



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

DATE: December 14, 2012

TO: Board of Governors

FROM: Staff <sup>1</sup>

SUBJECT: 2013 Board Operating and Capital Budgets <sup>2</sup>

### **Action Requested**

Staff requests that the Board approve the following:

1. A \$559.96 million operating budget for 2013, which includes 2,540 authorized positions
2. A \$10.83 million single-year capital budget for 2013
3. An increase of \$261.18 million in multi-year capital funds

### **Summary**

Beginning last year, the Board took a different approach to strategic planning, intensively engaging with division directors to elicit a more precise focus on the most significant strategic and organizational challenges facing the Board in achieving its expanded mission in an era of cost consciousness and budgetary austerity. The Board engaged an outside consultant to work with the Executive Committee of the Board (ECB) and senior staff across all divisions and offices to recommend steps to meet the new mandates of the Dodd-Frank Act, close the gaps in knowledge and policy revealed by the 2007-09 financial crisis, and continue to effectively manage a fragile global economy, all within the context of limited resources.

As part of this planning process, the ECB identified and framed five overarching themes for the Board to address over the

**Table 1. Summary of 2013 budget components**  
Dollars in millions (where applicable)

Component	Current 2012 opplan	Proposed 2013 budget	Increase/ (Decrease)	% Increase
Operating	511.77	559.96	48.20	9.4%
Single-year capital	17.14	10.83	(6.31)	-36.8%
Multiyear capital <sup>1</sup>	93.42	354.59	261.18	279.6%
Positions <sup>2</sup>	2,468	2,540	72	2.9%

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

<sup>1</sup>Current 2012 opplan reflects the total life-cycle budget previously approved for multiyear capital projects.

<sup>2</sup>Current 2012 opplan positions include 4 Division of Monetary Affairs (MA) positions approved at midyear 2012 as an advance against the positions included in the strategic framework. Proposed 2013 budget positions includes an additional 94 from the strategic framework, of which 20 positions for MA and 2 positions for the Office of Financial Stability Policy and Research were approved in November 2012.

<sup>1</sup> Don Hammond, Bill Mitchell, Chris Fields, and Craig Hiserman

<sup>2</sup> The requests in this memorandum do not include the Office of Inspector General (OIG). The OIG's budget is submitted separately from the Board's budget, consistent with the independence of that office.

next four years. For each theme, the ECB also recommended the resource investments that the Board should make in terms of personnel, data, facilities, and operational changes. Recognizing the fiscal reality in which the Board operates, the ECB developed a sixth theme that puts forward an overall cost control strategy and reduces future budgetary growth. The Board approved the strategic framework, including the associated resource requirements, in June of this year.

Developing the 2013 budget was the first step toward implementing the strategic framework's goals and objectives. Staff from the Division of Financial Management's (DFM's) Planning and Budget function reviewed budget requests submitted by divisions and offices, including proposed initiatives and potential savings. The Chief Operating Officer (COO) and Chief Financial Officer (CFO) subsequently met with the Administrative Governor and the ECB to further review and refine the budget submissions. As discussed more fully in the sections of this memo that follow, this process was grounded in the direction set by the strategic framework as well as the resource constraints imposed by that framework.

The budget requests included in this memorandum represent senior management's collective judgment of the resources necessary to continue the Board's current operations and continue to implement the strategic framework's initiatives. The operating budget (including new initiatives and proposed savings) represents a 9.4 percent increase over the 2012 operating plan, while the single year capital budget represents a 36.8 percent decrease in single-year capital funds (see table 1). The significant increase in total multi-year capital project costs represents the funding required to implement the strategic framework's two major capital initiatives: relocating the Board's data center and renovating the Martin Building.

### **Current Services Budget**

The proposed operating budget of \$559.96 million includes \$545.31 million to fund the Board's ongoing operations (the current services budget). Personnel services costs account for \$22.42 million of the growth in the base budget; increases in goods and services total \$11.12 million. Table 2 shows the drivers with the most significant impact on the 2013 base budget. Increases for salaries reflect the full-year impact of 116 positions added in 2012 and approximately \$2.8 million to fund the 3 percent merit increase approved by the Board earlier this year. Benefits-related increases are due, in part, to changes in salaries but are also the result of actuarial adjustments due to changes in discount rates and demographics.

