Annual Report: Budget Review

2013

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Annual Report:
Budget Review

2013

Board of Governors of the Federal Reserve System

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Introduction

This publication provides current budgeted expenses of the Federal Reserve Board of Governors and the Federal Reserve Banks, as well as the previous year's income and expenses for both the Board and the Banks. It also describes their budgeting processes and shows trends in their expenses and employment. For a comprehensive report on the Board and Reserve Banks' operations and activities during the year, see the *Annual Report of the Board of Governors of the Federal Reserve System* at www.federalreserve.gov/publications/annual-report/default.htm.

Overview of the Federal Reserve System

The Federal Reserve System—the nation's central bank—consists of the Board of Governors in Washington, D.C., the 12 Federal Reserve Banks and their 24 branches distributed throughout the nation, the Federal Open Market Committee (FOMC), and three advisory councils—the Federal Advisory Council, the Community Depository Institutions Advisory Council, and the Model Validation Council.[1] The System was created in 1913 by the Congress to establish a safe and flexible monetary and banking system. Over the years, the Congress has adjusted the Federal Reserve's authority and responsibility to help achieve broad national economic and financial objectives.

As the nation's central bank, the Federal Reserve System performs five general functions:

- conducting the nation's monetary policy by influencing the money and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates
- helping maintain the stability of the financial system and containing systemic risks that may arise in financial markets

1 The Model Validation Council was established in 2012 by the Board of Governors to provide expert and independent advice on its process to rigorously assess the models used in stress tests of banking institutions; for more information on the advisory councils, see www.federalreserve.gov/aboutthefed/advisorydefault.htm.

- supervising and regulating a variety of financial institutions and activities to ensure the safety and soundness of the nation's banking and financial systems and to protect certain rights of consumers
- providing certain financial services to depository institutions, the U.S. government, and foreign official institutions
- promoting consumer protection, fair lending, and community development

Summary of 2012 Income and Expenditures

In carrying out its responsibilities in 2012, the Federal Reserve System incurred $3.7 billion in net expenses. Total spending of $4.7 billion was offset by $1.0 billion in revenue from priced services, claims for reimbursement, and other income. Total 2012 expenses were $29.9 million, or 0.6 percent, less than the amount budgeted for 2012 (table 1).

Table 1. Total expenses of the Federal Reserve System, 2012
Millions of dollars, except as noted

Item	Budgeted	Actual	Variance	
			Amount	Percent
Reserve Banks[1]	3,446.1	3,462.1	16.0	0.5
Board[2]	532.4	512.4	-20.0	-3.8
Currency	747.0	721.1	-26.0	-3.5
Total System expenses	**4,725.5**	**4,695.6**	**-29.9**	**-0.6**

Note: Excludes capital outlays as well as assessments for the Consumer Financial Protection Bureau and the Office of Financial Research. Components may not sum to totals and may not yield percentages shown because of rounding.

1 The final 2012 budget of $3,441.3 million was approved by the Board in December 2011. In May 2012, the Board approved an additional $4.8 million for employee equity adjustments, which is included in the 2012 budget number above.

2 Includes expenses of the Office of Inspector General.

The Reserve Banks' current income in 2012 was $81.6 billion.[2] The major sources of income were interest earnings from the portfolio of U.S. government securities ($49.0 billion) and federal agency mortgage-backed securities (MBS) ($31.4 billion) in the System Open Market Account. Earnings in excess of expenses, dividends, and surplus are transferred to the U.S. Treasury—in 2012, a total of $88.4 billion. (These net earnings are treated as receipts in the U.S. budget accounting system when received and as antici-

2 For a list of items included in the Reserve Banks' current income, refer to Table 10, Income and expenses of the Federal Reserve Banks, in the "Statistical Tables" section of the *2012 Annual Report of the Board of Governors of the Federal Reserve System,* available at www.federalreserve.gov/publications/annual-report/default.htm. More detailed information on System income and the distribution of income can also be found in the *Annual Report*.

pated earnings projected by the Office of Management and Budget in the *Budget of the United States Government*.)

Operational Areas

The major operations of the Federal Reserve System can be described using the following broad categories: monetary and economic policy, supervision of financial institutions, services to financial institutions and the public, and services to the U.S. Treasury and other government agencies.

Monetary and Economic Policy

The monetary and economic policy operational area encompasses Federal Reserve System actions to influence the availability and cost of money and credit in the pursuit of the Federal Reserve's statutory objectives of maximum employment, stable prices, and moderate long-term interest rates. It also encompasses broad activities undertaken by the Federal Reserve System to monitor the stability of financial institutions and financial markets and to develop appropriate policy responses to structural and emerging risks.

In developing its monetary policy, the Federal Reserve collects vast amounts of banking, financial, and economic data from the public. This information generally flows through the Reserve Banks to the Board, where the data are compiled and made available to the public. The research staffs at the Board and the Banks use the data, along with information collected by other public and private institutions, to assess the state of the economy and the relationships between the financial markets and economic activity. Staff members provide background information to the Board of Governors and the FOMC, including detailed economic and financial analyses and projections for the domestic and international economies. These analyses and projections are used in determining the appropriate stance of monetary policy, including the path for the federal funds rate and the size and composition of the Federal Reserve balance sheet. Staff members also conduct longer-run economic studies on regional, national, and international issues in order to improve understanding of a range of questions of interest to policymakers and economists.

To help the Federal Reserve carry out its responsibilities for promoting the stability of the financial system, the Board's Office of Financial Stability Policy and Research coordinates with other groups at the Board and at the Reserve Banks to monitor financial institutions, markets, and infrastructure; assess potential risks; and develop appropriate policy responses. It also helps develop and evaluate alternative approaches to implement macroprudential regulations and works with bank supervisory committees on a variety of issues. Staff members conduct research in banking, finance, and macroeconomics to foster a broader understanding of financial stability issues. In addition, the office coordinates the Board's interagency and international work on financial stability, including the Board's responsibilities as a member of the Financial Stability Oversight Council and the Financial Stability Board.

Details on the Federal Reserve's monetary and economic policy activities and decisionmaking are published in the Board's Annual Report and its semiannual *Monetary Policy Reports* to the Congress as well as in FOMC meeting statements and minutes. These publications are available on the Board's website at www.federalreserve.gov.

