

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: December 6, 2007
To: Board of Governors
From: Donald L. Kohn *DLK*
Subject: 2008 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 2008. In aggregate, the 2008 Reserve Bank budgets total \$3,067.0 million, an increase of \$52.0 million or 1.7 percent over 2007 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: November 28, 2007

To: Committee on Federal Reserve Bank Affairs

From: Rashika Padmakumara, Lauren Guerin, Paul Hamaty, Dorothy LaChapelle, Paul Bettge, Don Hammond

Subject: 2008 Final Reserve Bank Budgets

ACTION REQUESTED

Staff requests committee review of its recommendation that the Board approve the 2008 Reserve Banks budgets totaling \$3,067.0 million, an increase of \$52.0 million or 1.7 percent over the 2007 estimated expenses and \$116.6 million or 4.0 percent over the approved 2007 budget.¹ Staff also requests committee review of its recommendation that the Board approve the 2008 Reserve Banks and Federal Reserve Information Technology (FRIT) capital budgets totaling \$534.6 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-2634). We have attached additional statistical information that provides detail on expenses, staffing, and capital outlays.

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.

Total Expense and Employment Summary

The 2008 expense increase of \$52.0 million or 1.7 percent from the 2007 estimate is driven by increases in central bank functions, specifically related to growth in monetary policy and public programs, supervision and regulation, and cash areas. These increases are largely offset by decreases in the priced services due to severance and impairment expenses recognized in 2007 consistent with the announcement of Phase V multi-year check restructuring and the decline in paper check volume experienced due to the electrification of check services.

Net expenses after including revenue and reimbursements are expected to increase by \$161.7 million or 10.5 percent. Nearly half of Reserve Bank expenses in the 2008 budget are offset by priced service revenues (29 percent) and reimbursable claims for services provided to the Treasury and other agencies (15 percent).² Budgeted 2008 priced services revenue is lower than the 2007 estimated level,

primarily as a result of declining paper check volume. Reimbursable claims are expected to increase only slightly in 2008, reflecting an overall effort by the Treasury and the Reserve Banks to contain costs while maintaining support for key programs and advancing new initiatives.

Total 2008 projected employment for the Reserve Banks, FRIT, and OEB is 19,255 ANP, a decrease of 392 ANP or 2.0 percent from 2007 estimated staff levels.³ The 2008 staffing decrease continues the trend of workforce reductions

Table 1
Reserve Bank Expenses and ANP
(Dollars in Millions)

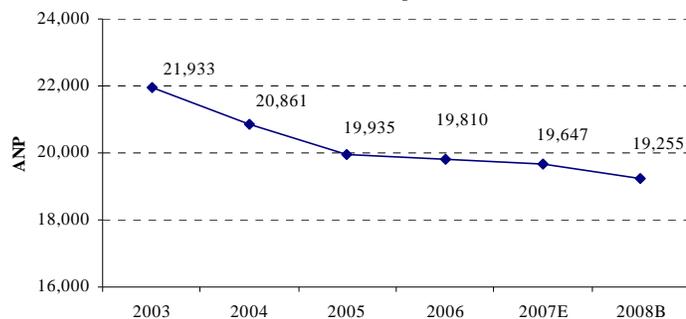
	2007		2008	Change	
	Budget	Estimate	Budget	2007 Est. - 2008 Bud. Amount	Percent
Central Bank Services	\$1,680.9	\$1,694.5	\$1,806.5	\$112.0	6.6%
Treasury Services	\$442.4	\$443.2	\$449.5	\$6.3	1.4%
Priced Services	\$827.1	\$877.3	\$810.9	-\$66.4	-7.6%
Total Expense	\$2,950.4	\$3,015.0	\$3,067.0	\$52.0	1.7%
ANP	19,828	19,647	19,255	-392	-2.0%

Table 2
Change in Net Expenses
(Dollars in Millions)

	2007	2007	2008	Percent Change	
	Budget	Estimate	Budget	07B-08B	07E-08B
Total Expense	\$2,950.4	\$3,015.0	\$3,067.0	4.0%	1.7%
Less:					
Priced Services Revenue ¹	\$981.3	\$1,014.8	\$896.3	-8.7%	-11.7%
Reimbursable Claims	\$466.7	\$465.3	\$474.1	1.6%	1.9%
Net Expenses	1,502.4	1,534.9	1,696.6	12.9%	10.5%

¹ Based on the final budget submission

Trends in Staffing
2003 -2008 Budget



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.

