

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

2022 Federal Reserve Bank Budgets Addendum

ACTION

On December 13, 2021, the Board conditionally approved the 2022 Reserve Bank operating budgets totaling \$5,432.1 million, inclusive of \$738.9 million in Treasury services. Conditional approval was necessary because the System was still in the process of implementing the new enterprise resource planning tool (ERP) and new cost accounting framework (collectively, the planning system). While significant changes in the top-line System total operating expense were not anticipated, staff believed that the refinement of costing and budgetary estimates arising from full implementation of the planning system could result in some adjustments to the budgets. The Board delegated approval of adjustments found not to be material (those constituting an adjustment of less than one percent of the 2022 Reserve Bank operating budgets of \$5,432.1 million) to the director of the Division of Reserve Bank Operations and Payment Systems.¹ The final total for the 2022 Reserve Bank operating expense budgets is \$5,434.6 million, \$2.6 million more than reported in December, but well under the material revision threshold of one percent that would require additional Board action. Consequently, the director of the Division of Reserve Bank Operations and Payment Systems approved the revised 2022 Reserve Bank budgets.

Prior to the conditional approval of the 2022 operating expenses, the U.S. Department of the Treasury's Bureau of the Fiscal Service (Fiscal Service) had not yet finalized the approved level of funding for fiscal services provided by the Reserve Banks included in the Reserve Bank budgets. Subsequently in mid-December, Fiscal Service approved a contingent budget that provided first quarter calendar year funding, thus ensuring uninterrupted support of existing daily operations (sustaining business operation activities), continued progress on prioritized key activities, and sustained human resource levels across the Fiscal Agent portfolio. This contingent budget did not identify expense reductions to the \$738.9 million in fiscal services spending approved in December.² However, the actual level of Reserve Bank spending for fiscal services is dependent on Treasury's approval of funding, which may vary from the budgeted amounts cited in this memo. While the blanket conditional approval

¹ Further details on the 2022 Federal Reserve Bank budgets, that was conditionally approved on December 13, 2021, can be found in the 2022 Federal Reserve Bank Budgets section on pages 14-27.

² While the authorization did not identify changes in spending levels for fiscal services provided by Reserve Banks, the budget estimates for fiscal services revised downward by \$10.5 million resulting from cost allocation shifts between business lines realized after the full implementation of the planning system.

was removed from overall operating expenses, including the majority of funding to support fiscal services, the designation was retained for operating expense budgets associated with investments in three projects: Transforming Tax Collection (T2C), Treasury Retail Investment Manager (TRIM), and the Post Payment Modernization Initiative (PPMI).

The final approved budgets, net of the adjustments explained above, include the following:

1. In sum, the budgeted total amount of Reserve Bank operating expenses is \$5,434.6 million, which reflects an increase of \$404.8 million, or 8.0 percent, from the 2021 budget. Total 2022 budgeted headcount for the Reserve Banks, Federal Reserve Information Technology (FRIT), and the Office of Employee Benefits (OEB) is 21,212, unchanged from the previously approved budget in December. This headcount constitutes an increase of 742, or 3.6 percent, from 2021 budgeted staff levels. In consultation with the chair of the Committee on Federal Reserve Bank Affairs, the director of the Division of Reserve Bank Operations and Payment Systems designated \$88.6 million of expenses associated with investments for T2C, TRIM, and PPMI for conditional approval. For these conditionally approved initiatives, Reserve Banks may fund the programs up to the amount that has been approved per Fiscal Service. Should Reserve Banks identify the need to expend funds in excess of the approved amount, or otherwise change the scope of work from what has been authorized, they are required to seek approval from both Fiscal Service and the director of the Division of Reserve Bank Operations and Payment Systems.
2. The total amount of the Reserve Bank capital budgets that the Board approved in December has not changed; however, the categorizations of some programs related to the U.S. Department of the Treasury have changed in alignment with the authorization received by Fiscal Service in mid-December. The Board approved 2022 Reserve Bank, FRIT, and the OEB single and multiyear capital budgets in three categories:
 - a) significant capital expenditures – multiyear approval for significant capital expenditures (typically expenditures exceeding \$1 million) totaling \$1,167.8 million for 2022 and the remaining term of these projects, which includes building investments, infrastructure upgrades, and ongoing maintenance and space planning strategies.
 - b) other capital expenditures – single-year capital expenditures, by asset class, for less significant expenditures (less than \$1 million per project) totaling \$96.5 million for 2022, reflecting a broad range of projects including small scale facilities projects and software updates.
 - c) conditional approval – the chair of the Committee on Federal Reserve Bank Affairs designated \$81.2 million in 2022 and \$484.4 million for 2023 and the remaining term of these projects for conditional approval, requiring additional review and approval by the director of the Division of Reserve Bank Operations and Payment Systems.³ These include technology investments such as FedNow and large scale

³ Generally, capital expenditures that are designated for conditional approval include certain building projects, District expenditures that substantially affect or influence future System direction or the manner in which significant services are performed, expenditures that may be inconsistent with System direction or vary from previously negotiated purchasing agreements, and local expenditures that duplicate national efforts.

facilities projects such as the NextGen program, which includes new cash vaults and currency processing machines.

Both the approval of these adjustments and the expectations regarding process should changes to the work undertaken on behalf of Fiscal Service prove necessary have been communicated to the Reserve Banks.

FEDERAL RESERVE BANKS BUDGETS

DISCUSSION

As detailed in the Action section above, Board staff was tasked with assessing whether the refined budgetary estimates for 2022 were materially different from the information presented in the December memo. Board staff has since evaluated and confirmed that the results minimally impact the 2022 Reserve Bank budget. Board staff has updated the following memo utilizing the refined budgetary estimates.

Additionally, Fiscal Service has not yet finalized the approved level of funding for fiscal services provided by the Federal Reserve Banks that is included in the 2022 Reserve Banks budgets. Fiscal Service approved a contingent budget in mid-December that provided first quarter calendar year funding, thus ensuring uninterrupted support of existing daily operations (sustaining business operations activities), continued progress on prioritized key activities, and sustained human resource levels across the Fiscal Agent portfolio. Therefore, the actual level of Reserve Bank spending for fiscal services is dependent on Treasury's approval of funding, which may vary from the budgeted amounts reflected in this memo.

