

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

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**Date:** December 15, 2006  
**To:** Board of Governors  
**From:** Donald L. Kohn *DLK*  
**Subject:** 2007 Final Reserve Bank Budgets

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The Committee on Federal Reserve Bank Affairs has reviewed staff's recommendation that the Board approve the Reserve Bank budgets for 2007. In aggregate, the 2007 Reserve Bank budgets total \$2,953.3 million, an increase of \$153.2 million or 5.5 percent over 2006 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

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**Date:** December 1, 2006  
**To:** Committee on Federal Reserve Bank Affairs  
**From:** Lauren Oriente, Stuart Sperry, Dorothy LaChapelle, Paul Bettge  
**Subject:** 2007 Final Reserve Bank Budgets

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**ACTION REQUESTED**

Staff requests Committee review of its recommendation that the Board approve the 2007 Reserve Banks' budgets totaling \$2,953.3 million, an increase of \$153.2 million or 5.5 percent over the 2006 estimated expenses.<sup>1</sup> Staff also requests Committee review of its recommendation that the Board approve the 2007 Reserve Bank, Federal Reserve Information Technology (FRIT), and the Office of Employee Benefits (OEB) capital budgets totaling \$591.6 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-2619). We have attached additional statistical information that provides detail on expenses, staffing, and capital outlays.

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<sup>1</sup> 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 2007 expense increase of \$153.2 million or 5.5 percent is driven largely by increases in the Treasury, information security, protection, and check areas. These increases are offset slightly by reductions in the cash function.

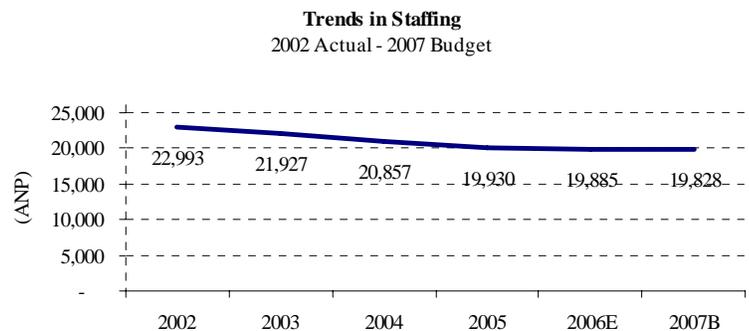
	2006 Budget	2006 Estimate	2007 Budget	Change	
				2006 Est.-2007 Bud. Amount	Percent
Central Bank Services	\$1,581.0	\$1,589.3	\$1,683.4	\$94.1	5.9%
Treasury Services	\$409.5	\$409.0	\$442.7	\$33.7	8.2%
Priced Services	\$795.8	\$801.9	\$827.3	\$25.4	3.2%
<b>Total Expense</b>	<b>\$2,786.3</b>	<b>\$2,800.1</b>	<b>\$2,953.3</b>	<b>\$153.2</b>	<b>5.5%</b>
<b>ANP</b>	<b>19,869</b>	<b>19,885</b>	<b>19,828</b>	<b>-57</b>	<b>-0.3%</b>

Nearly half of Reserve Bank expenses in the 2007 budget are offset by priced service revenues (33 percent) and reimbursable claims for services provided to the Treasury and other agencies (16 percent).<sup>2</sup> Budgeted 2007 revenue is lower than the 2006 estimated level, primarily as a result of declining check volume. Reimbursable claims will increase 8.5 percent in 2007, reflecting additional efforts by the Reserve Banks on behalf of the Treasury.

	2006 Budget	2006 Estimate	2007 Budget	Percent Change	
				06B-07B	06E-07B
Total Expense	\$2,786.3	\$2,800.1	\$2,953.3	6.0%	5.5%
Less:					
Priced Services Revenue <sup>1</sup>	\$912.6	\$1,027.7	\$981.3	7.5%	-4.5%
Reimbursable Claims	\$429.9	\$430.1	\$466.7	8.6%	8.5%
<b>Net Expenses</b>	<b>\$1,443.8</b>	<b>\$1,342.3</b>	<b>\$1,505.3</b>	<b>4.3%</b>	<b>12.1%</b>

<sup>1</sup> 2007 budgeted revenue is \$1.1 million higher than the projection in the staff memorandum to the Board on proposed 2007 fee schedules for priced services dated November 7, 2006.