Supervision and Regulation of Financial Institutions

The Federal Reserve is the federal supervisor and regulator of all U.S. BHCs, including financial holding companies, and state-chartered commercial banks that are members of the Federal Reserve System. It also has responsibility for supervising the operations of all Edge Act and agreement corporations, the international operations of state member banks and U.S. BHCs, and the U.S. operations of foreign banking organizations. Furthermore, through the Dodd-Frank Act, the Federal Reserve has been assigned responsibilities for nonbank financial firms and financial market utilities (FMUs) designated by the Financial Stability Oversight Council as systemically important as well as savings and loan holding companies (SLHCs).[3] In overseeing the institutions under the Federal Reserve's authority, the Federal Reserve seeks primarily to promote safety and soundness, including compliance with laws and regulations.

The Reserve Banks conduct on-site examinations and inspections of state member banks, BHCs, SLHCs, and branches and agencies of foreign banking organizations; review applications for mergers, acquisitions, and changes in control from banks and BHCs; and take formal supervisory actions. In 2012, the Federal Reserve conducted 487 examinations of state member banks (some of them jointly with state agencies); 691 inspections of large BHCs; 3,150 inspections of small, noncomplex BHCs; and 301 inspections of SLHCs. It also acted on 1,029 proposals involving BHC and SLHC formations and acquisitions, bank mergers, and other transactions. In coordination with appropriate state regulatory authorities, the Federal Reserve con-

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[3] Under the Dodd-Frank Act, supervisory and regulatory authority for SLHCs was transferred from the Office of Thrift Supervision to the Board of Governors on July 21, 2011. For a fuller discussion of entities supervised and regulated by the Federal Reserve, see the "Supervision and Regulation" section of the *Annual Report*, available at www.federalreserve.gov/publications/annual-report/default.htm.

ducted or participated in 447 examinations of branches and agencies of foreign banking organizations.

The Board also enforces the compliance of state member banks and certain foreign banking organizations with the federal laws that protect consumers who use credit and deposit accounts. During the reporting period from July 1, 2011, to June 30, 2012, the System conducted 282 consumer compliance examinations of state member banks and 11 examinations of foreign banking organizations.[4] During this period, the System also conducted 256 examinations of banks for their compliance with the Community Reinvestment Act.

Beyond these activities, the Federal Reserve System maintains continuous oversight of the banking industry as part of its effort to ensure the overall safety and soundness of the financial system.

Services to Financial Institutions and the Public

The Federal Reserve System plays a central role in the nation's payment systems by ensuring that enough currency and coin are in circulation to meet the public's demand. As the issuing authority for Federal Reserve notes, the Board orders new currency from the Treasury's Bureau of Engraving and Printing and issues that currency to the Reserve Banks. The Reserve Banks distribute currency and coin to the public through depository institutions to meet demand. The Reserve Banks process currency that they receive from depository institutions and remove poor quality and suspect counterfeit notes. In 2012, the Reserve Banks distributed approximately $747.2 billion in currency and $6.3 billion in coin to depository institutions. The Reserve Banks also received approximately $654.5 billion in currency and $5.7 billion in coin from depository institutions, and they destroyed $105.5 billion in unfit currency.

The Reserve Banks also play a central role in the nation's payment systems by collecting checks and providing a variety of electronic services for depository institutions. In 2012, the Banks collected 6.6 billion commercial checks, with a total value of $8.1 trillion. The Banks' automated clearinghouse (ACH) service allows depository institutions to send or receive credit transfers, such as direct payroll payments and corporate payments to vendors, and debit payment transactions, such as payments of insurance premiums, mortgages, and other bills from consumer accounts. In 2012, the Reserve Banks

[4] The foreign banking organizations examined by the Federal Reserve are organizations that operate under section 25 or 25A of the Federal Reserve Act (Edge Act and agreement corporations) and state-chartered commercial lending companies owned or controlled by foreign banks. These institutions are typically not subject to the Community Reinvestment Act, and they typically engage in relatively few activities covered by consumer protection laws.

processed approximately 12 billion ACH transactions, valued at $23.9 trillion. Approximately 11.5 percent of the transactions were for the federal government; the rest were for commercial establishments.

The Reserve Banks' Fedwire Funds Service allows participants to use their accounts at the Reserve Banks to transfer funds to other participants. In 2012, the Reserve Banks processed approximately 132 million Fedwire funds transfers, valued at $599.2 trillion.

The Reserve Banks' National Settlement Service allows participants in private clearing arrangements to settle transactions through their Federal Reserve accounts. In 2012, 16 local and national private arrangements used the National Settlement Service. The Reserve Banks processed 662,912 settlement entries for these arrangements, with a debit value of $16.1 trillion in 2012.

The Reserve Banks' Fedwire Securities Service provides securities services to participants, including the settlement of book-entry transfers of securities issued by the Treasury, federal government agencies, government-sponsored enterprises, and certain international organizations. In 2012, participants originated 18.7 million transfers, valued at more than $288.4 trillion.

Services to the U.S. Treasury and Other Government Agencies

As fiscal agents and depositories for the federal government, the Reserve Banks auction Treasury securities; process electronic and check payments for the Treasury; collect funds owed to the federal government; maintain the Treasury's bank account; and develop, operate, and maintain a number of automated systems to support the Treasury's mission. The Reserve Banks also provide certain fiscal agency and depository services to other entities. The Treasury and other entities fully reimburse the Reserve Banks for the costs of providing fiscal agency and depository services.

The Reserve Banks auction, issue, maintain, and redeem securities, as well as operate the automated systems supporting paper U.S. savings bonds and book-entry marketable Treasury securities. In 2012, the Reserve Banks conducted 264 Treasury securities auctions and processed nearly 11.6 million Treasury securities transfers. The Reserve Banks continued to support the Treasury's efforts to improve the quality and efficiency of its securities services.

The Reserve Banks collect and disburse funds on behalf of the federal government. In 2012, the Reserve Banks processed 1.4 billion government ACH payments and 121 million Treasury check payments. The Reserve Banks continued to support the Treasury's ongoing effort to convert paper checks to electronic payments through the Go Direct initiative and operated Pay.gov, an application supporting the Treasury's program that allows the public to use the Internet to authorize and initiate payments to federal agencies.