TOTAL EXPENSE AND EMPLOYMENT SUMMARY

2022 Operating Expenses, Net of Revenue and Reimbursements

The proposed 2022 operating budgets of the Reserve Banks, inclusive of Treasury services, total \$5,434.6 million, which is \$404.8 million, or 8.0 percent, higher than the 2021 budget. About a quarter of Reserve Bank expenses in the 2022 budget are offset by either priced

	Change in Net Expenses		
	(dollars in millions)		
	2021 Budget	2022 Budget	Percent Change 22B - 21B
Total Expense	\$5,029.8	\$5,434.6	8.0%
Less:			
Priced Services Revenue	439.1	477.2	8.7%
Reimbursable Claims	710.4	829.7	16.8%
Net Expenses	\$3,880.4	\$4,127.7	6.4%

services revenue (8.8 percent) or reimbursable claims for services provided to the Treasury and fiscal principals (15.3 percent).⁴ Budgeted 2022 operating expenses, net of revenue and reimbursements, are expected to increase \$247.4 million, or 6.4 percent, from 2021 budgeted expenses.⁵ Budgeted 2022 priced services revenue is 8.7 percent higher than the 2021 budgeted level, reflecting increased prices and anticipated increased volume for Fedwire Funds. Reimbursable claims are expected to increase 16.8 percent in 2022, reflecting increased activity for new or continuing development of Treasury applications and associated infrastructure, pending approval by Fiscal Service.

⁴ The Federal Reserve provides services to the U.S. government pursuant to the Federal Reserve Act, which stipulates that, when required by the Secretary of the Treasury, Reserve Banks will act as fiscal agents and depositories of the United States. Direct and indirect expenses associated with the services provided to the Treasury are reimbursable. Reimbursable claims include the expenses of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals. Reimbursable claims are slightly higher than Treasury service expenses shown in the “Reserve Bank Expenses” table because the reimbursable claims also include expenses associated with the government’s use of the Reserve Banks’ check, ACH, Fedwire Funds, and Fedwire Securities services; these expenses are included in the “Change in Net Expenses” table.

⁵ Reimbursable claims exclude annual assessments for the supervision of large financial companies pursuant to Regulation TT, which are not recognized as revenue or used to fund System expenses. A final rule was approved in November 2020 to modify the supervision and regulation assessment of fees. This rule adjusts the amount charged to assessed companies with total consolidated assets between \$100 billion and \$250 billion to reflect Economic Growth, Regulatory Relief, and Consumer Protection Act related changes in supervisory and regulatory responsibilities. The implementation of these modifications begins with 2021 expenses. A current year projection is typically estimated during June when the previous year assessments are calculated; this year, due to the implementation of the ERP tool, forecasted expenses were not available during the time of this calculation, and as a result we are unable to provide an estimate for the 2021 assessment at this time.

Reserve Bank Expenses (dollars in millions)				
	2021 Budget	2022 Budget	22B to 21B	
			Amount	Percent
Central Bank Services	\$3,781.2	\$4,030.6	\$249.4	6.6%
Monetary Policy	593.9	626.3	32.4	5.4%
Open Market	251.5	276.4	24.9	9.9%
Public Programs	287.1	271.3	-15.7	-5.5%
Supervision	1,551.2	1,670.7	119.5	7.7%
Cash	761.0	825.2	64.3	8.4%
All Other Central Bank Services ¹	336.6	360.8	24.1	7.2%
Fee-Based Services²	590.9	675.6	84.7	14.3%
Treasury Services	657.8	728.4	70.7	10.7%
Total Expense³	\$5,029.8	\$5,434.6	\$404.8	8.0%

Note: Here and in subsequent tables, components may not sum to totals and may not yield percentages shown because of rounding.

¹ Includes Special Safekeeping Services, Reserve Accounts and Risk Administration, Loans to Depository Institutions, and Services to Other Central Banks.

² Fee-based services include all expenses associated with the Priced Services, including check, FedACH, Fedwire Funds and National Settlement, Fedwire Securities, and FedNow services.

³ The percent increase for Total Expense is inflated due to a CASPR accounting definition change related to cash access fees, which will be explained in the 2022 Budget Operating Expenses section of this memo. Controlling for this accounting change, percentage growth of Total Expense from the 2021 Budget to the 2022 Budget is 7.6 percent.

2022 Budgeted Operating Expenses

The 2022 operating budgets of the Reserve Banks, including services to the Treasury, total \$5,434.6 million, which is \$404.8 million, or 8.0 percent, higher than the 2021 budget.⁶ Investments in fee-based services reflect increases for FedNow. Budgeted expenses for services to the Treasury total \$728.4 million, an increase of \$70.7 million, or 10.7 percent, from the 2021 budget. The increase in Treasury Services is primarily attributable to continued development of T2C. In consultation with the chair of the Committee on Federal Reserve Bank Affairs, the director of the Division of Reserve Bank

⁶ Under the PACS methodology, cash access fees were considered a recovery, which offsets operating expense. Under the CASPR methodology, cash access fees have been reclassified as a revenue, which does not offset operating expense. Controlling for this accounting change (totaling -\$21.8 million), the increase from the 2021 Budget to the 2022 Budget is \$383.0 million, or 7.6 percent.

Operations and Payment Systems designated the portion of the 2022 operating expense budgets associated with investments for T2C as conditionally approved.⁷ Growth in Monetary Policy expense is reflective of changes in cost allocation methodology and additional resources dedicated to regional economic research. Supervision's expense increase is attributable to shifts in cost allocations resulting from the new planning system and growth in the supervisory portfolio. Cash investments are for the production development phase of the next-generation currency-processing program (NextGen).⁸ The director of the Division of Reserve Bank Operations and Payment Systems, acting within his limited delegated authority, approved the revised 2022 Reserve Bank budgets.⁹

2022 Personnel Expenses and Staffing

Reserve Bank officer and staff personnel expenses for 2022 total \$4,020.5 million, an increase of \$220.1 million, or 5.8 percent, from 2021 budgeted expenses. The increase reflects the expenses associated with additional staff, salary administration (that is, merit increases, equity adjustments, and promotions), variable pay, and retirement and other benefit costs.