Total 2007 projected employment for the Reserve Banks, FRIT, and OEB is 19,828 ANP, a decrease of 57 ANP or 0.3 percent from 2006 estimated staff levels.<sup>3</sup> The 2007 staffing decrease continues the trend of workforce reductions that began in the late 1990s. The 2007 budgeted staff reduction reflects the effect of infrastructure changes and volume declines in check



<sup>2</sup> 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 these agencies.

<sup>3</sup> 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.

and efficiency gains in currency processing, offset slightly by increases in other areas such as information technology, Treasury, and protection.

### **2006 Budget Performance**

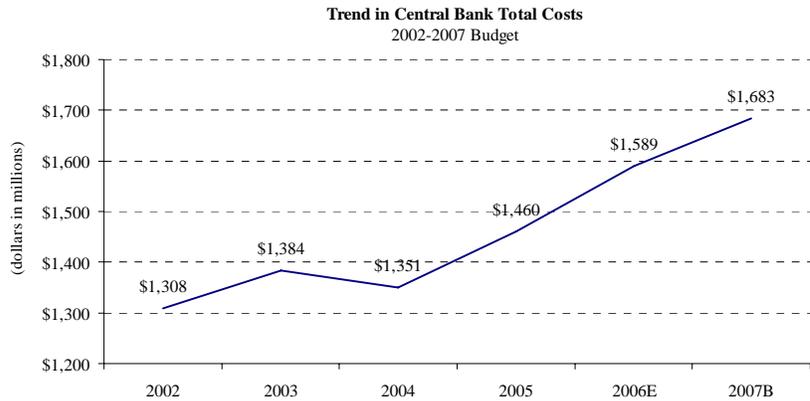
Total 2006 expenses are estimated to be \$2,800.1 million, which represents an increase of \$13.8 million or 0.5 percent from the approved 2006 budget of \$2,786.3 million. Total 2006 estimated staffing of 19,885 ANP represents an increase of 17 ANP from 2006 budgeted levels.

The expense increase from budget is driven primarily by higher costs to support the New Treasury Auction Automated Processing System (NTAAPS) (\$8.5 million). Also contributing to the overrun are higher expenses in check operations for staffing, supplies, and equipment related to higher-than-budgeted Check 21 volumes, higher fuel costs for check transportation, and additional staff for check adjustments and check operation consolidations (\$8.3 million and 203 ANP). Additional costs in several support areas, including increased utilities and property depreciation expense, and higher overtime in the protection area, increase expenses by \$5.6 million. Other increases to the current year budget include additional costs for overtime and travel in supervision and regulation (\$5.4 million) and higher equipment costs in cash (\$2.5 million).

Partially offsetting these increases are lower costs in several Treasury initiatives. Expenses for the Treasury Web Application Infrastructure (TWAI) are \$6.7 million below budget due to delayed or suspended application development efforts. Expenses and staffing in several other Treasury applications are \$2.5 million and 35 ANP lower due to changes in project scope and development efforts at the request of the Treasury. In addition, unfilled positions in public programs reduce the estimate by \$1.3 million and 25 ANP. Staffing reductions are also occurring in support areas (58 ANP) due to turnover and hiring delays, primarily in facilities and protection. Staffing levels in cash are decreasing 40 ANP, reflecting increased efficiencies, volume declines, and hiring delays.

## Factors Affecting the 2007 Budget

In the central bank area, which includes monetary policy, public programs, supervision and regulation, and cash operations, expenses are increasing \$94.1 million or 5.9 percent in 2007. Total costs for monetary policy and economic research are increasing \$21.0 million or 6.5 percent. Staffing levels are increasing 10 ANP due in part to the full-year effect of several Banks' efforts initiated in 2006.