The Treasury maintains operating cash accounts at the Reserve Banks. In 2012, the Reserve Banks continued to support the Treasury's effort to modernize its financial management processes, with a focus on improving centralized government accounting and reporting functions. The Reserve Banks also managed several new and ongoing software development efforts in support of the Treasury's objectives.

When permitted by federal statute or when required by the Secretary of the Treasury, the Reserve Banks provide fiscal agency and depository services to other domestic and international entities. Book-entry securities issuance and maintenance activities account for a significant amount of the work performed for these entities.

Federal Reserve System Budget

Total expenses for the Federal Reserve System for 2013 are budgeted at $5,072.7 million, an increase of 8.0 percent from 2012 actual expenses. Of this total, $3,688.2 million is for the Reserve Banks, $586.9 million is for the Board and the Office of Inspector General, and $797.6 million is for the cost of new currency (table 2 and table 3). Revenue from priced services provided to depository institutions is expected to total $423.9 million, or 8.4 percent of total budgeted expenses. This revenue, combined with claims for reimbursement and other income, results in the recovery of approximately 19 percent of the System's budgeted 2013 expenses.[5] When these items are deducted from budgeted expenses, 2013 net expenses for the System are 9.9 percent higher than 2012 net expenses (table 2). Pursuant to section 318 of the Dodd-Frank Act, the Board intends to collect assessments from certain large bank holding companies and savings and loan holding companies and from nonbank financial companies designated for Board supervision by the

Table 2. Total expenses of the Federal Reserve System, net of receipts and claims for reimbursement, 2011–13

Millions of dollars, except as noted

Item	2011 (actual)	2012 (actual)	2013 (budgeted)	Percent change	
				2011 to 2012	2012 to 2013
Total System expenses[1]	4,363.6	4,695.6	5,072.7	7.6	8.0
Less					
Revenue from priced services	478.6	449.8	423.9	-6.0	-5.8
Claims for reimbursement[2]	485.3	506.4	539.4	4.3	6.5
Other income	1.6	2.2	2.2	38.9	-2.6
Equals					
Net System expenses	**3,398.1**	**3,737.1**	**4,107.2**	**10.0**	**9.9**

Note: Excludes capital outlays as well as assessments for the Consumer Financial Protection Bureau and the Office of Financial Research. Components may not sum to totals and may not yield percentages shown because of rounding.

1 Includes expenses of the Office of Inspector General.

2 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.

5 *Claims for reimbursement* refers to the costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other principals, to whom actual costs are reimbursed by those entities. *Other income* is the fee that depository institutions pay for the settlement component of the Fedwire Security Service transactions.

Table 3. Expenses of the Federal Reserve System for operations and currency, 2011–13
Millions of dollars, except as noted

Item	2011 (actual)	2012 (actual)	2013 (budgeted)	Percent change	
				2011 to 2012	2012 to 2013
Reserve Banks[1]	3,261.3	3,462.1	3,688.2	6.2	6.5
Personnel	2,317.2	2,491.0	2,681.8	7.5	7.7
Nonpersonnel	944.1	971.1	1,006.4	2.9	3.6
Board of Governors[2]	452.3	512.4	586.9	13.3	14.5
Personnel	333.1	367.3	403.4	10.3	9.8
Nonpersonnel	119.2	145.1	183.4	21.7	26.4
Currency[3]	650.0	721.1	797.6	10.9	10.6
Total System expenses	**4,363.6**	**4,695.6**	**5,072.7**	**7.6**	**8.0**

Note: Excludes capital outlays as well as assessments for the Consumer Financial Protection Bureau and the Office of Financial Research. Components may not sum to totals and may not yield percentages shown because of rounding.

1 For detailed information on Reserve Bank expenses, see the "Federal Reserve Bank Budgets" section on page 19.

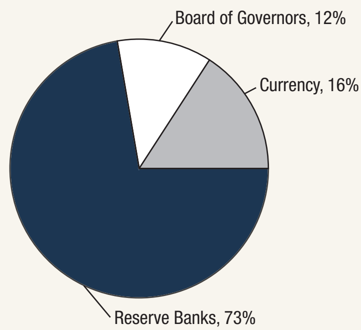
2 Includes expenses of the Office of Inspector General. During 2011, the Board approved a $0.4 million decrease in the Board's initial operating budget of $475.6 million. (See table 4 in the "Board of Governors Budgets" section on page 13.)

3 For more information on currency expenses, see the "Currency Budget" section on page 27.

Financial Stability Oversight Council equal to the estimated cost of supervising and regulating those companies. These funds will be transferred in full by the Board directly to the U.S. Department of the Treasury.

The distribution of budgeted expenses is similar to that in previous years, with the Reserve Banks' expenses accounting for 73 percent of the total, new currency expenses accounting for 16 percent, and Board expenses accounting for the remainder (figure 1).

Figure 1. Distribution of budgeted expenses of the Federal Reserve System, 2013



Note: Components may not sum to 100 percent because of rounding.

System employment is budgeted at 21,196 for 2013, an increase of 428 from the 2012 actual level, primarily due to planned staff additions in the supervision function related to portfolio growth, increased supervisory workload, and requirements under the Dodd-Frank Act.[6]

6 Employment numbers stated include position counts for the Board and average number of personnel (ANP) for the Reserve Banks. ANP is the average number of employees expressed in terms of full-time positions for the period. For instance, a full-time employee who works

2013 System Budget Initiatives

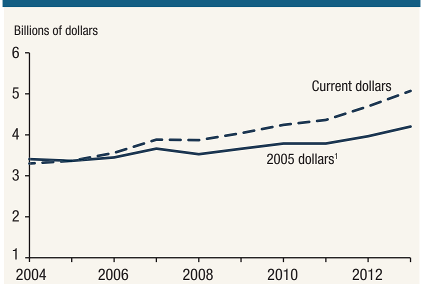
The Federal Reserve System budget is funding increases for several initiatives, specifically in supervision and monetary policy to address resource needs and for modernization efforts in cash operations and Treasury services. The major factors affecting the 2013 Board and Reserve Bank budgets are outlined in more detail in the "Board of Governors Budgets" section on page 13 and the "Federal Reserve Bank Budgets" section on page 19, respectively.