Total 2022 budgeted headcount for the Reserve Banks, FRIT, and the OEB is 21,212, an increase of 742, or 3.6 percent, from 2021 budgeted staff levels.¹⁰ Almost half of this increase is attributable to information technology, largely for cloud architecture and to support configurations to the cloud and resources for Treasury Services, primarily for T2C. More than 10 percent of the increase is for FedNow as the program prepares for the pilot and go to market phases. Other staffing additions include resources to enable national efforts in procurement, finance, and human resource management; initiatives to support change management and enterprise strategy; and growth in the Customer Relations Support Office, including resources for FedLine.¹¹

⁷ In addition to T2C, in consultation with the chair of the Committee on Federal Reserve Bank Affairs, director of the Division of Reserve Bank Operations and Payment Systems designated a portion of the 2022 operating expense budgets associated with investments for TRIM and PPMI as conditionally approved. Total conditionally approved operating expenses are \$88.6 million.

⁸ The Cash Product Office has developed a strategy to transition the current fleet of high-speed currency processing machines and the sensor suite from the Banknote Processing System platform to NextGen.

⁹ Board approval of Reserve Bank total operating expenses was requested for material revisions, which were an adjustment of one percent or more to the 2022 Reserve Bank operating budget of \$5,432.1 million, approved in December 2021. Since revisions as a result of the implementation of the new planning system are not material, the Board delegated the approval to the director of the Division of Reserve Bank Operations and Payment Systems.

¹⁰ As part of the transition to the new ERP tool, and in line with industry standards, Reserve Banks will use the updated staffing metric, Full-Time Equivalent (FTE). The FTE statistic represents the workload of an employee. FTE is calculated as an employee's scheduled weekly hours divided by 40 hours (which is the default weekly hours for US jobs). When a business employs part-time staff, FTE is useful in determining how many full-time staff would be required to complete the same workload. The Reserve Banks continue to finalize the FTE statistic. Board staff has estimated the December 2022 budgeted monthly FTE, inclusive of turnover and lag assumptions, to be approximately 21,300 FTE.

¹¹ Enhancements to FedLine reflect a multiyear transformational effort focused on evolving the FedLine network, authentication, and hosting infrastructure to meet customer, industry, and System needs.

2022 Capital Budgets

The 2022 capital budget submitted by the Reserve Banks, FRIT, and OEB totals \$621.5 million. The 2022 capital budget has increased \$22.6 million, or 3.8 percent, from the 2021 budgeted level of \$598.9 million, largely reflecting ongoing multiyear building and IT strategic initiatives. Initiatives in the 2022 capital budget support the development and deployment

phase of NextGen, target major workspace renovations, address aging building infrastructure in several Reserve Banks, improve IT infrastructure, and advance FedNow. The remainder of the budgets was approved in two categories: (1) approval for significant capital expenditures for 2022 and the remaining term of these projects (\$1,167.8 million) and (2) single-year approval for all other capital expenditures by asset class (\$96.5 million).

Capital expenditures designated for conditional approval

The chair of the Committee on Federal Reserve Bank Affairs designated for conditional approval budgeted 2022 capital expenditures of \$81.2 million and total multiyear budgeted expenditures of \$484.4 million for 2023 and future years. The expenditures designated for conditional approval include a large-scale building project, NextGen, and a cash infrastructure remodel. Technology projects include investments for FedNow; an initiative to streamline finance, procurement, and controller processes in the Federal Reserve Bank of New York; and an initiative to modernize the Markets Group operations platform.

Significant capital expenditures

Significant capital expenditures (typically expenditures exceeding \$1 million) that have not been designated for conditional approval include total multiyear budgeted expenditures of \$1,167.8 million for 2022 and future years, of which the single-year 2022 budgeted expenditures are \$443.8 million. This

2022 Capital Budget
(dollars in millions)

	2022 Capital	2023 and Beyond Capital	Total
Capital Expenditures Designated for Conditional Approval¹	\$81.2	\$484.4	\$565.6
Projects previously designated	73.5	440.8	514.3
New conditionally approved projects	7.7	43.6	51.2
Significant Capital Expenditures	443.8	723.9	1,167.8
Other Capital Expenditures	96.5		96.5
Art	0.2		0.2
Building	19.5		19.5
Furniture and Equipment	58.3		58.3
Land and Land Improvements	1.2		1.2
Leasehold Improvements	0.1		0.1
Software	17.3		17.3
Total Capital Budget	\$621.5	\$1,208.3	\$1,829.9

¹ Previously designated projects may include amounts that have already been approved by the Director of RBOPS that are not reflected on this chart.

category includes mechanical and electrical infrastructure upgrades and office space renovations. IT projects include ongoing IT infrastructure investments, initiatives that enable better access to data and enhance cybersecurity and cyber resiliency, and applications to support fee-based services, treasury, supervision, and cash.

Other capital expenditures

The 2022 capital budgets include \$96.5 million for other capital expenditures that are individually less than \$1 million per project, such as building maintenance expenditures, scheduled software and equipment upgrades, and equipment and furniture replacements.

ATTACHMENT

Statistical Supplement

Table A	Total Expenses of the Federal Reserve Banks, by District
Table B	Total Headcount in the Federal Reserve Banks, by District
Table C	Budgeted Changes to the Cash Compensation Components of the Federal Reserve Banks, Officers and Staff, by District
Table D	Capital Outlays of the Federal Reserve Banks, by District

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

TABLE A: TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS
by District, 2021 and 2022
(Dollars in Thousands)

District	2021 Budget	2022 Budget	Variance
			22B to 21B ¹
Boston	312,205	389,194	24.7%
New York	1,122,683	1,245,171	10.9%
Philadelphia	210,731	231,935	10.1%
Cleveland	236,370	317,758	34.4%
Richmond	546,151	369,331	-32.4%
Atlanta	425,140	466,948	9.8%
Chicago	453,469	489,192	7.9%
St. Louis	446,800	487,378	9.1%
Minneapolis	193,208	223,360	15.6%
Kansas City	381,879	422,764	10.7%
Dallas	258,180	290,847	12.7%
San Francisco	443,007	500,755	13.0%
Total	5,029,824	5,434,632	8.0%

¹ Total expenses by Reserve Banks are impacted by a FRIT cost accounting change shifting \$310 million from Richmond to all Districts.