The Contractual Professional Services (CPS) account includes an increase of \$10.42 million for the Survey of Consumer Finances, which is conducted every third year. Depreciation is higher in 2013 by \$2.47 million, primarily due to a change in accounting for leasehold improvements; the increase is offset by a related decrease in rental expense. The planned relocation of the Board's data center also resulted in an accelerated depreciation schedule, as the useful life of some equipment will be less than originally anticipated. The \$3.42 million decrease in the Rentals account is due to the change in accounting for leasehold improvements

**Table 2. Summary of 2013 base budget drivers**  
Dollars in millions

Base budget drivers	Amount
Personnel	
Salaries	14.09
Benefits	8.33
Subtotal	22.42
Goods and services	
Contractual Professional Services	12.44
Depreciation	2.47
Rentals	(3.42)
Other	(0.37)
Subtotal	11.12
<b>Total increase in base</b>	<b>33.54</b>
Note: Components may not sum to totals because of rounding.	

noted above as well as a reallocation of expenses from the Board's budget to the budget for the Office of Inspector General (OIG).<sup>3</sup>

As part of the budget formulation process, every division and office was asked to thoroughly review its proposed budget and identify areas where potential savings could be realized. These reductions were incorporated into the divisions' base budgets. In addition, in developing their budgets, the divisions and offices redirected funding within their respective base budgets to self fund new activities and initiatives.

Attachment 1 reflects the proposed 2013 operating budget by division, office, or special account; attachment 2 contains the same information by account classification. Attachment 1 also reflects a reallocation of funds from the Board's budget to the OIG (see footnote 3), as well as a reallocation of funds from the Management Division to the newly created Office of the Chief Operating Officer and the DFM.

## **Initiatives**

Initiatives submitted by divisions and offices for 2013 underwent a different review process than in previous years. To be considered for approval for 2013, all budget requests had to be firmly grounded in the newly-approved strategic framework.

Further, the Strategic Planning Group, a Boardwide committee of senior officers that in prior years was charged with reviewing budget submissions, was not involved in the review process for the 2013 budget. Rather, all initiatives were reviewed first by the COO and CFO, then by the ECB, to ensure their consistency with the strategic framework. Initiatives for which funding was clearly described in the framework were approved and are included in this 2013 budget request. Initiatives not included within the framework's budgetary envelope were referred back to the requesting division to either self-fund or identify an alternative method of achieving the initiative's objectives.

Table 3. Summary of 2012 initiatives by accounting classification	
Dollars in millions	
Account Classification	Amount
Salaries and Benefits	9.48
Contractual Professional Services	2.75
Depreciation/Amortization	1.09
Telecommunications	0.50
Furniture and Equipment	0.28
Travel Expenses	0.24
Tuition / Regist / Membership	0.14
Rentals	0.09
Software	0.08
<b>Total initiatives</b>	<b>14.66</b>
Note: Components may not sum to totals because of rounding.	

As a result of this review process, the 2013 budget includes \$14.66 million in new initiatives. Table 3 breaks out the amounts by accounting classification, and table 4 shows the initiatives by strategic theme; attachment 3 contains a complete list of initiatives. As the two tables and the attachment show, the bulk of the initiatives are for personnel to support implementation of strategic theme 1 (continue building a robust infrastructure for regulation, supervision, and monitoring risks to financial stability) and contractual support for the data center project under strategic theme 3 (establish a modern, safe work environment).

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<sup>3</sup> The Dodd Frank Act designated the Board's OIG as the OIG for the Consumer Financial Protection Bureau (CFPB). The Board and the CFPB are developing a memorandum of understanding on how the two organizations will jointly fund the OIG's operations. To provide greater transparency to all OIG-related expenses, and because the OIG's budget will also be reviewed by the director of the CFPB, certain expenses previously included in the Board's budget that are directly attributable to the OIG will be transferred to the OIG's budget beginning in 2013.