Trends in Expenses and Employment

From the actual 2004 level to the budgeted 2013 amount, the total expenses of the Federal Reserve System have increased an average of 4.9 percent per year (2.4 percent per year when adjusted for inflation) (figure 2). Over the same period, nondefense discretionary spending by the federal government has increased an average of 2.9 percent per year (figure 3). Over the 2004–2013 period, Federal Reserve System employment has decreased by 1,484 (figure 4).

The most recent budgets reflect increases for resources to address requirements under the Dodd-Frank Act and additional workload from the financial market turmoil and portfolio growth. Reserve Bank

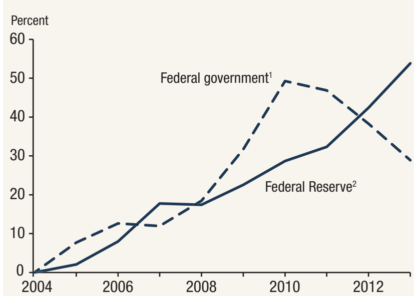
Figure 2. Total expenses of the Federal Reserve System, 2004–13



Note: For 2013, budgeted. Includes expenses of the Office of Inspector General.

[1] Calculated with the GDP price deflator.

Figure 3. Cumulative change in Federal Reserve System expenses and federal government expenses, 2004–13



Note: For 2013, budgeted. Federal government expenses are reported on a fiscal-year basis beginning October 1; the Federal Reserve System expenses are reported on a calendar-year basis.

[1] Discretionary spending less expenditures on defense. Source: *Budget of the United States Government, Fiscal Year 2013: Historical Tables*, Table 8.1. Outlays by Budget Enforcement Act Category, 1962–2017.

[2] Includes expenses of the Office of Inspector General.

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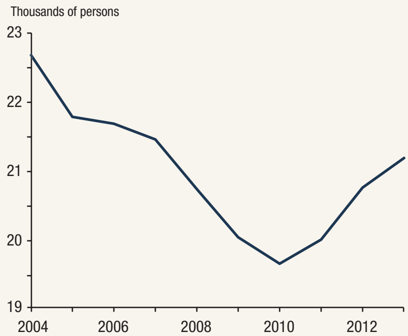
one-half of the year counts as 0.5 ANP for that calendar year; two half-time employees who work the full year count as 1 ANP.

Figure 4. Employment in the Federal Reserve System, 2004–13



Note: For 2013, budgeted. Employment numbers presented include position counts for the Board and average number of personnel (ANP) for the Reserve Banks.

expenses associated with the financial crisis, in particular, peaked in 2010 and have since declined, as liquidity programs wind down.[7] These increases have been offset by substantial expense and staffing decreases due to restructuring efforts in the check processing function and staff declines and related expenses due to efficiency measures in cash operations and support functions.

2013 Capital Budgets

The capital budgets for the Reserve Banks and the Board total $764.3 million, with $492.1 million budgeted for the Reserve Banks, Federal Reserve Information Technology (FRIT), and Office of Employee Benefits (OEB) and $272.2 million budgeted for the Board.[8] As in previous years, the 2013 capital budgets include funding for projects that support the strategic direction outlined by the individual Reserve Banks, System business leaders, and the Board. These strategic goals focus on investments that continue to improve operational efficiencies, enhance services to Bank customers, and ensure a safe and productive work environment. More detailed discussions of the Board and Reserve Bank capital budgets are included in the "Board of Governors Budgets" section on page 13 and the "Federal Reserve Bank Budgets" section on page 19.

7 Although most of the liquidity programs have ended, the Federal Reserve Bank of New York continues to incur costs for several liquidity programs, including Maiden Lane, Maiden Lane II, Maiden Lane III, and the Term Asset-Backed Securities Loan Facility.

8 The capital reported for the Board also includes the amount budgeted for the Office of Inspector General.

Board of Governors Budgets

The Board of Governors operates under a one-year budget. In keeping with its statutory independence, the Office of Inspector General (OIG) prepares its proposed budget apart from the Board's budget. The Board and OIG budgets for 2013 were approved in December 2012.

2012 Budget Performance

Board of Governors

The Board ended 2012 with expenses that totaled less than its operating plan by $14.3 million. The Board's 2012 single-year capital spending was also less than its operating plan, and all multiyear capital projects remained within their project life budgets.

Expenses for salaries and benefits were $0.3 million, or 0.1 percent, less than the operating plan, mainly attributable to the following factors:

- Divisions and offices took longer than expected to fill vacancies.
- There were fewer promotions and reclassifications than anticipated.
- Actual payout of accrued annual leave was less than expected.

Expenses for goods and services were $14.1 million, or 8.9 percent, less than the operating plan; the underrun was primarily in contractual professional services due to fewer-than-expected executive searches, less utilization of contractors, and delays in data purchases. Expenses in the "all other" category were also under budget due to lower-than-expected transportation subsidy program expenses, while other expense categories were under budget due to timing delays.

The Board's 2012 single-year capital purchases totaled less than the operating plan by $4.3 million. The Board encountered certain project delays, causing some projects to fall below budget expectations. As of year-end 2012, budgets for the Board's multiyear capital projects totaled $93.4 million, and spend to-date totaled $48.1 million. Two multiyear capital projects were completed and retired at year-end; all other multiyear capital projects are still in process and are expected to be completed within their budgeted amounts.

Office of Inspector General

The OIG's operating expenses for 2012 totaled $14.9 million, or $5.6 million less than the $20.6 million operating budget. Expenses for salaries and benefits were $13.0 million, or 19.1 percent less than the operating plan as a result of slower-than-anticipated hiring as the OIG sought well-qualified candidates. Expenses for goods and services were $2.0 million, or 56.5 percent less than the operating plan. As a result of delayed hiring, funds allocated for office and computer equipment purchases for new employees remained unspent, and fewer-than-expected employees traveled to conduct reviews and attend training.

The OIG's 2012 single-year capital purchases totaled less than the operating plan by $0.2 million. The OIG experienced several project delays, resulting in some projects to fall short of budget estimates. The OIG's budget for multiyear capital projects totaled $2.7 million. Expenses on these projects to-date totaled $0.5 million. The OIG's multiyear capital projects are still in progress and expected to be completed within their respective timelines and budgets.

2013 Budgets

Board of Governors

For 2013, the Board approved a $560.0 million operating budget, a $10.8 million single-year capital budget, and a $261.2 million increase to the multiyear capital projects budget (table 4).