**TABLE B: TOTAL HEADCOUNT OF THE FEDERAL RESERVE BANKS
by District, 2021 and 2022
(HEADCOUNT)**

District	2021 Budget	2022 Budget	Variance
			22B to 21B
Boston	1,184	1,323	11.7%
New York	3,189	3,146	-1.3%
Philadelphia	932	916	-1.7%
Cleveland	1,042	1,254	20.3%
Richmond	1,502	1,545	2.9%
Atlanta	1,663	1,726	3.8%
Chicago	1,708	1,709	0.1%
St. Louis	1,432	1,394	-2.7%
Minneapolis	1,113	1,145	2.9%
Kansas City	2,075	2,146	3.4%
Dallas	1,331	1,363	2.4%
San Francisco	1,790	1,880	5.0%
Subtotal	18,961	19,547	3.1%
FRIT	1,443	1,600	10.9%
OEB	66	65	-1.5%
Total	20,470	21,212	3.6%

**TABLE C: BUDGETED CHANGES TO CASH COMPENSATION PROGRAMS OF THE FEDERAL RESERVE
BANKS
Officers and Staff by District, 2022
(Dollars in Thousands)**

District	Total 12/31/21 Salary Liability (a)	Additions to Salary Base				Incremental Variable Pay (e)	Total	
		Merit (b)	Equity Adjustments (c)	Promotions and Reclasses (d)	Percentage Increase to Total 12/31/21 Salary Liability (b + c + d) / (a)		Dollars (b + c + d + e)	Percentage Increase to Total 12/31/21 Salary Liability (b + c + d + e) / (a)
Boston	178,548	5,356	893	1,785	4.5%	1,545	9,579	5.4%
New York	519,845	15,595	1,531	4,020	4.1%	650	21,796	4.2%
Philadelphia	112,054	3,362	560	1,121	4.5%	246	5,288	4.7%
Cleveland	131,548	3,946	329	1,644	4.5%	1,554	7,473	5.7%
Richmond	179,868	5,493	712	1,637	4.4%	782	8,623	4.8%
Atlanta	194,724	6,134	372	2,257	4.5%	836	9,599	4.9%
Chicago	216,224	6,487	1,081	2,162	4.5%	831	10,561	4.9%
St. Louis	164,991	4,950	825	1,650	4.5%	655	8,080	4.9%
Minneapolis	116,452	3,494	255	1,165	4.2%	462	5,375	4.6%
Kansas City	199,928	5,998	1,000	1,999	4.5%	827	9,824	4.9%
Dallas	146,662	4,400	733	1,467	4.5%	426	7,026	4.8%
San Francisco	252,266	7,347	1,274	2,522	4.4%	2,313	13,456	5.3%
FRIT	238,629	7,398	955	2,386	4.5%	1,584	12,322	5.2%
OEB	11,787	389	24	118	4.5%	86	617	5.2%
Total	2,663,525	80,348	10,542	25,933	4.4%	12,797	129,619	4.9%

The table above shows the cash compensation components that add to base salary (merit, equity, and promotion) and the 2022 incremental increase in variable pay expense compared to those forecasted for 2021.

December 31, 2021 Salary Liability: the annualized salary expense based on the salaries in effect on December 31.

Merit: the amount of 2022 budgeted salary expense that reflects salary increases for individuals based on performance.

Equity Adjustments: the amount of 2022 budgeted salary expense to bring individual salaries to the minimum of a salary range or to better align salaries based on internal or external compensation pressures.

Promotions: the amount of 2022 budgeted salary expense that reflects salary increases for individuals as a result of promotions resulting from a significant increase in job responsibilities.

Variable Pay: The change in 2022 budgeted incentive payments (payment for the achievement of pre-determined goals) and cash awards (awards in recognition of exceptional achievements) compared to the 2021 forecast.

TABLE D: CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS
2022
(Dollars in Thousands)

District	2021 Budget	2022 Budget	Variance
			22B to 21B
Boston	85,271	56,157	-34.1%
New York	78,845	70,070	-11.1%
Philadelphia	54,814	24,213	-55.8%
Cleveland	28,040	41,441	47.8%
Richmond	17,744	18,579	4.7%
Atlanta	34,216	57,152	67.0%
Chicago	32,561	54,224	66.5%
St. Louis	19,352	22,304	15.3%
Minneapolis	25,594	20,344	-20.5%
Kansas City	35,891	51,031	42.2%
Dallas	26,806	31,604	17.9%
San Francisco	82,787	91,843	10.9%
Subtotal	521,920	538,959	3.3%
FRIT	76,766	82,411	7.4%
OEB	200	150	-25.0%
Total	598,886	621,520	3.8%

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

2022 Federal Reserve Bank Budgets

ACTION

On December 13, 2021, the Board conditionally approved the 2022 Reserve Bank operating budgets totaling \$5,432.1 million, an increase of \$402.2 million, or 8.0 percent, from the 2021 budgeted expenses.¹² This year the System's planning process was affected by the implementation of a new enterprise resource planning (ERP) tool and a new cost accounting framework (collectively, the planning system). The Reserve Banks continue to finalize the implementation of the new planning system, and the refinement of costing and budgetary estimates may result in some adjustments to the budgets. Although significant changes in the top-line System total operating expense are not anticipated, Board staff will evaluate whether the refined budgetary estimates are materially different than the information presented in the following memo. Given that these refinements may result in adjustments to the operating expense budget, the chair of the Committee on Federal Reserve Bank Affairs designated for conditional approval Reserve Bank operating expense budgets in totality. Once the new data is received, Board staff will update annual documents in early 2022. For material revisions resulting from refinement of costing and budgetary estimates (which would constitute an adjustment of one percent or more to the 2022 Reserve Bank operating budgets of \$5,432.1 million reported in this memo), Board approval of the total Reserve Bank operating expense budget would be requested. For revisions that are not material (those of less than one percent of the 2022 Reserve Bank operating budgets of \$5,432.1 million), the Board delegated the approval to the director of the Division of Reserve Bank Operations and Payment Systems.