Expenses in public programs are increasing \$15.8 million or 10.7 percent and staffing levels are increasing 32 ANP. During 2007, Reserve Banks will focus resources on regional outreach expansion, economic education, and financial literacy efforts. In recent years, Reserve Banks have devoted more resources to these efforts, particularly in regions where there is a limited Reserve Bank presence.

Expenses in the supervision and regulation area are increasing \$45.4 million or 8.2 percent in the 2007 budget as a result of the full-year effect of 2006 hires and higher compensation for current staff. Staffing levels are increasing 18 ANP.

Expenses in cash operations are increasing \$0.9 million or 0.2 percent. The relatively flat cost in this area reflects several initiatives, including reduced cash processing equipment maintenance costs, projected recoveries from the recirculation policy, and productivity improvements (\$5.0 million).<sup>4</sup> One-time costs that were recognized in 2006 to restructure currency operations across Reserve Banks also reduce the 2007 budget (\$2.2 million). These reductions to the cash budget largely offset the area's compensation program growth (\$7.7 million) and other initiatives, including expenses and staffing resources to prepare for a new cash automation platform (\$1.0 million and 8 ANP) and several long-term initiatives underway in the cash area (\$1.2 million and 5 ANP).

<sup>4</sup> Under the new recirculation policy, the Reserve Banks will charge depository institutions a fee to deposit large amounts of fit \$10 and \$20 notes and order the same denomination within the same week.

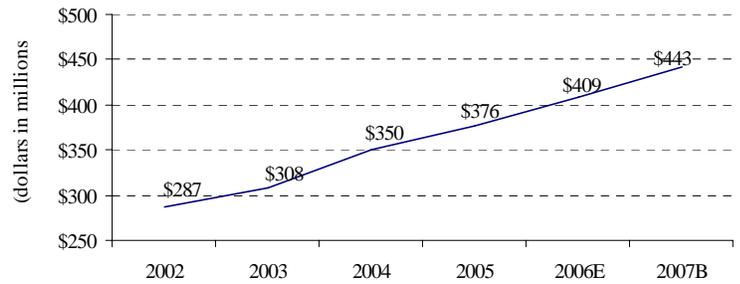
Total costs to provide services to the Treasury are increasing \$33.7 million and 8.2 percent. Staffing levels are increasing 19 ANP. The increase is driven by growth in two software applications maintained for the Treasury. Costs for developing and implementing NTAAPS are increasing \$10.1 million and 4 ANP. The TWAI project, which provides a dedicated web environment that supports several Treasury applications and millions of registered users, continues to grow as new applications are added to the environment.

The 2007 budget includes an increase of \$10.1 million for additional applications to be added to the TWAI environment. Growth in other Treasury applications, totaling \$3.0 million and 14 ANP, include the Government financial management system (GWA) and Treasury international payments process (ITS), ongoing development of the Treasury's General Account Deposit Reporting Network (TGANet) application, and software to process government electronic payments (eGovernment). These increases are partially offset by the transfer of the Transaction Reporting System to a private company (\$4.9 million).

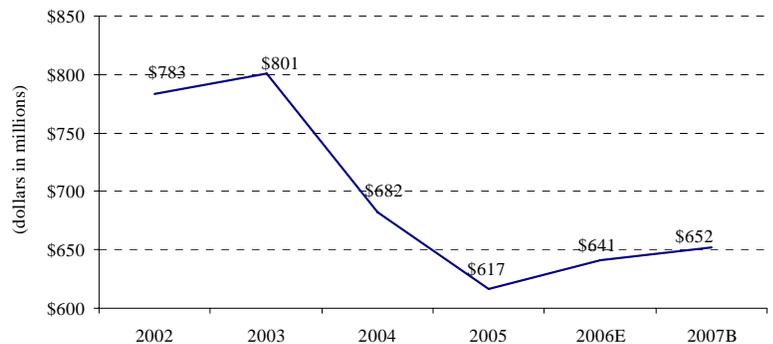
Total check expenses are increasing \$11.0 million or 1.7 percent reflecting higher costs for Check 21-related supplies and equipment, as well as additional resources necessary to facilitate further consolidation to five regional check adjustments sites. The 2007 budget also includes additional funding for several check initiatives, including further check restructuring.