The operating budget includes amounts to fund the Board's ongoing operations (the current services budget) as well as new initiatives that support the strategic themes identified in the Board's *Strategic Framework 2012–15* (see www.federalreserve.gov/publications/gpra/files/2012-2015-strategic-framework.pdf). Increases to the current services budget include additional personnel services costs related to salaries and benefits expenses for 138 positions added in 2012, as well as increases for contractual professional services to fund the Survey of Consumer Finances, which is conducted every three years. Every division and office, as part of the budget formulation process, thoroughly reviewed its proposed budget to identify where potential savings could be realized. These reductions were incorporated into the divisions' base budgets.

Table 4. Operating expenses and capital expenditures of the Board of Governors, 2011–13

Millions of dollars, except as noted

Item	2011 (budgeted)[1]	2011 (actual)	2012 (budgeted)[2]	2012 (actual)	2013 (budgeted)
Board of Governors	475.2	440.4	511.8	497.4	560.0
Office of Inspector General	18.0	11.9	20.6	14.9	26.9
Single-year capital expenditures[3]	6.2	5.0	17.9	13.5	11.0
Multiyear capital projects[4]	31.9	23.4	25.1	12.5	261.2

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

1 During 2011, the Board approved a $0.4 million decrease in the Board's initial operating budget of $475.6 million, a $0.7 million increase in the Board's single-year capital budget, and a $12.2 million increase in the Board's multiyear capital budget.

2 During 2012, the Board approved a $2.2 million increase in the Office of Inspector General's multiyear capital budget.

3 Beginning in 2010, the Board began budgeting and reporting projects that span multiple budget cycles separate from single-year capital projects. Capital, as shown in this report, includes the Board and Office of Inspector General capital budgets and expenses.

4 Budget figures for multiyear capital projects represent annual changes to total project budgets.

Initiatives submitted by divisions and offices for 2013 underwent a different review process than in previous years. To be considered for approval, all budget requests had to be firmly grounded in the strategic framework. Initiatives that clearly supported themes and objectives described in the framework were approved and included in the 2013 budget request, whereas initiatives not identified in the strategic plan were referred back to the division to either self-fund or identify an alternative method of achieving the initiative's objectives. The approved 2013 operating budget includes $14.7 million in new initiatives to support several themes of the strategic framework. 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 for contractual support to implement the data center project identified as an objective under strategic theme 3 (establish a modern, safe work environment).

The Board's 2013 single-year capital budget of $10.8 million is for routine equipment and software replacements. This represents a decrease of $6.3 million from the 2012 single-year capital budget. No initiatives were requested for 2013 that required additional single-year funds. The increase in multiyear capital provides funding for the data center relocation, Martin Building renovation, and human–resources-related automation projects.

Office of Inspector General

For 2013, the Board approved the OIG's $26.9 million operating budget and its $0.2 million single-year capital budget. The operating budget includes amounts to establish regional offices, full-year costs for two new positions authorized in 2013, and overhead costs previously included in the Board's operating expenses.

Authorized Positions

The Board's 2013 budget includes 2,540 authorized positions, representing a 2.9 percent increase over year-end 2012 total authorized positions (table 5). The 2013 initiatives include requests to increase staffing by 72 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 95.8 percent of the total increase, are in the economics divisions, the 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 strategic theme 2 (redesign data governance and management processes to enhance the Board's data environment).

The OIG's 2013 budget includes 115 authorized positions, an increase of 2 positions from the prior year, to address specific needs identified during workforce planning efforts.

Table 5. Positions authorized at the Board of Governors, 2011–13

Item	Position count[1]				
	2011 (budgeted)	2011 (ending)	2012 (budgeted)	2012 (ending)	2013 (budgeted)
Board of Governors[2]	2,331	2,363	2,442	2,468	2,540
Office of Inspector General	85	85	113	113	115

Note: Includes only those divisions, offices, and special accounts that have authorized position counts.

1 Interns are not included in the numbers for positions or employment.

2 The counts (budgeted and ending) for 2011 include positions for cooperative education, worker trainee, and student aide programs that assist divisions Boardwide.

Areas of Risk

The Board faces three main areas of risk in its 2013 budget. The first relates to resource-management and process refinement under its new strategic framework. The Board's strategic framework outlines the associated resource requirements and a budgetary growth target that will guide the Board's financial approach for implementing the strategic themes. Achieving the framework's goals and objectives depends on keeping resources focused on the highest priorities while also increasing operating efficiencies and reducing administrative burden. Management has begun redesigning processes to achieve these objectives. However, establishing a new budgetary paradigm that strengthens financial discipline and creates opportunities for cost reductions will require time and sustained commitment across the organization.

The second area of risk relates to workforce issues. Workforce risks to the 2013 budget remain largely consistent with those identified during the prior year. In particular, the Board's ability to attract and retain qualified staff—both to meet the challenges associated with implementing Dodd-Frank Act requirements and to continue to meet the demands of other 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. Furthermore, divisions and offices will face the challenge of effectively integrating the number of positions approved in the 2013 budget.

The third area of risk relates to maximizing the efficiency and effectiveness of data management at the Board. Over the next few years, significant investments in the Board's data environment will be required. Indeed, significant requests for additional data in support of supervisory activities have been made in previous budget cycles. If data management does not become more efficient and effective, then staff may encounter difficulties in obtaining, interpreting, and analyzing large volumes of data that new supervisory tools will require.

Federal Reserve Bank Budgets

The 2013 operating budgets of the 12 Reserve Banks total $3,688.2 million. The 2013 budget is $226.1 million, or 6.5 percent, above 2012 actual expenses. The growth continues to be driven by increases in central bank functions, primarily in supervision, for portfolio growth, workload demand, national initiatives to improve the function's analytical capabilities, and ongoing support of the Dodd-Frank Act. In addition, the cash function expenses are increasing due to the CashForward automation project, and the monetary policy function is expanding to meet evolving policy and financial stability responsibilities.[9] In Treasury services, expenses are rising due to increased demand from the Treasury. These increases are partially offset by decreases in priced services as a result of continued declines in check volume and improved operational efficiencies in check processing.

