the Federal Reserve System.

Enterprise Wide Adjustments System – Provides a common, standard platform for check adjustments processing throughout the system. With the entire system on a single processing platform, Reserve Banks are able to resolve adjustments cases more efficiently.

FedImage (Formerly Image System Services) – A standard, centrally-managed national image archive which replaced the Federal Reserve’s previously diverse and unconnected commercial image processing platforms. Three Reserve Bank offices serve as regional archive sites for the System.

Check Electronic Access and Delivery – Eliminates the check service’s dependency upon the old DOS FedLine platform by migrating current and future products to FedLine for the Web.

Treasury Projects

Treasury Check Information System – A commercially-available reconciliation and claims system customized to meet Treasury’s Financial Management Service business requirements. The application will manage the Federal government’s account and related inquiries, claims, and adjustments.

Pay.gov – Provides organizations and individuals with the ability to make payment to the government for services and fees by logging onto the Pay.gov web site to initiate an ACH transaction.

Paper Check Conversion – Supports the electronic conversion of a check presented at the point of sale at government locations.

Treasury Web Applications Infrastructure – A Treasury-unique network to support Treasury applications by connecting to its customers and other business partners using Web and Internet-based technologies.

Treasury Web Central Reporting System – A system that allows various Treasury agencies to view accounting information in summary and detail form.