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.

that began in the late 1990s and is the lowest in the last 30 years. The 2008 budgeted staff reductions are largely due to the effect of infrastructure changes and volume declines in check and efficiency gains in currency processing.

2007 Budget Performance

Total 2007 expenses are estimated to be \$3,015.0 million, which represents an increase of \$64.6 million or 2.2 percent from the approved 2007 budget of \$2,950.4 million. Total 2007 estimated staffing of 19,647 ANP represents a decrease of 181 ANP from 2007 budgeted levels of 19,828 ANP.

The expense increase from budget is driven primarily by increased System check direct costs of \$51.1 million, of which \$39.0 million is for accrual of severance, equipment impairments, and other expenses related to the announcement of Phase V check restructuring whereby the Reserve Banks will reduce check processing sites from 22 to four by 2011. The higher-than-projected demand for Check 21 electronic check services is contributing \$18.0 million to the overrun, due to higher costs associated with staffing, printing supplies, and equipment. Additional resources for national adjustments and check automation services are adding \$7.5 million. These expenses are partially offset by reductions in various other check functions totaling approximately \$14.0 million. Reserve Banks are expected to fully recover check costs through revenue in 2007.

Several other factors account for the remainder of the overrun. Because of higher-than-planned staffing levels and compensation, monetary policy and public programs expenses are over budget by \$6.8 million or 2.8 percent. Treasury services are over budget by \$3.6 million or 1.4 percent largely as a result of the development of the New Treasury Automated Auction Processing System (NTAAPS) and Treasury's Collections and Cash Management Modernization (CCMM) initiative, offset slightly by lower-than-budgeted costs in other Treasury functions, including the Treasury Web Applications Infrastructure (TWAI).⁴ The supervision and regulation function is over budget by \$3.1 million or 0.8 percent largely due to increased expenses to address staffing, retention, and turnover concerns. Higher personnel and ongoing operations costs in several support functions, including law enforcement and human

⁴ CCMM is a comprehensive multi-year enterprise architecture initiative to streamline, modernize, and improve the services, systems, and 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. When this initiative is complete, FMS expects that between eight and ten fiscal and financial agents, including several Federal Reserve Banks, will support its businesses.

resources, account for another \$4.4 million or 0.5 percent. Partially offsetting the 2007 overruns are lower expenses in local cash operations due to lower-than-planned volume, additional recoveries resulting from the currency recirculation policy, and processing efficiencies (\$5.5 million).⁵

The underrun of 181 ANP compared to the approved budget reflects lower staffing in several areas. Cash is 49 ANP under budget primarily due to volume declines resulting from the implementation of the fee component of the recirculation policy and productivity gains. The law enforcement and facilities functions are 35 ANP and 17 ANP, respectively, under budget reflecting higher-than-planned turnover and a longer-than-expected time to fill vacant positions. Staffing in the check area is 43 ANP under budget reflecting greater-than-planned legacy volume declines partially offset by additional staff to support Check 21 operations. Treasury Services is 19 ANP below budget reflecting the CCMM initiative and volume reductions. Supervision and regulation is under budget by 16 ANP primarily due to turnover and longer-than-planned hiring delays, and the Customer Relations and Support Office is 11 ANP under budget because of hiring lags and efficiency gains. These staffing decreases are partially offset by an increase of 38 ANP to support FRIT projects.

Initiatives Affecting the 2008 Budget

Several initiatives planned for 2008 are affecting the increase in budget. In the central bank area, which includes monetary policy, public programs, supervision and regulation, and cash operations, expenses are increasing \$112.0 million or 6.6 percent in 2008. Total costs for monetary policy and public programs are increasing \$32.5 million or 6.4 percent driven primarily by salary-related costs, as well as expenses related to resiliency enhancements in central bank functions. Staffing levels are increasing 28 ANP due in part to the full-year effect of staff additions in 2007 and personnel needed to support resiliency efforts.