The budget submission for the Division of Banking Supervision and Regulation included a request for \$1.86 million to collect data in support of supervisory stress testing and other efforts

**Table 4. Summary of 2012 initiatives by strategic theme**  
Dollars in millions

Theme	Description	Amount
1	Financial stability	9.84
2	Data governance	0.49
3	Data center	4.03
3	Martin renovation	0.13
4	Human resources	0.11
	Other	0.06
<b>Total initiatives</b>		<b>14.66</b>

Note: Components may not sum to totals because of rounding.

related to monitoring markets and institutions. The request builds on a similar initiative approved during the 2012 budget process. Although the strategic framework recognizes that data requirements are likely to increase over the strategic planning horizon, the framework does not contain specific funding for data-related activities outside of the positions needed to support the data governance initiative. Because the ECB collectively supported BS&R's request, the initiative is included in the division's 2013 budget and a corresponding savings target has been added to the "Savings and Reallocation" account. The net result is that implementing this initiative has no effect on the Board's overall budget in 2013.<sup>4</sup> During 2013, DFM staff will

use the budget monitoring and review processes to identify sufficient enterprise-wide savings to achieve the savings target and will work with the ECB to implement this approach.

## **Positions**

The 2013 initiatives include requests to increase staffing by 72 positions. The increase brings the Board's total authorized position count to 2,540. This represents a 2.9 percent increase over current total authorized positions. The requested positions are consistent with the approved strategic framework and are primarily in support of the Board's new financial stability and supervisory mandate under the Dodd-Frank Act. Sixty-nine of the requested positions, representing 96 percent of the total increase, are in the research divisions, Division of Banking Supervision and Regulation, the Division of Reserve Bank Operations and Payment Systems, and the Legal Division. These positions will help the Board to continue building the infrastructure envisioned in strategic theme 1 using an interdisciplinary approach that combines the skills of economists, legal experts, quantitative analysts, and regulatory experts. The remaining three positions are in the Office of the Chief Operating Officer to support the strategic theme of redesigning data governance and management processes to enhance the Board's data environment; one of the three positions provides for a new Chief Data Officer. Table 5 shows the current and requested positions by division, office, or special account. A listing of requested positions for each initiative can be found in attachment 3.

<sup>4</sup> The costs for this effort are not included in tables 3 and 4 or appendix 3.

Division, office, or special account	Authorized positions as of 12/31/2012	2013 Positions requested	COO and DFM realignment	Total authorized and requested positions	Percent change 2012-2013
Board Members	115	-		115	0.0%
Secretary	53	-		53	0.0%
Research and Statistics	341	12		353	3.5%
International Finance	129	7		136	5.4%
Monetary Affairs <sup>1</sup>	144	-		144	0.0%
Financial Stability Policy and Research <sup>1</sup>	21	13		34	61.9%
Banking Supervision and Regulation	383	29		412	7.6%
Consumer and Community Affairs	103	-		103	0.0%
Legal	99	6		105	6.1%
Chief Operating Officer	2	3	11	16	.....
Financial Management	-	-	67	67	.....
Reserve Bank Operations and Payment Systems	154	2		156	1.3%
Information Technology <sup>2</sup>	397	-		397	0.0%
Management Division	527	-	(78)	449	-14.8%
<b>Total, Board operations</b>	<b>2,468</b>	<b>72</b>	<b>-</b>	<b>2,540</b>	<b>2.9%</b>
Note: Interns are not included in the numbers for positions or employment.					
<sup>1</sup> Authorized positions as of 12/31/2012 include the following strategic positions: four approved at midyear for MA, twenty approved in November for MA, and two approved in November for OFS.					
<sup>2</sup> Information Technology provides reimbursable support to other agencies, such as the Federal Financial Institutions Examination Council, equivalent to thirty-two full-time positions.					

## **Capital Budget**

The Board's capital budget consists of single-year and multiyear components. Single-year capital projects, such as hardware purchases, copier replacements, and software application upgrades, are planned for completion within the current budget cycle; multiyear capital projects, such as building renovations, span several budget cycles.

