

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

2018 Currency Budget

Action

On December 13, 2017, the Board approved the 2018 currency budget of \$861.7 million, which is an increase of \$136.9 million, or 18.9 percent, from estimated 2017 expenses.¹

Discussion

Under authority delegated by the Board, the director of the Division of Reserve Bank Operations and Payment Systems (RBOPS) submits an annual fiscal year (FY) print order for new currency to the director of the Bureau of Engraving and Printing (BEP).² Upon reviewing the order, the BEP estimates printing costs for new currency during the upcoming calendar year (CY), which staff uses to prepare the annual currency budget. The Board then reviews and approves the final budget. Printing costs for Federal Reserve notes constitute about 93 percent of the operating budget. Expenses for currency transportation, quality assurance, research and development, counterfeit-deterrence, other BEP initiatives, currency education, and depreciation make up the remaining 7 percent.

Once the Board approves the currency budget, it assesses the costs of currency to each Federal Reserve Bank on a monthly basis. Table 1 provides details on the Board's 2017 budget, 2017 estimate, and 2018 budget.

¹ The CY 2018 currency budget does not include any capital funds, whereas the CY 2017 budget included both operating and capital funds.

² Please refer to [the Board's public website](#) for more information about the Board's annual print order for new currency.

Table 1
Currency budget
(calendar year)

	2017 Budget (000s)	2017 Estimate (000s)	Variance 17E to 17B		2018 Budget (000s)	Variance 18B to 17E	
			Amount (000s)	Percent		Amount (000s)	Percent
Print order (number of notes)	6,611,120	6,566,208	-44,912	-0.7	7,918,000	1,351,792	20.6
BEP expenses	\$679,514	\$679,309	-\$205	0.0	\$805,978	\$126,669	18.6
Printing Federal Reserve notes	\$673,799	\$673,795	-\$4	0.0	\$800,995	\$127,200	18.9
Currency reader	\$1,715	\$1,262	-\$453	-26.4	\$1,286	\$24	1.9
Other ^a	\$4,000	\$3,588	-\$412	-10.3	\$3,697	\$109	3.0
New BEP facility	\$0	\$663	\$663	N/A	\$0	-\$663	-100.0
Board expenses	\$46,516	\$45,543	-\$973	-2.1	\$55,757	\$10,214	22.4
Currency transportation	\$21,200	\$21,860	\$660	3.1	\$24,260	\$2,400	11.0
Quality assurance	\$12,500	\$13,798	\$1,298	10.4	\$14,000	\$202	1.5
Research and development	\$0	\$0	\$0	N/A	\$7,740	\$7,740	N/A
Counterfeit-deterrence	\$8,100	\$7,596	-\$503	-6.2	\$7,145	-\$451	-5.9
Currency education	\$4,645	\$2,246	-\$2,399	-51.6	\$2,531	\$285	12.7
Depreciation	\$71	\$42	-\$29	-41.1	\$80	\$38	91.0
Operating expenses	\$726,030	\$724,851	-\$1,178	-0.2	\$861,734	\$136,883	18.9
Capital expenses	\$600	\$368	-\$232	-38.7	\$0	-\$368	-100.0
Single cycle capital	\$600	\$368	-\$232	-38.7	\$0	-\$368	-100.0

^a Other BEP expenses include costs to reimburse the BEP for expenses incurred by its Destruction Standards and Compliance Division of the Office of Compliance and Mutilated Currency Division of the Office of Financial Management.

2017 Budget Performance

CY 2017 operating expenses are estimated at \$724.9 million, which is approximately \$1.2 million, or 0.2 percent, below the 2017 budgeted amount and capital expenses are estimated at \$0.4 million, which is about \$0.2 million, or 38.7 percent, below the 2017 budgeted amount. This variance is primarily attributable to lower-than-budgeted expenses for currency education and counterfeit deterrence. The currency education program delivered educational content more cost-effectively, for example by encouraging the public to download electronic versions of resources rather than ordering hard copy versions, and using in-house web development resources instead of more-expensive contracted resources. The counterfeit-deterrence program expenses were underrun primarily because we were unable to conduct all planned research and development efforts in 2017.