Total expenses in the supervision and regulation function are increasing \$36.4 million or 6.0 percent in the 2008 budget primarily as a result of higher compensation for current staff to address retention issues. Staffing levels are increasing by 13 ANP, due to increased time frame to fill budgeted positions and shifting resource allocation across Districts as a result of evolving supervisory responsibilities.

⁵ Under the new recirculation policy, the Reserve Banks charge depository institutions a fee to deposit large amounts of fit \$10 and \$20 notes and order the same denomination within the same week.

Expenses in cash operations are increasing \$24.2 million or 5.7 percent. The increased cost in this area reflects expenses related to the Future Cash Automation Project (FCAP), facilities, and protection support costs. These support increases are partially offset by declines in direct costs of \$1.3 million, or 0.8 percent.

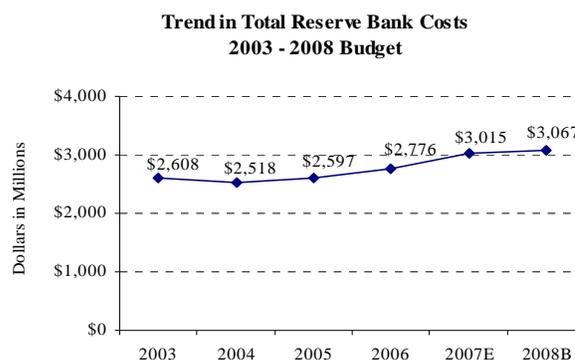
Total costs to provide services to the Treasury, which are fully reimbursed, are increasing \$6.3 million or 1.4 percent. Staffing levels are budgeted to decrease 24 ANP. The expense increase is driven by accelerated software amortization and personnel costs of \$7.6 million as a result of the CCMM initiative. Decreases of \$4.2 million for NTAAPS, resulting from lower FRIT support and application development costs, partially offset the increase. The staffing reductions are primarily due to lower volume and productivity gains, transition of government check operations to the central site, and software implementation in the Go-Direct call center.⁶

Total check expenses are decreasing \$78.4 million or 11.1 percent, reflecting the non-recurrence of check restructuring costs accrued in 2007 and continued paper check volume declines. The decreases are partially offset by higher costs related to Check 21 operations, including costs associated with the development of the Check 21 version 2.0 software. Total check staffing levels are decreasing 565 ANP primarily due to check site closures and projected paper volume declines.

Support costs are increasing \$47.5 million or 5.5 percent. The expense increases are driven primarily by additional costs for building projects (\$20.1 million), and expenses for information technology (\$15.3 million) and law enforcement (\$6.6 million), mainly in salary-related costs. Staffing levels are increasing 60 ANP to support application development, contingency efforts, and to bring staffing back to normal levels in facilities and law enforcement due to turnover and delays in hiring that occurred in 2007.

Five-year Trend in Reserve Bank Expenses

Total expenses for the Reserve Banks have grown an average of 3.3 percent annually over the past five years, with services to the U.S. Treasury having the largest growth over

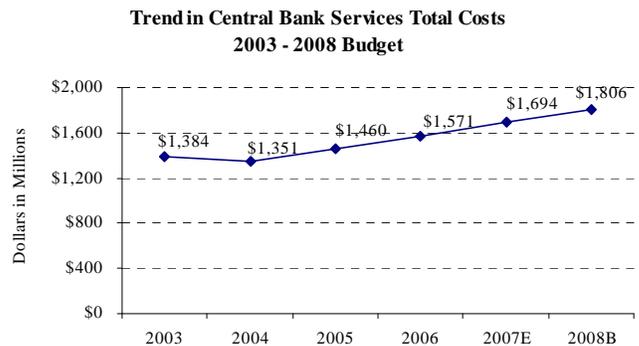


⁶ Go-Direct is a national campaign designed to encourage more recipients to select direct deposit for their Social Security and Supplemental Security Income payments.

this period.