These reductions are offset slightly by the full-year effect of check processing infrastructure changes in 2006 and additional changes planned for 2007, declining paper check

**Trend in Treasury Total Costs**  
2002-2007 Budget

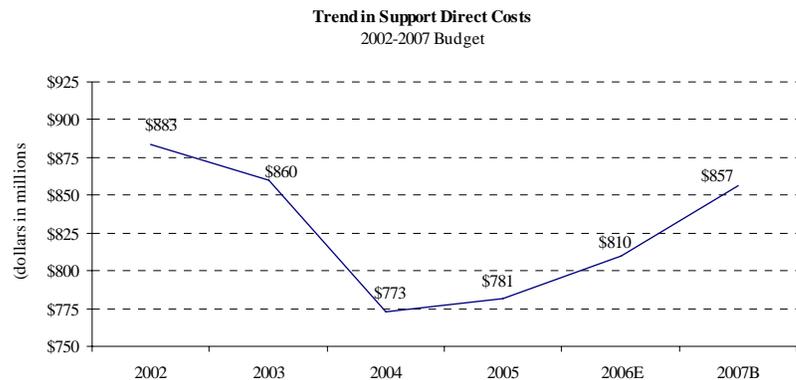


**Trend in Check Total Costs**  
2002-2007 Budget



volume, and attrition of check adjustments staff in non-regional sites. These reductions result in a decrease of 347 ANP.

Support costs are increasing \$46.7 million or 5.8 percent. The increase is driven primarily by additional costs for information security and protection. Expenses for information technology are increasing \$15.8 million, primarily for security and infrastructure-related initiatives to upgrade and enhance security throughout the System. Protection costs are increasing \$8.7 million and 18 ANP, reflecting personnel costs related to filling open positions and higher depreciation expense for physical security projects.



## 2007 Personnel Expenses

Budgeted officer and employee salaries and other personnel expenses total \$1.5 billion, which is 4.7 percent higher than the 2006 estimate. This includes an increase of \$78.3 million or 5.3 percent to fund salary administration programs for officers and employees.<sup>5</sup> These expenses are offset primarily by reductions in severance payments and outside agency expense of \$17.5 million. Reserve Bank average merit pools are budgeted at 4.0 percent for officers and employees, slightly higher than 2006.

Variable pay programs are increasing \$10.0 million in 2007. In total, incentive payments make up slightly more than 60 percent of the total variable pay program. Banks plan to use these additional funds to address market pressures and retain highly skilled staff in specific areas of the Bank.

<sup>5</sup> Salary administration represents the budgeted funds that are available to increase compensation to officers and employees in the upcoming year. It does not include adjustments for changes in staffing levels and composition, turnover and lag in hiring, overtime, severance, and outside agency expense.

Of the projected 2,165 ANP leaving the Reserve Banks, FRIT, and OEB in 2007, an estimated 17 percent of staff leaving will not be replaced (Table 3), primarily due to planned staff reductions

associated with check infrastructure changes and anticipated lower check volumes.

Turnover in 2007 is expected to be lower than the 2,356 ANP in

2006 due in large part to efforts to retain staff in critical areas and lower staffing reductions associated with reengineering efforts.

Retirement and other benefit expenses are anticipated to increase by approximately \$61.8 million or 14.7 percent in 2007. The primary driver of the increase is a \$40.3 million one-time adjustment in post-retirement medical benefits (FAS 106).

### Risks in the 2007 Budget

The projected declines in check paper items processed, the rapid increase in Check 21 volumes, the continuation of planned check restructuring, and assumptions for check transportation pose risks to the budget in 2007. In addition, several Banks cited the implementation of the cash recirculation policy, and its effects on volumes and recoveries, as a budget risk. Changes in the scope or direction of the various Treasury projects and continued unbudgeted Treasury requests also pose a risk for the Banks in 2007. Finally, Banks cite the budgeted recoveries associated with tenant rental income as a risk.