The proposed 2013 single-year capital budget of \$10.83 million is for routine equipment and software replacements (see table 6). This represents a decrease of \$6.31 million from the 2012 single-year capital budget. No initiatives were requested for 2013 that required additional single-year funds.

Table 7 summarizes the Board's multiyear capital projects. Project increases for the renovation of the current data center and upgrades related to the Eccles Building address the ongoing need to maintain the Board's current facilities. The C Street barriers and New York Avenue infrastructure upgrades projects, approved in 2012 as single-year projects,

Division, office, or special account	2013		
	Objective	Initiatives	Adjusted objective
Board Members	-	-	-
Secretary	0.03	-	0.03
Research and Statistics	0.55	-	0.55
International Finance	-	-	-
Monetary Affairs	-	-	-
Financial Stability Policy and Research	-	-	-
Banking Supervision and Regulation	1.72	-	1.72
Consumer and Community Affairs	-	-	-
Legal	-	-	-
Chief Operating Officer	-	-	-
Financial Management	-	-	-
Reserve Bank Operations and Payment Systems	-	-	-
Information Technology	7.15	-	7.15
Management	1.39	-	1.39
Extraordinary Items	-	-	-
<b>Total, Board operations</b>	<b>10.83</b>	<b>-</b>	<b>10.83</b>
Note: Components may not sum to totals shown because of rounding.			



will be converted to multiyear projects without an increase in amount to recognize the longer time horizon associated with these two efforts. Two multiyear projects (repairs to the Martin Building garage and work on the Eccles Building elevators) were completed during 2012 and are no longer part of the Board's multiyear budget.

The data center relocation and Martin Building modernization projects are the two capital projects described in theme 3 of the strategic framework. Significant investment in building a new Board data center and modernizing the Martin Building will provide the required infrastructure to support the data needs of the divisions and offices as well as address security, energy efficiency, meeting, conferencing, and maintenance concerns. Capital costs for automation support of the human resources function are included under theme 4 of the strategic framework, which focuses on enhancing the Board's talent management processes to ensure effective recruitment, development, and retention of top talent.

<b>Table 7. Multiyear capital</b>		
Dollars in millions		
Projects	2013	
	Initiatives	New project life budget
NYA reconfiguration	-	25.17
International Square	-	17.54
Martin Building modernization	224.97	240.33
Eccles switchgear replacement	-	8.90
Data Center renovation	0.45	7.02
Law enforcement training center	-	5.99
Eccles window upgrades	0.84	5.34
C St. barriers	-	1.50
Warehouse space	-	2.09
NYA infrastructure upgrades	-	1.05
NYA perimeter security	-	1.91
eOPF	-	0.81
Eccles IT mechanical upgrades	0.40	0.40
HR strategic automation	1.76	1.76
Data Center relocation	34.80	34.80
<b>Total, Board operations</b>	<b>263.21</b>	<b>354.58</b>
Note: Components may not sum to totals shown because of rounding.		

## **Budget Risks**

When the Board approved the 2012-2015 strategic framework, the governors also approved the associated resource requirements and a budgetary growth target that will guide the financial approach for implementing the strategic themes. Successfully achieving the framework's goals and objectives depends on keeping resources focused on the highest priorities while increasing operating efficiencies and reducing administrative burden. Consistent with strategic theme 5, management has begun work to redesign processes to achieve these objectives. However, establishing a new budgetary paradigm that strengthens financial discipline and creates greater opportunities for cost reductions will take time and will require sustained commitment across all parts of the organization. The budget formulation process described earlier in this memo reflects the willingness of senior management to work within the guidelines established by the framework, and will need to be carried through budget execution during the coming year. Attachment 4 shows the growth in the Board's budget from 2007 through 2013, as well as the growth in expenses through the end of 2012.