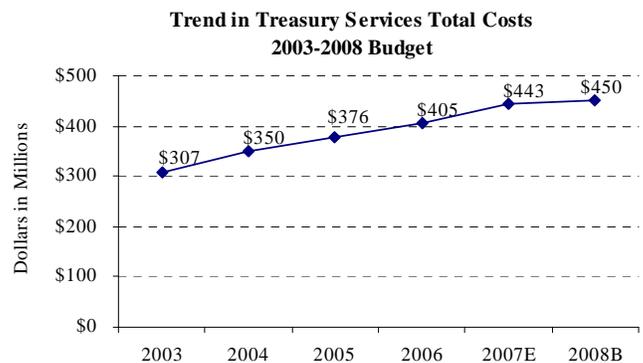
Trends in Central Bank Services Total Cost

Central bank services have grown an average of 5.5 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 7.5 percent annually, as Banks have increased resources dedicated to community outreach, financial literacy, and regional economic research efforts. Efficiency improvements in the cash area have resulted in an average annual growth of 2.9 percent. In addition, expenses in the supervision and regulation function have grown by 5.3 percent over the past five years reflecting additional resources necessary to implement Basel II and to modify the Federal Reserve’s approach to supervising large financial institutions.



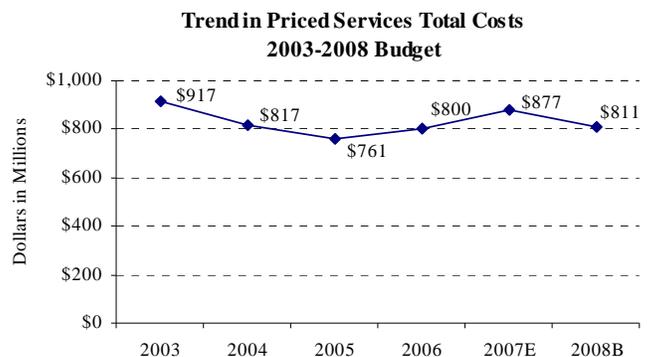
Trends in Treasury Services Total Cost

Treasury services expenses have grown on average 7.9 percent annually since 2003. Recent efforts by the Treasury to limit expense growth and increase efficiency have resulted in modest 2008 budgeted growth from 2007 estimated expenses. The growth from 2003 to 2007 was driven primarily by the TWAI project. In recent years, expenses for this project have flattened while costs for the NTAAPS project have increased.



Trends in Priced Services Total Cost

Priced services expenses have been declining an average of 2.4 percent annually, driven by the check service. Efforts to reduce the size of the System’s check operations,



consistent with volume declines, have resulted in an average annual decline of 4.4 percent in check service cost since 2003. The trend in check reflects staff reductions of 1,720 ANP since 2003 associated with the consolidation of 31 check operations.

2008 Personnel Expenses

Budgeted officer and employee salaries and other personnel expenses total \$1,552.8 million, which is an increase of \$40.4 million or 2.7 percent compared to the 2007 estimate. The increase is the combined effect of the budgeted salary administration program, partially offset by lower severance expenses budgeted in 2008 relative to those associated with check restructuring that were accrued in 2007. Funding for officer and employee salary administration programs reflects an increase of \$81.0 million.⁷ The increase is due largely to base salary programs; merit pools for officers and employees total \$54.5 million and promotions and market-based salary adjustments total \$19.5 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 \$7.1 million in 2008. The increase in variable pay primarily is attributed to Reserve Bank efforts to attract and retain officers and employees with highly marketable and critical skills.

In addition to the increases in Reserve Bank salary administration programs, the Banks have budgeted a \$2.7 million increase for retention programs. This increase is largely due to a program to retain key check services staff during the multi-year restructuring effort. Partially offsetting these increases is a \$31.5 million decrease in severance expense due to the payments accrued in 2007 associated with restructuring initiatives primarily in check.

Turnover is projected to increase from 11.5 percent in the 2007 estimate to 13.7 percent in 2008 due in large part to the check restructuring initiative.

	2008 Turnover					
	Officers		Employees		Total	
	ANP	Percent of Total	ANP	Percent of Total	ANP	Percent of Total
Total Number of ANP Leaving the Bank	63	5.7%	2,530	14.2%	2,593	13.7%
		Percent of Turnover		Percent of Turnover		Percent of Turnover
Total ANP not Replaced	16	25.4%	812	32.1%	828	31.9%
ANP replaced due to retirement	22	34.9%	232	9.2%	254	9.8%
ANP replaced due to other reasons	25	39.7%	1,486	58.7%	1,511	58.3%

Of the projected 2,593 ANP leaving the Reserve Banks, FRIT, and OEB in 2008, an estimated 31.9 percent of staff leaving will not be replaced, mostly in the check area.