2018 Budget Overview: Currency Production & Transportation

The CY 2018 currency budget includes nearly \$801.0 million in printing costs, an increase of \$127.2 million, or 18.9 percent, from CY 2017 estimated expenses. The printing budget includes \$468.9 million (58.5 percent) in fixed costs and \$332.1 million (41.5 percent) in variable costs. The number of notes that will be printed in CY 2018 is budgeted to increase 20.6 percent, while printing costs are budgeted to increase 18.9 percent.

The CY 2018 budget also includes \$24.3 million for currency transportation, which is \$2.4 million, or 11.0 percent, higher than CY 2017 estimated expenses. The budget includes the cost of shipping new currency from the BEP to Reserve Banks, of intra-System shipments of currency, and of returning currency pallets from the Reserve Banks to the BEP. The increase reflects the need to ship more new-production notes in 2018, a higher volume of currency shipments between Reserve Banks, and a contracted increase in armored carrier rates.

2018 Budget Overview: Board Programs

In addition to note production and transportation, which together represent nearly 96 percent of the CY 2018 budget, funding supports the Board's currency programs related to quality assurance, research and development, counterfeit deterrence, currency education, and other reimbursements to the BEP.

The CY 2018 budget for the quality assurance program is \$14.0 million, which is \$0.2 million, or 1.5 percent, higher than CY 2017 estimated expenses. The budget includes \$9.0 million to continue funding the Currency Quality Assurance (CQA) program and \$5.0 million to continue funding a design consultant to assist with the acceleration of a new family of notes. The budget for the CQA program is 12.2 percent less than CY 2017 estimated expenses. For 2018, the CQA consultants will develop operational performance metrics, establish an Enterprise Program Review, and establish process roadmaps that will guide the BEP to ultimately assume full responsibility for the quality-related processes that have been developed by the CQA consultants.

The CY 2018 budget includes \$7.7 million to fund ongoing initiatives related to research and development of security features and quality-inspection technology.³ The Board will develop, test, and evaluate new and existing security features in support of the new family of notes, continue development work on quality-inspection technology, and develop an automated

³ We established the research and development budget category to distinguish between research and development work and ongoing work throughout the Board Expense category of the budget.

system for identification and analysis of counterfeit notes. In addition, the Board will continue its work, begun in 2017, on cognitive and perception studies to help inform security feature and banknote design decisions.

The CY 2018 budget for counterfeit deterrence is \$7.1 million, which is \$0.5 million, or 5.9 percent, lower than CY 2017 estimated expenses. The budget funds membership in the Central Bank Counterfeit Deterrence Group, to combat digital counterfeiting, and the Reproduction Research Center, to perform adversarial analysis on design concepts and potential security features.

The CY 2018 budget for currency education is \$2.5 million, which is \$0.3 million, or 12.7 percent, higher than the CY 2017 estimated expenses. The budget funds the Board's currency education program (CEP), which is designed to protect and maintain confidence in U.S. currency worldwide. In 2018, the CEP will continue to conduct outreach to domestic and international businesses and retailers and maintain the uscurrency.gov educational website, and will launch new initiatives such as an educational app and a suite of youth-focused digital learning tools.

2018 Budget Overview: Other Expenses

The budget includes \$3.7 million to reimburse the BEP for expenses incurred by its Destruction Standards and Compliance Division of the Office of Compliance and Mutilated Currency Division of the Office of Financial Management and \$1.3 million for the currency reader program.

Budget Risk

The BEP received Treasury Department support in 2015 to explore acquiring a new facility. The BEP is seeking congressional approval to use its revolving fund to purchase land and a building for the new facility. Because the current status of the project is uncertain, we have not included any funding in the 2018 budget.