Workforce risks to the 2013 budget remain largely consistent with risks identified during prior years. In particular, the Board's ability to attract and retain qualified staff to meet the challenges created by passage of the Dodd-Frank Act and continue to meet the demands of ongoing work requirements remains a concern, for a variety of reasons. First, the Board will continue to face challenges in finding and hiring qualified staff because of increasingly competitive markets in the federal and private sectors. In addition, divisions and offices will face the challenge of effectively integrating a large number of positions (72 new) over the next year.

Over the next few years, significant investments in the Board data environment will be required. The past two budget cycles have included significant requests for additional data in support of supervisory activities. Although the cost of the new data environment described in the strategic framework is still being analyzed, additional infrastructure investments (separate from costs already budgeted for the data center relocation) will be needed for activities such as integrating data into the new environment, creating a portal interface, and providing user support. If data management does not become more efficient and effective, staff may encounter difficulties in obtaining, interpreting, and analyzing the large volumes of data that new supervisory tools will require.

As part of the strategic framework, the Board approved its two largest capital projects in recent years – the renovation of the Martin Building and the relocation of the data center. Although the Board has retained consultants to assist in these efforts and has capable staff with experience dealing with complex projects, both initiatives will require careful monitoring given their size and critical importance, as well as the continued public focus on Board operations.

# Attachment 1

Board operating budget by division, office, or special account									
Dollars in millions									
Division, office, or special account	2012 OpPlan	2013 Base budget before reallocations	Reallocation			2013 Base budget	2013 Initiatives	2013 Budget	Percent change 2012 to 2013
			OIG	COO	DFM				
Board Members	24.76	26.86	-	-	-	26.86	-	26.86	8.5%
Secretary	8.92	9.36	-	-	-	9.36	-	9.36	5.0%
Research and Statistics	60.28	63.49	-	-	-	63.49	0.81	64.31	6.7%
International Finance	22.69	24.48	-	-	-	24.48	0.57	25.05	10.4%
Monetary Affairs	27.70	27.22	-	-	-	27.22	3.66	30.88	11.5%
Financial Stability Policy and Research	3.37	3.83	-	-	-	3.83	1.11	4.94	46.4%
Banking Supervision and Regulation	91.41	98.19	-	-	-	98.19	4.44	102.63	12.3%
Consumer and Community Affairs	23.43	24.09	-	-	-	24.09	-	24.09	2.8%
Legal	20.27	21.80	-	-	-	21.80	0.93	22.73	12.1%
Reserve Bank Operations and Payment Systems	33.73	33.69	-	-	-	33.69	0.18	33.87	0.4%
Chief Operating Officer	-	0.01	-	2.53	-	2.54	0.49	3.03	
Financial Management	-	0.12	-	-	9.40	9.52	-	9.52	
Information Technology	78.41	81.69	(0.06)	-	-	81.63	-	81.63	4.1%
Management	123.29	125.57	(3.04)	(2.53)	(9.40)	110.60	0.17	110.77	-10.2%
Data Processing Income	(33.83)	(36.46)	-	-	-	(36.46)	-	(36.46)	7.8%
Residual Retirement	10.40	14.68	-	-	-	14.68	-	14.68	41.1%
Special Projects	14.82	18.44	(0.55)	-	-	17.89	-	17.89	20.8%
Extraordinary Items	1.47	11.88	-	-	-	11.88	4.16	16.04	993.2%
Savings and Reallocations	-	-	-	-	-	-	(1.87)	(1.87)	
<b>Total Board operations</b>	<b>511.77</b>	<b>548.95</b>	<b>(3.65)</b>	<b>-</b>	<b>-</b>	<b>545.31</b>	<b>14.66</b>	<b>559.96</b>	<b>9.4%</b>
Note: Components may not sum to totals and may not yield percentages shown because of rounding.									