⁷ Salary administration includes two categories of expense: base salary programs (merit, promotion, and market adjustment pools) and variable pay programs (cash awards and incentives).

Risks in the 2008 Budget

The check service continues to be an area where Banks have identified a considerable amount of risk. If the budgeted 44 percent decline in paper check volumes fails to materialize, the Banks would incur costs for higher-than-planned staffing levels, however, the increased costs would be offset by corresponding revenue. The continued rapid growth of Check 21 items could present operational challenges and, if the adoption of FedReceipt is slower than anticipated, the Banks would require additional staffing, equipment, and supplies beyond those budgeted.⁸ Additional funding may be required if there are delays or higher-than-expected costs related to Check 21 version 2.0 software development. Phase V check restructuring plans have been announced and include consolidation plans through first quarter 2011 as the System moves towards four full-service check-processing sites.

Difficulty projecting volume given the recent implementation of the new currency recirculation policy, the FCAP software development effort, and the high-speed sorting equipment upgrade project pose significant risks for the 2008 budget. Budgeted volume and cost assumptions may vary depending on how aggressively depository institutions adjust their currency deposit frequency to avoid recirculation fees. In addition, significant changes to the FCAP requirements or timeline could adversely affect budgeted expenses. Also, the high-speed processing equipment upgrade project continues to experience delays that may adversely affect the Reserve Banks' ability to achieve productivity targets and budgeted staff reductions.

2008 Capital Plan

The 2008 capital budget submitted by the Reserve Banks and FRIT totals \$534.6 million, a \$1.3 million or 0.2 percent decrease from the 2007 estimated levels. The 2008 capital budget reflects lower outlays for Kansas City's new building project as it nears completion in early 2008, the inclusion of FCAP, and initiatives to enhance resiliency in central bank functions.

As in previous years, the 2008 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

⁸ FedReceipt is a service in which the paying bank agrees to the electronic presentment of checks with accompanying images.

2008 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 \$209.2 million for building-related projects and facility improvements. Of the total building capital, \$81.0 million is related to major projects begun in previous years in Boston, New York, Richmond, Chicago St. Louis, and Kansas City. The capital budget also includes \$20.4 million for the facilities related facets of the resiliency enhancement project. The remaining outlays in this category will fund various building renovation and refurbishment projects, as well as miscellaneous facility improvement projects.

Initiatives related to payment systems, cash, and Treasury initiatives represent \$138.3 million of the capital budget. Almost half of the budget (\$61.8 million) is for cash initiatives to support the FCAP software development effort and to upgrade the cash processing machines. The budget also includes \$39.0 million for reimbursable Treasury initiatives in support of the TWAI, NTAAPS, and e-Government projects.

The Reserve Banks and FRIT included \$106.3 million in funding for major information technology initiatives. These initiatives do not include the automation components of building or payment systems initiatives discussed separately. Of the total automation-related outlays, FRIT projects and acquisitions account for \$35.5 million and the resiliency project accounts for \$33.9 million. In addition, the budget includes funding for local server equipment (\$8.6 million) and software upgrades (\$11.0 million) at the Reserve Banks.

The proposed capital budget includes \$76.3 million for security enhancements and \$4.4 million for equipment and software not falling into the defined categories above.

ATTACHMENT
Statistical Supplement

Table 1	Total Expenses of the FR Banks, by District
Table 2	Total Employment of the FR Banks, by District
Table 3	Total Expenses of the FR Banks, by Functional Area
Table 4	Total Employment of the FR Banks, by Functional Area
Table 5	Salary Administration Expenses of the FR Banks, by District
Table 6	Capital Outlays of the FR Banks, by District
Table 7	Capital Outlays of the FR Banks, by Category

Notes: In the following tables, Reserve Bank expenses include those budgeted by FRIT and OEB that are chargeable to the Reserve Banks.

Components may not add to totals because of rounding. Table-to-table comparisons may also differ due to rounding.