Included in the Reserve Bank operating budgets, designated for conditional approval in totality, the chair of the Committee on Federal Reserve Bank Affairs separately designated operating expenses for services provided to the Treasury, totaling \$738.9 million, for conditional approval:

¹² These expenses include those budgeted by Federal Reserve Information Technology and the Office of Employee Benefits that are chargeable to the Reserve Banks. Expenses exclude assessments for the Board of Governors operating expenses, pension costs, the cost of currency, and the Consumer Financial Protection Bureau.

2. The final authorization from Fiscal Service associated with services provided to the Treasury may deviate from the budget presented here. Board staff will continue to encourage Treasury to provide updated prioritization decisions, in whole or in part, before the final budget is complete in early 2022. However, final funding authorization is not expected until after the updated budget has been finalized. Once there is final action on the Treasury's level of approved funding, each Reserve Bank will be informed of the changes to the funding recommendation.
3. Expenses associated with investments in Transforming Tax Collection (T2C), Treasury Retail Investment Manager (TRIM), and the Post Payment Modernization Initiative (PPMI) require additional review and approval by the director of the Division of Reserve Bank Operations and Payment Systems.

The Board also approved the Reserve Banks, Federal Reserve Information Technology (FRIT), and the Office of Employee Benefits (OEB) single and multiyear capital budgets in three categories.¹³

- a) Significant capital expenditures – multiyear approval for significant capital expenditures (typically expenditures exceeding \$1 million) totaling \$1,005.9 million for 2022 and the remaining term of these projects;
- b) other capital expenditures – single-year capital expenditures, by asset class, for less significant expenditures (less than \$1 million per project) totaling \$95.5 million for 2022; and
- c) conditional approval –
 - i. The chair of the Committee on Federal Reserve Bank Affairs designated \$87.3 million in 2022 and \$503.3 million for 2023 and the remaining term of these projects for conditional approval. The Reserve Banks are required to provide further information about these projects and obtain approval from the director of the Division of Reserve Bank Operations and Payment Systems prior to committing funds.
 - ii. The chair of the Committee on Federal Reserve Bank Affairs designated a total of \$65.3 million in Treasury-related capital investments for conditional approval in 2022, pending authorization from Fiscal Service. These investments would be subject to additional review and approval by the director of the Division of Reserve Bank Operations and Payment Systems.

¹³ See tables in the attachment for expense and capital amounts by Reserve Bank.

DISCUSSION

The Reserve Banks have prepared annual budgets for 2022 as an effort to demonstrate appropriate stewardship and accountability. The budgets are formulated to ensure alignment with each Reserve Bank's and the System's strategic priorities, including

- contributing to the formulation of monetary policy and enhancing monetary policy implementation to become more effective, flexible, and resilient
- promoting financial stability through effective monitoring, analysis, and policy development
- promoting safety and soundness of financial institutions through effective supervision
- leading efforts to enhance the security, resiliency, functionality, and efficiency of services provided to financial institutions and the public

The Conference of Presidents, operating through its Committee on Spending Stewardship, in close consultation with the Board's Committee on Federal Reserve Bank Affairs, defines key strategic objectives for the System. Considering longer-term environmental trends and historical growth rates of expense, these governance bodies articulate an aggregate System-level growth expectation for a multiyear period. The Reserve Banks develop budgets that reflect this direction, relying heavily on framing and making appropriate tradeoffs. These budgets are reviewed by Reserve Banks' respective board of directors and senior leadership, the latter of which reviews the budgets for alignment with Reserve Bank and System priorities. Board staff analyzes these budget submissions both individually and in the aggregate and then provides recommendations to the Board's Committee on Federal Reserve Bank Affairs for review and final action.

This year the System's planning process was affected by the implementation of the new planning system. The Federal Reserve System Conference of First Vice Presidents approved for adoption in the second half of 2021, the Cost Accounting Strategic Planning and Reporting (CASPR) framework, replacing the Planning and Control System framework (PACS) that was established in 1977 and refreshed in 2001.¹⁴ The change in planning system creates cost shifts compared to the 2021 budget, which are explained as part of the following budget analysis. Other effects of the change in the planning

¹⁴ CASPR establishes cost accounting policies and provides a uniform reporting structure for accumulating and reporting cost data for priced, reimbursable, assessed, and other central bank services for all Federal Reserve Banks. The framework provides the rules that serve to ensure the consistent application at all Reserve Banks of cost accounting methodologies, data comparability, and practical measures of the cost of providing Federal Reserve services. The cost accounting and data-reporting guidelines follow the direct and indirect cost accounting policies for Federal Reserve services as determined and required by the Monetary Control Act of 1980; Section 318 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act); and expenses that are reimbursable under fiscal agency arrangements made with the U.S. Treasury, other government agencies, and government-sponsored enterprises.

system include the use of the headcount metric for staffing analysis in this memo and the unavailability of the 2021 forecast for use as a data comparison.¹⁵

The Reserve Banks are continuing to finalize the implementation of the new planning system, and the refinement of costing and budgetary estimates may result in some adjustments to the budgets. Board staff will ensure that the refined budgetary estimates are not materially different than the information presented in this memo, although significant changes in the top-line System total operating expense are not anticipated.

The U.S. Department of the Treasury's Bureau of the Fiscal Service (Fiscal Service) has not yet finalized the approved level of funding for fiscal services provided by the Federal Reserve Banks that is included in the 2022 Reserve Banks budgets. Fiscal Service plans to approve a contingent budget in mid-December that will provide first quarter calendar year funding, thus ensuring uninterrupted support of existing daily operations (sustaining business operations activities), continued progress on prioritized key activities, and sustained human resource levels across the Fiscal Agent portfolio. Therefore, the actual level of Reserve Bank spending for fiscal service is dependent on Treasury's approval of funding, which may vary from the budgeted amounts reflected in this memo.