## Attachment 2

Board operating budget by account						
Dollars in millions						
Accounting classification	2012 OpPlan	2013 Base budget before reallocations	OIG	2013 Base budget	2013 Initiatives	2013 Budget
Salaries	292.09	306.54	(0.36)	306.18	8.08	314.26
Retirement/Thrift Plans	38.09	42.53	(0.05)	42.47	0.84	43.32
Employee Insurance	24.43	28.39	(0.03)	28.36	0.56	28.92
Subtotal, Salaries and Benefits	354.60	377.46	(0.44)	377.02	9.48	386.50
Postage and Shipping	0.75	0.66	-	0.66	-	0.66
Travel	13.41	13.99	-	13.99	0.24	14.23
Telecommunications	6.88	7.00	(0.06)	6.94	0.50	7.44
Printing and Binding	2.27	2.41	-	2.41	-	2.41
Publications	0.65	0.64	-	0.64	-	0.64
Stationery and Supplies	1.65	1.56	-	1.56	-	1.56
Software	11.61	11.97	-	11.97	0.08	12.05
Furniture and Equipment	8.92	9.42	-	9.42	0.28	9.70
Rentals	16.09	15.01	(2.34)	12.67	0.09	12.76
Books and Subscriptions	1.13	1.14	-	1.14	-	1.14
Utilities	3.90	3.90	-	3.90	-	3.90
Repairs and Alterations	3.11	2.99	-	2.99	-	2.99
Repairs and Maintenance	2.45	2.94	-	2.94	-	2.94
ARC Expense/Research and Statistics	0.85	0.96	-	0.96	-	0.96
ARC Income/Research and Statistics	(0.85)	(0.96)	-	(0.96)	-	(0.96)
Contingency Processing Center	1.39	1.35	-	1.35	-	1.35
Contractual Professional Services	56.58	69.02	-	69.02	2.75	71.77
Interest Expense	0.08	0.04	-	0.04	-	0.04
Tuition	4.63	4.78	(0.06)	4.72	0.14	4.86
Subsidies and Contributions	0.84	0.78	-	0.78	-	0.78
All Other	6.35	4.97	(0.05)	4.93	-	4.93
Budget Reallocation and Savings	0.63	-	-	-	-	-
Depreciation/Amortization	20.51	23.68	(0.70)	22.98	1.09	24.07
Income	(6.65)	(6.45)	-	(6.45)	-	(6.45)
IT User Charge	33.84	36.18	-	36.18	-	36.18
IT Income	(33.83)	(36.46)	-	(36.46)	-	(36.46)
Subtotal Goods and Services	157.16	171.49	(3.20)	168.29	5.18	173.46
<b>Total Board operations</b>	<b>511.77</b>	<b>548.95</b>	<b>(3.65)</b>	<b>545.31</b>	<b>14.66</b>	<b>559.96</b>
Note: Components may not sum to totals shown because of rounding.						

## Attachment 3

2013 Initiatives Dollars in millions					
Division	Strategic initiative	Initiatives description	2013		
			Operating costs	Capital costs	Positions
R&S	√	Positions in support of the strategic plan	0.81	-	12
IF	√	Positions in support of the strategic plan	0.57	-	7
MA <sup>1</sup>	√	Positions in support of the strategic plan	3.66	-	-
OFS <sup>1</sup>	√	Positions in support of the strategic plan	1.11	-	13
BS&R	√	Positions in support of the strategic plan	2.57	-	29
Legal	√	Positions in support of the strategic plan	0.93	-	6
COO	√	Chief Data Officer and staff	0.49	-	3
RBOPS	√	Positions in support of the strategic plan	0.18	-	2
MGT		Eccles windows upgrade	0.02	0.84	-
MGT		Eccles IT mechanical upgrade	0.02	0.40	-
MGT		Data Center row 11	0.02	0.45	-
MGT	√	HR in support of the strategic plan	0.11	1.76	-
EXTRA	√	Data center relocation	4.03	34.80	-
EXTRA	√	Martin renovation	0.13	224.97	-
<b>Total initiatives</b>			<b>14.66</b>	<b>263.21</b>	<b>72</b>
Note: Components may not sum to totals shown because of rounding.					
<sup>1</sup> In addition to the seventy-two strategic positions requested for 2013, the following strategic positions were approved in 2012: four at midyear for MA, twenty in November for MA, and two in November for OFS.					

## Attachment 4