2008 Final Budget

TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS
by District, 2007 and 2008
(Dollars in Thousands)

District	2007 Budget	2007 Estimate	2008 Budget	Percent Change	
				07B to 07E	07E to 08B
Boston	151,075	163,911	157,796	8.5%	-3.7%
New York	573,735	580,752	599,736	1.2%	3.3%
Philadelphia	147,732	149,446	157,028	1.2%	5.1%
Cleveland	208,644	218,564	218,332	4.8%	-0.1%
Richmond	231,262	242,489	245,270	4.9%	1.1%
Atlanta	337,336	323,809	355,650	-4.0%	9.8%
Chicago	274,162	286,229	277,736	4.4%	-3.0%
St. Louis	229,246	231,610	227,877	1.0%	-1.6%
Minneapolis	159,786	162,186	168,218	1.5%	3.7%
Kansas City	172,499	182,146	181,033	5.6%	-0.6%
Dallas	186,662	193,410	190,820	3.6%	-1.3%
San Francisco	278,227	280,445	287,474	0.8%	2.5%
Total	2,950,366	3,014,997	3,066,970	2.2%	1.7%

2008 Final Budget

TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS
by District, 2007 and 2008
(Average Number of Personnel)

District	2007 Budget	2007 Estimate	2008 Budget	Change	
				07B to 07E	07E to 08B
Boston	993	986	1,000	-6	14
New York	2,868	2,852	2,764	-16	-88
Philadelphia	1,092	1,075	1,063	-18	-12
Cleveland	1,604	1,590	1,581	-14	-9
Richmond	1,854	1,849	1,827	-5	-23
Atlanta	2,042	1,992	1,939	-50	-54
Chicago	1,544	1,519	1,457	-25	-62
St. Louis	1,124	1,098	1,074	-26	-25
Minneapolis	1,273	1,255	1,235	-19	-20
Kansas City	1,386	1,370	1,330	-16	-39
Dallas	1,331	1,342	1,316	11	-26
San Francisco	1,879	1,845	1,781	-34	-65
Subtotal	18,990	18,774	18,366	-216	-408
FRIT	793	831	844	37	13
OEB	45	43	45	-2	2
Total	19,828	19,647	19,255	-181	-392

2008 Final Budget

TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS
by Functional Area
(Dollars in Thousands)

Year	Total	Central Bank Services				Services to U.S. Treasury and Gov't Agencies	Fee Based Services to Financial Institutions
		Monetary Policy and Public Programs	Services to Financial Institutions and the Public	Supervision and Regulation	<i>Sub Total</i>		
2003	2,607,735	378,494	511,846	493,569	1,383,909	307,289	916,537
2004	2,517,679	373,257	494,081	483,315	1,350,653	350,158	816,868
2005	2,597,013	419,821	531,513	508,920	1,460,255	376,164	760,594
2006	2,776,028	456,855	563,692	550,494	1,571,040	405,010	799,978
2007 Est	3,014,997	510,058	580,329	604,093	1,694,480	443,180	877,337
2008 Bud	3,066,969	542,599	623,464	640,450	1,806,513	449,530	810,926
AAGR 2003-2008	3.3%	7.5%	4.0%	5.3%	5.5%	7.9%	-2.4%

2008 Final Budget

TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS¹
by Functional Area
(Average Number of Personnel)

Year	Total	Central Bank Services				Services to U.S. Treasury and Gov't Agencies	Fee Based Services to Financial Institutions ²	Support, Overhead, and Centralized Providers
		Monetary Policy and Public Programs	Services to Financial Institutions and the Public	Supervision and Regulation	Sub Total			
2003	21,933	1,388	2,244	2,578	6,209	1,222	4,702	9,800
2004	20,861	1,392	2,151	2,562	6,106	1,302	4,347	9,106
2005	19,935	1,442	2,118	2,539	6,099	1,288	3,323	9,225
2006	19,810	1,481	2,079	2,656	6,216	1,267	3,101	9,226
2007 Est	19,647	1,534	2,036	2,665	6,235	1,270	2,701	9,441
2008 Bud	19,255	1,562	1,998	2,673	6,233	1,246	2,155	9,621
AAGR 2003-2008	-2.6%	2.4%	-2.3%	0.7%	0.1%	0.4%	-14.4%	-0.4%

¹ Includes average number of personnel at FRIT and OEB.

² The decrease in 2004 actual to 2005 actual in Fee Based Services to Financial Institutions ANP reflects an accounting change that resulted in a shift of 554 ANP to national support included in the Support, Overhead, and Centralized Providers category.