The check service continues to be an area where Banks have identified a considerable amount of risk. Volumes are projected to decline 9.6 percent in 2007, reflecting the continued decline of legacy paper items and the rapid growth of Check 21 items. If the budgeted decrease in legacy paper volumes fails to materialize, the Banks would incur costs for higher-than-planned staffing levels. The continued rapid growth of Check 21 items could present operational challenges and, if the adoption of Fed Receipt is slower than anticipated, the Banks

**Table 3  
2007 Turnover**

	<u>Officers</u>		<u>Employees</u>		<u>Total</u>	
	<u>ANP</u>	<u>Percent of Total Staffing</u>	<u>ANP</u>	<u>Percent of Total Staffing</u>	<u>ANP</u>	<u>Percent of Total Staffing</u>
Total Number of ANP Leaving the Bank	44	4.1%	2,121	11.5%	2,165	11.1%
Total ANP not Replaced	3	0.3%	374	2.0%	377	1.9%
Total Replaced	41	3.8%	1,747	9.5%	1,788	9.2%
ANP replaced due to retirement	30	2.8%	167	0.9%	197	1.0%
ANP replaced due to other reasons	11	1.0%	1,580	8.6%	1,591	8.2%

would require additional staffing, equipment, and supplies beyond those budgeted.<sup>6</sup> Phase IV of the check consolidations has been announced, but final dates for the four consolidations have not yet been finalized. Although the Retail Payments Office budgeted for restructuring and other check initiatives in the 2007 budget, additional funding may be required if consolidation and transportation assumptions vary significantly from plan.

The implementation of the new currency recirculation policy and the Future Cash Automation software development effort pose significant risks for the 2007 budget. The fee component of the new currency recirculation policy is scheduled for implementation mid-2007. Budgeted assumptions may vary depending on how aggressively cash customers adjust their currency usage and practices to avoid these fees. Costs associated with implementation of the Presidential Dollar Coin Act have also been identified as a risk.

As in the past, unforeseen requests from the Treasury or changes in scope and direction would add costs and could require additional resources in 2007. In addition, the Treasury's plans for reengineering its collection and cash management processes and systems are not yet fully defined. The effect of this initiative has not been factored into Bank budgets.

In addition, many Banks are facing a significant number of officer retirements within the next several years, many of which are in senior management positions. Several Banks have identified succession planning and retention as a high priority objective and have programs underway to address this issue.

## **2007 Capital Plan**

The 2007 capital budget submitted by the Reserve Banks, FRIT, and OEB totals \$591.6 million, a \$139.9 million or 31 percent increase from the 2006 estimated levels. The increase from the 2006 estimate is driven primarily by outlays projected in 2007 for the Kansas City new building project.

As in previous years, the 2007 capital budget includes funding for projects that support the strategic direction outlined by the individual Reserve Banks and System plans. These strategies focus on investments that improve operational efficiencies and services to Bank customers and on providing a safe and quality work environment. In support of these strategies, the 2007 budget identifies six major categories of capital outlays: building projects and facility

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<sup>6</sup> Fed Receipt is a service in which the paying bank agrees to the electronic receipt of Check 21 items.

improvements, security enhancements, automation and communication initiatives, payment system improvements, cash services initiatives, and Treasury initiatives.

The proposed capital budget includes \$314.5 million for building-related projects and facility improvements. The total includes \$140.3 million in outlays for the new building project in Kansas City and \$23.1 million for the Seattle new building project. In addition, the St. Louis capital budget includes \$38.8 million for its head office expansion and enhancement project, and New York's budget includes \$35.3 million for projects in the main building and EROC.