Given that the refinements referred to above may result in adjustments to the operating expense budget, the chair of the Committee on Federal Reserve Bank Affairs designated for conditional approval Reserve Banks operating expense budgets in totality. Board staff will update and resubmit this memo, highlighting changes between the budget on which the subsequent analysis in this memo is based, and the refined budgetary estimates. Board approval of the total Reserve Banks operating expense budget would be requested again for material revisions, which would constitute an adjustment of one percent or more to the 2022 Reserve Bank operating budgets of \$5,432.1 million reported in this memo. For revisions that are not material – those of less than one percent of the 2022 Reserve Bank operating budgets of \$5,432.1 million – the Board delegated the approval to the director of the Division of Reserve Bank Operations and Payment Systems.

¹⁵ The Headcount statistic is total filled positions or the number of active employees in an organization. Headcount is the actual number of people employed or expected to be employed at a given date and includes full-time and part-time staff.

Reserve Bank Expenses (dollars in millions)				
	2021 Budget	2022 Budget¹	22B to 21B	
			Amount	Percent
Central Bank Services	\$3,781.2	\$4,017.1	\$235.9	6.2%
Monetary Policy	593.9	617.6	23.7	4.0%
Open Market	251.5	272.7	21.2	8.4%
Public Programs	287.1	277.6	-9.4	-3.3%
Supervision	1,551.2	1,673.5	122.4	7.9%
Cash	761.0	820.9	60.0	7.9%
All Other Central Bank Services ²	336.6	354.7	18.1	5.4%
Fee-Based Services³	590.9	676.0	85.1	14.4%
Treasury Services	657.8	738.9	81.1	12.3%
Total Expense⁴	\$5,029.8	\$5,432.1	\$402.2	8.0%

Note: Here and in subsequent tables, components may not sum to totals and may not yield percentages shown because of rounding.

¹ The 2022 budget is contingent upon the pending approval by Fiscal Service and the finalization of the fully costed budget in the ERP tool.

² Includes Special Safekeeping Services, Reserve Accounts and Risk Administration, Loans to Depository Institutions, and Services to Other Central Banks.

³ Fee-based services include all expenses associated with the Priced Services, including the check, FedACH, Fedwire Funds and National Settlement, Fedwire Securities, and FedNow services.

⁴ The percent increase for Total Expense is inflated due to a CASPR accounting definition change related to cash access fees, which will be explained in the 2022 Budget Operating Expenses section of this memo. Controlling for this accounting change, percentage growth of Total Expense from the 2021 Budget to the 2022 Budget is 7.6 percent.

2022 Operating Expenses, Net of Revenue and Reimbursements

The proposed 2022 operating budgets of the Reserve Banks, inclusive of Treasury services, total \$5,432.1 million, which is \$402.2 million, or 8.0 percent, higher than the 2021 budget. About a quarter of Reserve Bank expenses in the 2022 budget are offset by either priced

	Change in Net Expenses (dollars in millions)		
	2021 Budget	2022 Budget	Percent Change 22B - 21B
Total Expense	\$5,029.8	\$5,432.1	8.0%
Less:			
Priced Services Revenue	439.1	477.2	8.7%
Reimbursable Claims	710.4	840.3	18.3%
Net Expenses	\$3,880.4	\$4,114.5	6.0%

services revenue (8.8 percent) or reimbursable claims for services provided to the Treasury and fiscal principals (15.5 percent).¹⁶ Budgeted 2022 operating expenses, net of revenue and reimbursements, are expected to increase \$234.2 million, or 6.0 percent, from 2021 budgeted expenses.¹⁷ Budgeted 2022 priced services revenue is 8.7 percent higher than the 2021 budgeted level, reflecting increased prices and anticipated increased volume for Fedwire Funds. Reimbursable claims are expected to increase 18.3 percent in 2022, reflecting increased activity for new or continuing development of Treasury applications and associated infrastructure, pending approval by Fiscal Service.

2022 Budgeted Operating Expenses

The 2022 operating budgets of the Reserve Banks, including services to the Treasury, total \$5,432.1 million, which is \$402.2 million, or 8.0 percent, higher than the 2021 budget.¹⁸ Investments in fee-based services reflect increases for FedNow. Budgeted expenses for services to the Treasury total \$738.9 million, an increase of \$81.1 million, or 12.3 percent, from the 2021 budget. Approximately three-quarters of the increase in Treasury Services is attributable to continued development of T2C. When we come back in the first quarter with the updated memo, we will recommend that the chair of the Committee on Federal Reserve Bank Affairs continue to designate the portion of the 2022 operating expense budgets associated with investments for T2C as conditionally approved.¹⁹ Growth in Monetary Policy expense is reflective of changes in cost allocation methodology and additional resources dedicated to regional economic research. Supervision's expense increase is attributable to shifts in cost allocations resulting from the new planning system and growth in the supervisory portfolio. Cash

¹⁶ The Federal Reserve provides services to the U.S. government pursuant to the Federal Reserve Act, which stipulates that, when required by the Secretary of the Treasury, Reserve Banks will act as fiscal agents and depositories of the United States. Direct and indirect expenses associated with the services provided to the Treasury are reimbursable. Reimbursable claims include the expenses of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals. Reimbursable claims are slightly higher than Treasury service expenses shown in the "Reserve Bank Expenses" table because the reimbursable claims also include expenses associated with the government's use of the Reserve Banks' check, ACH, Fedwire Funds, and Fedwire Securities services; these expenses are included in the "Change in Net Expenses" table.

¹⁷ Reimbursable claims exclude annual assessments for the supervision of large financial companies pursuant to Regulation TT, which are not recognized as revenue or used to fund System expenses. A final rule was approved in November 2020 to modify the supervision and regulation assessment of fees. This rule adjusts the amount charged to assessed companies with total consolidated assets between \$100 billion and \$250 billion to reflect Economic Growth, Regulatory Relief, and Consumer Protection Act related changes in supervisory and regulatory responsibilities. The implementation of these modifications begins with 2021 expenses. A current year projection is typically estimated during June when the previous year assessments are calculated; this year, due to the implementation of the ERP tool, forecasted expenses were not available during the time of this calculation, and as a result we are unable to provide an estimate for the 2021 assessment at this time.