2008 Final Budget

SALARY ADMINISTRATION EXPENSES OF THE FEDERAL RESERVE BANKS

Officers and Employees by District, 2008

(Dollars in Thousands)

District	Additions to Salary Base				Variable Pay (Change 07E-08B)			Total	Percent ¹
	Merit	Promo & Reclass	Market Adjustment	Subtotal	Cash Awards	Incentive Payments	Subtotal		
Boston	2,807	515	13	4.4%	311	362	0.9%	4,008	5.3%
New York	11,841	2,075	4,783	6.8%	-41	1,000	0.4%	19,658	7.2%
Philadelphia	2,586	484	220	5.0%	145	165	0.5%	3,600	5.5%
Cleveland	3,196	776	133	4.8%	154	-245	-0.1%	4,013	4.7%
Richmond	4,421	860	792	5.4%	-2,087	3,172	1.0%	7,157	6.3%
Atlanta	6,749	1,770	729	7.3%	186	1,006	0.9%	10,441	8.3%
Chicago	2,927	675	900	4.3%	307	375	0.7%	5,183	5.0%
St. Louis	2,700	309	350	4.8%	324	186	0.7%	3,869	5.5%
Minneapolis	2,880	360	0	4.6%	437	14	0.6%	3,692	5.2%
Kansas City	3,335	755	58	4.8%	113	127	0.3%	4,388	5.1%
Dallas	2,951	145	432	4.5%	343	2	0.4%	3,873	4.9%
San Francisco	5,377	1,269	226	5.0%	293	-42	0.2%	7,123	5.2%
FRIT	2,562	657	0	4.5%	19	409	0.6%	3,647	5.1%
OEB	171	183	0	7.9%	0	32	0.7%	386	8.6%
Total	54,503	10,833	8,636	5.4%	503	6,563	0.5%	81,038	5.9%

Merit: the amount of budgeted salary expense that reflects the cumulative effect 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.

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

2008 Final Budget

CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS
by District, 2007 and 2008
(Dollars in Thousands)

District	2007 Budget	2007 Estimate	2008 Budget	Percent Change	
				07B to 07E	07E to 08B
Boston	18,334	21,163	28,439	15.4%	34.4%
New York	77,456	59,884	138,452	-22.7%	131.2%
Philadelphia	23,361	17,639	22,615	-24.5%	28.2%
Cleveland	24,161	26,510	24,817	9.7%	-6.4%
Richmond	59,717	37,155	69,707	-37.8%	87.6%
Atlanta	32,928	17,515	22,889	-46.8%	30.7%
Chicago	20,633	25,675	23,768	24.4%	-7.4%
St. Louis	43,559	42,384	33,298	-2.7%	-21.4%
Minneapolis	5,131	5,685	7,008	10.8%	23.3%
Kansas City	150,439	142,537	16,193	-5.3%	-88.6%
Dallas	17,318	11,810	25,776	-31.8%	118.2%
San Francisco	49,669	59,424	56,691	19.6%	-4.6%
Subtotal	522,708	467,381	469,655	-10.6%	0.5%
FRIT	68,115	67,650	64,908	-0.7%	-4.1%
OEB	800	800	-	N/A	N/A
Total	591,623	535,831	534,562	-9.4%	-0.2%

2008 Final Budget

CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS¹
by Category, 2007 and 2008
(Dollars in Thousands)

	2007 Budget	2007 Estimate	2008 Budget	Percent Change	
				07B to 07E	07E to 08B
Building Related Projects and Facility Improvements	314,478	294,103	209,209	-6.5%	-28.9%
Payment System Improvement Initiatives					
Retail Payment Initiatives	61,581	51,419	37,583	-16.5%	-26.9%
Cash Services Initiatives	25,153	16,919	61,801	-32.7%	265.3%
Treasury Initiatives	39,660	46,360	38,953	16.9%	-16.0%
Information Technology Initiatives	76,103	80,116	106,265	5.3%	32.6%
Security Enhancements	69,368	40,531	76,336	-41.6%	88.3%
Miscellaneous ²	5,279	6,383	4,416	20.9%	-30.8%
TOTAL	591,623	535,831	534,562	-9.4%	-0.2%

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

² Miscellaneous includes other equipment and software not falling into the other defined categories.