Table 6. Operating expenses of the Federal Reserve Banks, net of receipts and claims for reimbursement, 2012 and 2013

Millions of dollars, except as noted

Item	2012 (actual)	2013 (budgeted)	Change	
			Amount	Percent
Total operating expenses	3,462.1	3,688.2	226.1	6.5
Less				
Revenue from priced services	449.8	423.9	-25.9	-5.8
Claims for reimbursement[1]	506.4	539.4	33.0	6.5
Other income	2.2	2.2	-0.1	-2.6
Equals				
Net expenses	**2,503.6**	**2,722.7**	**219.1**	**8.8**

Note: Excludes capital outlays. Includes expenses budgeted by the Federal Reserve Information Technology and Office of Employee Benefits. Expenses from these entities have been charged to the Reserve Banks, as appropriate, and included in their budgets. Components may not sum to totals and may not yield percentages shown because of rounding. Operating expenses reflect redistributions for support costs and allocation of overhead costs.

1 Costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals.

9 CashForward is a cash automation platform that will replace legacy software applications, automate business processes, and employ technologies to meet current and future needs for the cash function.

Table 7. Employment at the Federal Reserve Banks, FRIT, and OEB, 2012 and 2013
Average number of personnel, except as noted

Item	2012 (actual)	2013 (budgeted)	Change	
			Amount	Percent
Reserve Banks	17,056	17,400	344	2.0
Federal Reserve Information Technology (FRIT)	1,196	1,202	6	0.5
Office of Employee Benefits (OEB)	48	53	5	11.1
Total	**18,300**	**18,656**	**356**	**1.9**

Note: Components may not sum to totals and may not yield percentages shown because of rounding. See text note 6 for definition of *average number of personnel*.

Budgeted net expenses for 2013, after revenue and reimbursements, are expected to increase by $219.1 million, or 8.8 percent, over actual 2012 net expenses (table 6). Approximately 26 percent of Reserve Bank expenses in the 2013 budget are offset by either priced service revenues (11.5 percent) or reimbursable claims for services provided to the Treasury and other agencies (14.6 percent).[10] Budgeted 2013 priced services revenue is 5.8 percent lower than the 2012 actual level, reflecting continued declines in check volume as customers shift to other payment methods. Reimbursable claims are expected to increase 6.5 percent in 2013, reflecting increased activity on new or expanded Treasury projects.

Total 2013 projected employment for the Reserve Banks, FRIT, and OEB is 18,656 ANP, an increase of 356 ANP, or 1.9 percent, from the 2012 actual staff level (table 7). Staffing levels in 2013 are projected to increase, primarily driven by supervision and information technology (IT). The supervision function is increasing as resources are added to support portfolio growth, expanded supervisory responsibilities resulting from the implementation of the Dodd-Frank Act, and initiatives to improve the function's analytical capabilities and infrastructure. IT is also a significant driver of increased staffing in order to transition to a consolidated IT services delivery model and to support information security efforts. These increases are offset by a significant decline in check staff with the consolidation of check processing, the implementation of a more efficient check processing platform, and continued volume declines.

From 2003 to 2010, total staffing levels consistently decreased, primarily as a result of the multiyear restructuring efforts in the check-processing function. During this period, staffing reached its lowest level of 17,459 ANP in 2010.

[10] Reimbursable claims include the costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals to whom actual costs are billed and reimbursed by those entities.

Subsequent staffing increases have been primarily driven by two factors: First have been additions—mainly in supervision—spurred initially by the need to address the financial crisis; then beginning in 2011, to implement the Dodd-Frank Act; and most recently, to accommodate portfolio growth. Second has been growth in IT and in monetary policy.

2012 Budget Performance

Total 2012 actual expenses were $3,462.1 million, which represents an increase of $16.0 million, or 0.5 percent, from the approved 2012 budget of $3,446.1 million.[11] Total 2012 actual staffing was 18,300 ANP, an increase of 198 ANP from 2012 budgeted levels of 18,102 ANP.

The 2012 budget overrun is primarily driven by supervision due to accelerated hiring to meet the responsibilities of the Dodd-Frank Act, additional resources required to support portfolio growth and increased workload, and the initiative to implement a new supervisory framework ($24.0 million).

The overrun in monetary policy is driven by increased support cost charges related to IT services, protection, and facilities. Offsetting these increases are lower personnel expenses resulting from hiring delays for staff with specialized skills ($11.1 million).

Treasury services are slightly over budget due to the Treasury's request to expand several existing programs, such as Government-Wide Accounting and Do Not Pay, and to support new programs such as the Post Payment System ($2.6 million).[12] These increases are partially offset by the completion of the Treasury Collateral Management and Monitoring application development project, decline in call volume associated with the Go Direct initiative, and shift in the timing of other initiatives.[13]

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[11] The final 2012 budget of $3,441.3 million was approved by the Board in December 2011. In May 2012, the Board approved an additional $4.8 million for employee equity adjustments.

[12] The Government-Wide Accounting program will streamline and modernize the federal government's central accounting and reporting systems to enable better financial management across the government. The Do Not Pay program was established to reduce the number of improper payments made through major programs administered by the federal government. The Post Payment System will streamline post-payment processes and eliminate redundant functionality by consolidating several existing applications into a single, centralized system.

[13] The Treasury Collateral Management and Monitoring application monitors collateral for the three Treasury Fiscal Service collateral programs: Payment of Federal Taxes and the Treasury Tax and Loan Program, Depositories and Financial Agents of the Federal Government, and the Acceptance of Bonds Secured by Government Obligations in Lieu of Bonds with Sureties. Go Direct supports Treasury's all-electronic initiative requiring that all federal benefit payments be issued electronically by March 1, 2013.

Partially offsetting the overrun are decreased expenses in priced services driven by the continued decrease in check operations (-$8.7 million). Additionally, expenses for services to financial institutions and the public (other than priced services) are under budget primarily due to the refinement of project costs and timing for the CashForward program and lower-than-expected public programs costs resulting from shifts in project timing and use of support services (-$8.2 million).

The overrun in total staffing of 198 ANP, as compared to the budget, reflects staff additions in IT due to an increase in business-line IT projects, support of information security enhancements, and the Reserve Banks' server-consolidation initiative (217 ANP). Additions in priced services are related to greater-than-projected resource requirements necessary for the electronic Check 21 environment and for the FedACH Technology Transition project (36 ANP). The overrun in supervision is due to accelerated staffing to support Dodd-Frank Act responsibilities, portfolio growth, increased workload demand, and the implementation of a new supervisory framework (36 ANP). Offsetting these overruns are decreases in the Treasury services function due to changes in the scope, timing, and alignment of projects (34 ANP) and in cash due to operational efficiencies (24 ANP).