¹⁸ Under the PACS methodology, cash access fees were considered a recovery, which offsets operating expense. Under CASPR methodology, cash access fees have been reclassified as a revenue, which does not offset operating expense. Controlling for this accounting change (totaling -\$21.8 million), the increase from the 2021 Budget to the 2022 Budget is \$380.4 million, or 7.6 percent.

¹⁹ In addition to T2C, we will recommend that the chair of the Committee on Federal Reserve Bank Affairs continue to designate a portion of the 2022 operating expense budgets associated with investments for TRIM and PPMI as conditionally approved.

investments are for the production development phase of the next-generation currency-processing program (NextGen).²⁰ In the context of the discussion above, the Board approved the 2022 budgets in aggregate, contingent on the refinements to operating expense budget that may result from finalizing the implementation of the new planning system.²¹

2022 Personnel Expenses and Staffing

Reserve Bank officer and staff personnel expenses for 2022 total \$4,019.6 million, an increase of \$219.2 million, or 5.8 percent, from 2021 budgeted expenses. The increase reflects the expenses associated with additional staff, salary administration (that is, merit increases, equity adjustments, and promotions), variable pay, and retirement and other benefit costs.

Total 2022 budgeted headcount for the Reserve Banks, FRIT, and OEB is 21,212, an increase of 742, or 3.6 percent, from 2021 budgeted staff levels.²² Almost half of this increase is attributable to information technology, largely for cloud architecture and to support configurations to the cloud and resources for Treasury Services, primarily for T2C. More than 10 percent of the increase is for FedNow as the program prepares for the pilot and go to market phases. Other staffing additions include resources to enable national efforts in procurement, finance, and human resource management; initiatives to support change management and enterprise strategy; and growth in the Customer Relations Support Office, including resources for FedLine.²³

²⁰ The Cash Product Office has developed a strategy to transition the current fleet of high-speed currency processing machines and the sensor suite from the Banknote Processing System platform to the future next-generation (NextGen) processing infrastructure.

²¹ Board approval of Reserve Bank total operating expenses would be requested for material revisions, which are an adjustment of one percent or more to the 2022 Reserve Bank operating budgets of \$5,432.1 million. For revisions that are not material, which are an adjustment of less than one percent of the 2022 Reserve Bank operating budgets of \$5,432.1 million, the Board delegated the approval to the director of the Division of Reserve Bank Operations and Payment Systems.

²² As part of the transition to the new ERP tool, and in line with industry standards, Reserve Banks will use the updated staffing metric, FTE. The FTE statistic represents the workload of an employee. FTE is calculated as an employee's scheduled weekly hours divided by 40 Hours (which is the default weekly hours for US jobs). When a business employs part-time staff, FTE is useful in determining how many full-time staff would be required to complete the same workload. The FTE statistic will be reflected in the updated memo.

²³ Enhancements to FedLine reflect a multiyear transformational effort focused on evolving the FedLine network, authentication, and hosting infrastructure to meet customer, industry, and System needs.

2022 Capital Budgets

The 2022 capital budget submitted by the Reserve Banks, FRIT, and OEB totals \$621.5 million. The 2022 capital budget has increased \$22.6 million, or 3.8 percent, from the 2021 budgeted level of \$598.9 million, largely reflecting ongoing multiyear building and IT strategic initiatives. Initiatives in the 2022 capital budget support the development and deployment phase of NextGen,

2022 Capital Budget
(dollars in millions)

	2022 Capital	2023 and Beyond Capital	Total
Capital Expenditures Designated for Conditional Approval¹	\$152.7	\$575.8	\$728.5
Conditionally approved projects	87.3	503.3	590.6
Treasury Initiatives ²	65.3	72.5	137.9
Significant Capital Expenditures	373.4	632.5	1,005.9
Other Capital Expenditures	95.5		95.5
Art	0.2		0.2
Building	19.5		19.5
Furniture and Equipment	58.3		58.3
Land and Land Improvements	1.2		1.2
Leasehold Improvements	0.1		0.1
Software	16.2		16.2
Total Capital Budget	\$621.5	\$1,208.3	\$1,829.9

¹ Previously designated projects may include amounts that have already been approved by the Director of RBOPS that are not reflected on this chart.

² Pending approval by the Bureau of the Fiscal Service.

target major workspace renovations, address aging building infrastructure in several Reserve Banks, improve IT infrastructure, and advance FedNow. The remainder of the budgets were approved in two categories: (1) approval for significant capital expenditures for 2022 and the remaining term of these projects (\$1,005.9 million) and (2) single-year approval for all other capital expenditures by asset class (\$95.5 million).

Capital expenditures designated for conditional approval

The chair of the Committee on Federal Reserve Bank Affairs designated for conditional approval budgeted 2022 capital expenditures of \$152.7 million and total multiyear budgeted expenditures of \$503.3 million for 2023 and future years.²⁴ The expenditures designated for conditional approval include a large-scale building project, NextGen, and a cash infrastructure remodel. Technology projects include support for services performed on behalf of Treasury; investments for FedNow; an initiative to streamline finance, procurement, and controller processes in the Federal Reserve Bank of New York; and an initiative to modernize the Markets Group operations platform.

Significant capital expenditures

Significant capital expenditures (typically expenditures exceeding \$1 million) that have not been designated for conditional approval include total multiyear budgeted expenditures of \$1,005.9 million

²⁴ Treasury initiatives were designated for conditional approval for the 2022 budget year alone.

for 2022 and future years, of which the single-year 2022 budgeted expenditures are \$373.4 million. This category includes mechanical and electrical infrastructure upgrades and office space renovations. IT projects include ongoing IT infrastructure investments, initiatives that enable better access to data and enhance cybersecurity and cyber resiliency, and applications to support fee-based services, supervision, and cash.