Another \$126.4 million is included for initiatives related to payment systems, cash, and Treasury initiatives. Payment system initiatives account for \$61.6 million and consist mainly of capital needed to support the rapid growth in Check 21 volume. The budget includes \$39.7 million for Treasury initiatives, primarily for TWAI, NTAAPS, and e-Government initiatives. In addition, the budget includes outlays of \$25.2 million for various cash initiatives.

The Reserve Banks, FRIT, and OEB included \$76.1 million in funding for major automation and communication initiatives. These initiatives do not include the automation components of building or payment systems initiatives discussed previously. Of the total automation-related outlays, FRIT projects and acquisitions account for \$28.2 million. The New York budget includes \$18.9 million for routine replacement of server equipment, PBX telephone equipment, and other network equipment. The budget also includes \$69.4 million for security enhancements in support of Reserve Banks' objectives to comply with System security standards.

**APPENDIX**  
**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 Service Line
Table 4	Total Employment of the FR Banks, by Service Line
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.

## 2007 Final Budget

**TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS**  
**by District, 2006 and 2007**  
**(Dollars in Thousands)**

District	2006 Budget	2006 Estimate	2007 Budget	Percent Change	
				06B to 06E	06E to 07B
Boston	\$156,366	\$152,172	\$151,625	-2.7%	-0.4%
New York	\$531,652	\$542,003	\$573,662	1.9%	5.8%
Philadelphia	\$136,874	\$138,019	\$147,732	0.8%	7.0%
Cleveland	\$193,911	\$196,821	\$208,644	1.5%	6.0%
Richmond	\$208,758	\$214,274	\$231,262	2.6%	7.9%
Atlanta	\$336,118	\$315,114	\$337,336	-6.2%	7.1%
Chicago	\$246,141	\$243,524	\$274,162	-1.1%	12.6%
St. Louis	\$220,140	\$214,749	\$229,623	-2.4%	6.9%
Minneapolis	\$148,999	\$153,816	\$159,786	3.2%	3.9%
Kansas City	\$164,182	\$172,464	\$173,175	5.0%	0.4%
Dallas	\$183,129	\$195,407	\$186,662	6.7%	-4.5%
San Francisco	\$260,030	\$261,787	\$279,662	0.7%	6.8%
<b>Total</b>	<b>\$2,786,299</b>	<b>\$2,800,148</b>	<b>\$2,953,331</b>	<b>0.5%</b>	<b>5.5%</b>

## 2007 Final Budget

**TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS**  
**by District, 2006 and 2007**  
**(Average Number of Personnel)**

District	2006 Budget	2006 Estimate	2007 Budget	Change	
				06B to 06E	06E to 07B
Boston	1,041	1,015	993	-25	-22
New York	2,978	2,940	2,868	-38	-72
Philadelphia	1,078	1,062	1,092	-16	30
Cleveland	1,597	1,570	1,604	-27	34
Richmond	1,847	1,838	1,854	-8	16
Atlanta	2,033	2,075	2,042	42	-32
Chicago	1,534	1,531	1,544	-3	13
St. Louis	1,150	1,132	1,124	-18	-8
Minneapolis	1,287	1,287	1,273	0	-14
Kansas City	1,344	1,373	1,386	29	13
Dallas	1,315	1,379	1,331	64	-47
San Francisco	1,866	1,862	1,879	-4	17
<b>Subtotal</b>	<b>19,069</b>	<b>19,063</b>	<b>18,990</b>	<b>-5</b>	<b>-73</b>
FRIT	759	780	793	21	13
OEB	40	42	45	2	3
<b>Total</b>	<b>19,868</b>	<b>19,885</b>	<b>19,828</b>	<b>17</b>	<b>-57</b>