Initiatives Affecting the 2013 Budgets

For 2013, the Reserve Banks' budgets reflect growth of $226.1 million, or 6.5 percent, compared to the 2012 actual in several initiatives, primarily in supervision and monetary policy to address resource needs, and in Treasury services and cash operations to fund modernization efforts. A majority of the growth is driven by costs associated with the projected staff increases to support these initiatives. The growth is slightly offset by reductions in check operations.

Central Bank Services

In the central bank services area, which includes supervision, services to financial institutions and the public (other than priced services), and monetary policy, expenses are increasing $184.4 million, or 7.1 percent, compared to 2012 actual expenses. The staffing level is increasing 253 ANP, or 3.3 percent.

The largest portion of the increase is in the supervision function, which is increasing $89.7 million, or 8.5 percent, with a corresponding projected staffing growth of 179 ANP. This expansion is in response to portfolio growth and expenses in support of infrastructure needs in a growing business function, as well as ongoing support of the Dodd-Frank Act. The expenses of the cash function are increasing $46.3 million, or 8.7 percent, and 23 ANP, driven primarily by continued work on the CashForward project as it enters a major development phase. Slightly offsetting the projected growth are lower cash operation expenses due to continued operational efficiencies.

The total 2013 budget for monetary policy is increasing $39.1 million, or 6.9 percent. Staffing is increasing 37 ANP as several Reserve Banks add resources to meet policy and research demands, as well as to meet expanded responsibilities related to financial stability. Also adding to the expense increase are investments in data and data analytical tools to support policy and research demands.

The increases in central bank services expenses are being partially offset by a decrease of $4.5 million, or 5.3 percent, in expenses related to the loans to depository institutions and others function—primarily at the Federal Reserve Bank of New York—as a result of staffing reductions of 19 ANP and lower professional service fees following the ongoing wind down of the financial stability liquidity facilities created in response to the financial crisis.[14]

Treasury-Related Functions

The budgeted expenses for services to the Treasury, which are fully reimbursable, are increasing $45.4 million, or 9.5 percent, as a result of large growth in work on several Treasury projects. These include the continuation of the Do Not Pay project, the accelerated and expanded Invoice Processing Platform, and the new Payment Information Repository and Financial Information Repository projects.[15] Overall staffing for the Treasury function is budgeted to increase by 38 ANP in support of these initiatives.

Priced Services

Total priced services expenses are declining $3.7 million, or 1.0 percent, from 2012 actual expenses. The major driver is check operation costs, which are decreasing $20.8 million, or 12.7 percent. This decline reflects lower costs associated with the consolidation of check operations to the Federal Reserve

[14] Although most of the liquidity programs have ended, the Federal Reserve Bank of New York continues to incur costs for several liquidity programs, including Maiden Lane, Maiden Lane II, Maiden Lane III, and Term Asset-Backed Securities Loan Facility.

[15] The Invoice Processing Platform is a secure, web-based system that manages the government's invoicing processes. The Payment Information Repository is a central repository for all federal payment transaction data and will be used by Treasury and federal agencies. The Financial Information Repository is a platform that will consolidate federal government financial information from its various business lines and provide summarized, aggregated, and detailed financial information.

Bank of Atlanta and efficiencies from the implementation of the check processing platform modernization initiative. Check staffing levels have a corresponding decrease of 119 ANP, or 24.4 percent, in the 2013 budget. Partially offsetting this decrease is an increase of $10.9 million, or 9.5 percent, for the Fedwire funds and securities services, primarily due to work for the Fedwire Modernization program.[16] Full cost recovery is projected in the aggregate for the priced services in 2013.

Support Services

Support costs are increasing $44.2 million, or 4.1 percent, and 78 ANP. The expense increases are driven primarily by IT ($11.7 million), law enforcement ($8.4 million), and facilities ($7.5 million). IT costs are increasing mainly as a result of application development in support of cash, Treasury, and priced services projects at the Reserve Banks. The increases in law enforcement and facilities are primarily driven by infrastructure improvements and accommodations for staff growth, respectively.

2013 Personnel Expenses

Budgeted Reserve Bank officer and staff salaries and other personnel expenses for 2013 total $2,040.6 million, an increase of $145.1 million, or 7.7 percent, over 2012 actual expenses. The increase reflects costs associated with additional staff and budgeted salary administration, including merit increases, equity adjustments, promotions, and funding for variable pay.

Congress enacted legislation prohibiting statutory pay adjustments for most federal civilian employees beginning in January 2011, and in 2012, extended the freeze through March 27, 2013. Although not required to do so under the legislation, the Reserve Banks complied with the spirit of the civilian federal government salary freeze enacted by Congress and interpreted in subsequent Office of Personnel Management guidance, which permits increases for staff (but not officers) under performance-based compensation systems such as those used by the Reserve Banks. The 2013 Reserve Bank budgets reflect a 3.0 percent merit program, effective January 1 for eligible staff and April 1 for eligible officers and senior professionals ($44.6 million).

The 2013 budgets also include funding for equity adjustments, promotions, and variable pay. Equity adjustments and promotions total $7.3 million for officers and senior professionals and $18.7 million for staff. Funding for vari-

[16] The Fedwire Modernization initiative is a large-scale, multiyear IT project, the goal of which is to transition the applications that support the Fedwire Funds and Fedwire Securities businesses from the legacy mainframe environment to a distributed platform.

able pay programs for officers and staff totals $147.1 million, with incremental funding used to address targeted needs in certain areas.[17]

Risks in the 2013 Budgets

The most significant risks in the 2013 budget are related to staffing. Reserve Banks have identified the attraction and retention of qualified staff as potentially challenging, particularly in locations where the employment market is improving. Most Reserve Banks have aggressive hiring plans, and some Banks may experience difficulty meeting schedules for hiring staff with specialized skills and experience, particularly in supervision and IT.

An additional area of budgetary risk involves large-scale automation programs, which are subject to changes in schedules that could cause significant expense variances in 2013. Treasury requests for additional work could also occur. Moreover, the Federal Reserve Bank of New York will be incurring costs in 2013 related to Treasury's planned issuance of floating-rate notes.