Other capital expenditures

The 2022 capital budgets include \$95.5 million for other capital expenditures that are individually less than \$1 million per project, such as building maintenance expenditures, scheduled software and equipment upgrades, and equipment and furniture replacements.

ATTACHMENT

Statistical Supplement

Table A	Total Expenses of the Federal Reserve Banks, by District
Table B	Total Headcount in the Federal Reserve Banks, by District
Table C	Budgeted Changes to the Cash Compensation Components of the Federal Reserve Banks, Officers and Staff, by District
Table D	Capital Outlays of the Federal Reserve Banks, by District

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

TABLE A: TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS
by District, 2021 and 2022
(Dollars in Thousands)

District	2021 Budget	2022 Budget	Variance
			22B to 21B ¹
Boston	312,205	385,518	23.5%
New York	1,122,683	1,241,980	10.6%
Philadelphia	210,731	232,874	10.5%
Cleveland	236,370	318,412	34.7%
Richmond	546,151	360,492	-34.0%
Atlanta	425,140	465,123	9.4%
Chicago	453,469	495,778	9.3%
St. Louis	446,800	489,446	9.5%
Minneapolis	193,208	224,558	16.2%
Kansas City	381,879	423,758	11.0%
Dallas	258,180	293,033	13.5%
San Francisco	443,007	501,085	13.1%
Total	5,029,824	5,432,058	8.0%

¹ Total expenses by Reserve Banks are impacted by a FRIT cost accounting change shifting \$310 million from Richmond to all Districts.

**TABLE B: TOTAL HEADCOUNT OF THE FEDERAL RESERVE BANKS
by District, 2021 and 2022
(HEADCOUNT)**

District	2021 Budget	2022 Budget	Variance
			22B to 21B
Boston	1,184	1,323	11.7%
New York	3,189	3,146	-1.3%
Philadelphia	932	916	-1.7%
Cleveland	1,042	1,254	20.3%
Richmond	1,502	1,545	2.9%
Atlanta	1,663	1,726	3.8%
Chicago	1,708	1,709	0.1%
St. Louis	1,432	1,394	-2.7%
Minneapolis	1,113	1,145	2.9%
Kansas City	2,075	2,146	3.4%
Dallas	1,331	1,363	2.4%
San Francisco	1,790	1,880	5.0%
Subtotal	18,961	19,547	3.1%
FRIT	1,443	1,600	10.9%
OEB	66	65	-1.5%
Total	20,470	21,212	3.6%

**TABLE C: BUDGETED CHANGES TO CASH COMPENSATION PROGRAMS OF THE FEDERAL RESERVE
BANKS
Officers and Staff by District, 2022
(Dollars in Thousands)**

District	Total 12/31/21 Salary Liability (a)	Additions to Salary Base				Incremental Variable Pay (e)	Total	
		Merit (b)	Equity Adjustments (c)	Promotions and Reclasses (d)	Percentage Increase to Total 12/31/21 Salary Liability (b + c + d) / (a)		Dollars (b + c + d + e)	Percentage Increase to Total 12/31/21 Salary Liability (b + c + d + e) / (a)
Boston	178,548	5,356	893	1,785	4.5%	1,545	9,579	5.4%
New York	519,845	15,595	1,531	4,020	4.1%	650	21,796	4.2%
Philadelphia	112,054	3,362	560	1,121	4.5%	246	5,288	4.7%
Cleveland	131,548	3,946	329	1,644	4.5%	1,554	7,473	5.7%
Richmond	179,868	5,493	712	1,637	4.4%	782	8,623	4.8%
Atlanta	194,724	6,134	372	2,257	4.5%	836	9,599	4.9%
Chicago	216,224	6,487	1,081	2,162	4.5%	831	10,561	4.9%
St. Louis	164,991	4,950	825	1,650	4.5%	655	8,080	4.9%
Minneapolis	116,452	3,494	255	1,165	4.2%	462	5,375	4.6%
Kansas City	199,928	5,998	1,000	1,999	4.5%	827	9,824	4.9%
Dallas	146,662	4,400	733	1,467	4.5%	426	7,026	4.8%
San Francisco	252,266	7,347	1,274	2,522	4.4%	2,313	13,456	5.3%
FRIT	238,629	7,398	955	2,386	4.5%	1,584	12,322	5.2%
OEB	11,787	389	24	118	4.5%	86	617	5.2%
Total	2,663,525	80,348	10,542	25,933	4.4%	12,797	129,619	4.9%

The table above shows the cash compensation components that add to base salary (merit, equity, and promotion) and the 2022 incremental increase in variable pay expense compared to those forecasted for 2021.

December 31, 2021 Salary Liability: the annualized salary expense based on the salaries in effect on December 31.

Merit: the amount of 2022 budgeted salary expense that reflects salary increases for individuals based on performance.

Equity Adjustments: the amount of 2022 budgeted salary expense to bring individual salaries to the minimum of a salary range or to better align salaries based on internal or external compensation pressures.

Promotions: the amount of 2022 budgeted salary expense that reflects salary increases for individuals as a result of promotions resulting from a significant increase in job responsibilities.

Variable Pay: The change in 2022 budgeted incentive payments (payment for the achievement of pre-determined goals) and cash awards (awards in recognition of exceptional achievements) compared to the 2021 forecast.

TABLE D: CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS
2022
(Dollars in Thousands)

District	2021 Budget	2022 Budget	Variance
			22B to 21B
Boston	85,271	56,157	-34.1%
New York	78,845	70,070	-11.1%
Philadelphia	54,814	24,213	-55.8%
Cleveland	28,040	41,441	47.8%
Richmond	17,744	18,579	4.7%
Atlanta	34,216	57,152	67.0%
Chicago	32,561	54,224	66.5%
St. Louis	19,352	22,304	15.3%
Minneapolis	25,594	20,344	-20.5%
Kansas City	35,891	51,031	42.2%
Dallas	26,806	31,604	17.9%
San Francisco	82,787	91,843	10.9%
Subtotal	521,920	538,959	3.3%
FRIT	76,766	82,411	7.4%
OEB	200	150	-25.0%
Total	598,886	621,520	3.8%