## 2007 Final Budget

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

<b>Year</b>	<b>Total</b>	<b>Monetary and Economic Policy</b>	<b>Services to U.S. Treasury and Gov't Agencies</b>	<b>Services to Financial Institutions and the Public</b>	<b>Supervision and Regulation</b>	<b>Fee Based Services to Financial Institutions</b>
2002	\$2,532,512	\$241,732	\$286,729	\$603,385	\$463,349	\$937,317
2003	\$2,620,538	\$263,221	\$307,868	\$627,119	\$493,569	\$928,762
2004	\$2,517,679	\$259,263	\$350,158	\$608,075	\$483,315	\$816,868
2005	\$2,597,013	\$290,839	\$376,164	\$660,496	\$508,920	\$760,594
2006 Estimate	\$2,800,148	\$322,652	\$408,962	\$710,824	\$555,820	\$801,890
2007 Budget	\$2,953,331	\$343,606	\$442,689	\$738,599	\$601,173	\$827,264
<b>AAGR 2002-2007</b>	<b>3.1%</b>	<b>7.3%</b>	<b>9.1%</b>	<b>4.1%</b>	<b>5.3%</b>	<b>-2.5%</b>

## 2007 Final Budget

**TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS<sup>1</sup>**

by Service Line  
(Average Number of Personnel)

Year	Total	Monetary and Economic Policy	Services to U.S. Treasury and Gov't Agencies	Services to Financial Institutions and the Public	Supervision and Regulation	Fee Based Services to Financial Institutions <sup>2</sup>	Support, Overhead, and Centralized Providers
2002	22,993	856	1,291	2,848	2,604	5,139	10,255
2003	21,927	862	1,221	2,769	2,577	4,701	9,797
2004	20,857	845	1,301	2,698	2,562	4,347	9,104
2005	19,930	877	1,288	2,683	2,538	3,322	9,223
2006 Estimate	19,885	918	1,270	2,648	2,658	3,098	9,293
2007 Budget	19,828	928	1,289	2,707	2,676	2,747	9,481
<b>AAGR 2002-2007</b>	<b>-2.9%</b>	<b>1.6%</b>	<b>0.0%</b>	<b>-1.0%</b>	<b>0.5%</b>	<b>-11.8%</b>	<b>-1.6%</b>

<sup>1</sup> Includes average number of personnel at FRIT and OEB.

<sup>2</sup> The decrease in 2004 to 2005 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.

## 2007 Final Budget

**SALARY ADMINISTRATION EXPENSES OF THE FEDERAL RESERVE BANKS**  
**Officers and Employees by District, 2007**

(Dollars in Thousands)

District	Additions to Salary Base				Variable Pay (Change 06E-07B)			Total	Percent <sup>1</sup>
	Merit	Promo & Reclass	Market Adjustment	Subtotal	Cash Awards	Incentive Payments	Subtotal		
Boston	\$2,584	\$441	\$383	4.3%	\$68	\$781	1.1%	<b>\$4,256</b>	<b>5.4%</b>
New York	\$11,043	\$2,996	\$2,484	5.4%	\$246	\$2,171	0.8%	<b>\$18,940</b>	<b>6.2%</b>
Philadelphia	\$2,073	\$417	\$189	3.8%	\$71	\$382	0.6%	<b>\$3,132</b>	<b>4.5%</b>
Cleveland	\$3,072	\$743	\$440	4.6%	\$436	\$166	0.7%	<b>\$4,857</b>	<b>5.3%</b>
Richmond	\$4,128	\$1,084	\$388	4.4%	\$263	\$214	0.4%	<b>\$6,077</b>	<b>4.8%</b>
Atlanta	\$3,798	\$1,591	\$1,532	5.2%	\$437	\$566	0.8%	<b>\$7,924</b>	<b>6.0%</b>
Chicago	\$3,814	\$300	\$589	4.1%	\$110	\$135	0.2%	<b>\$4,947</b>	<b>4.3%</b>
St. Louis	\$2,666	\$383	\$260	4.3%	\$44	\$488	0.7%	<b>\$3,841</b>	<b>5.0%</b>
Minneapolis	\$2,453	\$350	\$0	3.7%	\$330	\$33	0.5%	<b>\$3,167</b>	<b>4.1%</b>
Kansas City	\$3,134	\$879	\$560	5.0%	-\$263	\$1,046	0.9%	<b>\$5,357</b>	<b>5.8%</b>
Dallas	\$2,609	\$60	\$123	3.4%	\$17	\$260	0.3%	<b>\$3,068</b>	<b>3.7%</b>
San Francisco	\$5,504	\$1,682	\$292	5.0%	\$484	\$1,253	1.2%	<b>\$9,215</b>	<b>6.2%</b>
FRIT	\$2,353	\$588	\$0	3.7%	\$32	\$166	0.2%	<b>\$3,230</b>	<b>4.1%</b>
OEB	\$184	\$74	\$0	4.9%	\$0	\$80	1.5%	<b>\$267</b>	<b>5.1%</b>
<b>Total</b>	<b>\$49,415</b>	<b>\$11,587</b>	<b>\$7,239</b>	<b>4.6%</b>	<b>\$2,275</b>	<b>\$7,741</b>	<b>0.7%</b>	<b>\$78,256</b>	<b>5.3%</b>

**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.

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

## 2007 Final Budget

**CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS**  
**by District, 2006 and 2007**  
**(Dollars in Thousands)**

District	2006 Budget	2006 Estimate	2007 Budget	Percent Change	
				06B to 06E	06E to 07B
Boston	\$24,843	\$21,697	\$18,334	-12.7%	-15.5%
New York	\$69,737	\$62,847	\$77,456	-9.9%	23.2%
Philadelphia	\$20,966	\$16,553	\$23,361	-21.0%	41.1%
Cleveland	\$28,157	\$23,404	\$24,161	-16.9%	3.2%
Richmond	\$58,623	\$36,005	\$59,717	-38.6%	65.9%
Atlanta	\$17,335	\$22,863	\$32,928	31.9%	44.0%
Chicago	\$20,841	\$25,418	\$20,633	22.0%	-18.8%
St. Louis	\$42,743	\$29,503	\$43,559	-31.0%	47.6%
Minneapolis	\$4,782	\$5,258	\$5,131	9.9%	-2.4%
Kansas City	\$74,738	\$89,726	\$150,440	20.1%	67.7%
Dallas	\$9,874	\$13,052	\$17,318	32.2%	32.7%
San Francisco	\$49,753	\$51,731	\$49,669	4.0%	-4.0%
<b>Subtotal</b>	<b>\$422,392</b>	<b>\$398,057</b>	<b>\$522,708</b>	<b>-5.8%</b>	<b>31.3%</b>
FRIT	\$51,771	\$53,546	\$68,115	3.4%	27.2%
OEB	\$0	\$150	\$800	N/A	N/A
<b>Total</b>	<b>\$474,163</b>	<b>\$451,753</b>	<b>\$591,623</b>	<b>-4.7%</b>	<b>31.0%</b>

## 2007 Final Budget

**CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS<sup>1</sup>**  
**by Category, 2006 and 2007**  
**(Dollars in Thousands)**

	2006 Budget	2006 Estimate	2007 Budget	Percent Change	
				06B to 06E	06E to 07B
Building Related Projects and Facility Improvements	\$252,029	\$240,399	\$314,478	-4.6%	30.8%
Payment System Improvement Initiatives					
Retail Payment Initiatives	\$18,924	\$52,499	\$61,581	177.4%	17.3%
Cash Services Initiatives	\$11,368	\$10,921	\$25,153	-3.9%	130.3%
Treasury Initiatives	\$50,246	\$51,141	\$39,660	1.8%	-22.4%
Automation and Communication Initiatives	\$72,966	\$52,892	\$76,103	-27.5%	43.9%
Security Enhancements	\$64,156	\$37,600	\$69,368	-41.4%	84.5%
Miscellaneous <sup>2</sup>	\$4,472	\$6,301	\$5,279	40.9%	-16.2%
<b>TOTAL</b>	<b>\$474,162</b>	<b>\$451,753</b>	<b>\$591,623</b>	<b>-4.7%</b>	<b>31.0%</b>

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

<sup>2</sup> Miscellaneous includes other equipment and software not falling into the other defined categories.