2013 Capital Budgets

The 2013 capital budgets submitted by the Reserve Banks, FRIT, and OEB total $492.1 million, a $5.3 million—or 1.1 percent—decrease from the 2012 actual levels.[18] The capital budgets include funding for projects to support strategies that improve operational efficiencies, enhance services to Bank customers, and ensure a safe and productive work environment. In support of these strategies, the 2013 budgets include three categories of capital initiatives: Reserve Bank automation projects, building and infrastructure, and Treasury initiatives.

The Reserve Banks and FRIT included $236.4 million in funding for major IT initiatives and Reserve Bank automation projects. Multiyear projects currently underway to migrate major applications off the mainframe represent $43.7 million of the 2013 capital budget.[19] Cash services initiatives represent

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17 The 2013 Reserve Bank salary administration budgets reflect no merit or equity funding for officers and senior professionals (and no base-salary changes for presidents) during the first quarter of the year. The Reserve Banks are not authorized to distribute the budgeted 2013 officer merit and equity funds until approved to do so by the chair of the Board's Committee on Federal Reserve Bank Affairs.

18 The 2012 actual capital outlays were $93.3 million over the 2012 budget, primarily due to the Federal Reserve Bank of New York's unbudgeted purchase of the 33 Maiden Lane building in February 2012.

19 The Reserve Bank migration strategy involves moving a majority of applications from the mainframe to alternate processing environments. Projects included in the 2013 budget include the migration of the Fedwire, FedACH, accounting, and statistics/reserves systems.

$79.3 million of the total capital budgets, including $36.3 million for the CashForward project and $21.4 million for cash sensor upgrades. The Reserve Bank server-consolidation effort and related network services account for an additional $9.2 million. The remaining budgets will fund other initiatives, such as data security, scheduled software and equipment upgrades, as well as telecommunications and LAN equipment for renovated or expanded office space.

Building and infrastructure projects represent $207.8 million of the proposed capital budgets. Over half of the total building capital is related to projects in the Federal Reserve Banks of Boston, New York, Chicago, and San Francisco, including new initiatives in Chicago to increase security and in Boston for reclamation of tenant space for the Bank's use. Other significant projects include the acquisition of emergency generators and uninterruptible power supply equipment at several Banks. The remaining outlays in this category will fund other building renovation and refurbishment projects and various facility improvement projects.

The capital budgets also include $47.9 million for reimbursable Treasury initiatives, including support of Treasury Web Application Infrastructure, Treasury E-Services, Government-Wide Accounting, Post Payment System, and various other projects.

Currency Budget

Each year, under authority delegated by the Board, the director of the Division of Reserve Bank Operations and Payment Systems orders new currency from the Treasury's Bureau of Engraving and Printing (BEP). Upon reviewing the order, the BEP estimates printing costs for new currency during the calendar year, which Board staff uses to prepare the annual budget for new currency. Each month, the Board assesses the costs of new currency to each Federal Reserve Bank.

2012 Budget Performance

The cost for new currency during calendar-year 2012 totaled $721.1 million, which represents a decrease of $26.0 million, or 3.5 percent, from the 2012 budget. The decrease is primarily because of a reduction in Federal Reserve note printing and currency transportation costs. In February 2012, the director of the Division of Reserve Bank Operations and Payment Systems modified the fiscal year 2012 print order by increasing the number of current-design $100 notes by 400 million to meet heightened demand and reducing the amount of new-design $100 notes by the same amount. This modification resulted in no change to the total number of notes in the order, but decreased the number of more-expensive new-design $100 notes, thereby reducing expenses by nearly $13 million.[20] Expenses were reduced further when the BEP refunded approximately $6.9 million to the Board as part of the transfer of the currency education program from the BEP to the Board.[21] Additionally, transportation expenses were $13.5 million under budget primarily because the Board did not ship as many new-design $100 notes as it had budgeted.

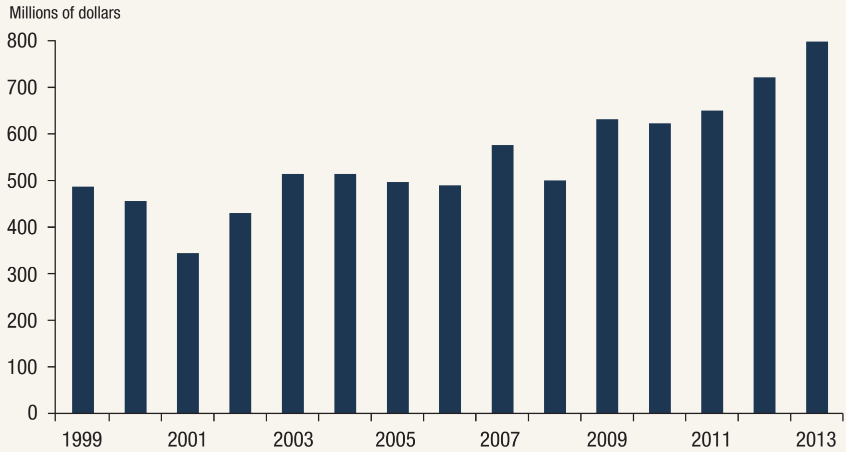
[20] The variable cost of production for the current-design $100 note is $29.04 per thousand notes compared with $60.92 for the new-design $100 note.

[21] The Board assumed responsibility from the BEP for the currency education program on October 1, 2011. However, because the Board operates on a calendar-year basis, it continued to provide funding to the BEP for the currency education program through the end of 2011. The BEP then provided a refund to the Board in 2012 because the BEP did not incur expenses associated with the program during that time.

2013 Budget

The approved 2013 new currency budget of $797.6 million is 10.6 percent higher than 2012 costs (figure 5). Printing costs for Federal Reserve notes comprise about 92 percent of the new currency budget. Expenses for currency transportation, the currency quality assurance (CQA) program, the currency education program (CEP), and counterfeit-deterrence research comprise the remaining 8 percent (table 8).

Figure 5. Federal Reserve costs for new currency, 1999–2013



Note: For 2013, budgeted.

Table 8. Federal Reserve budget for new currency, 2012 and 2013
Thousands of dollars, except as noted

Item	2012 (actual)	2013 (budgeted)	Change	
			Amount	Percent
BEP-related expenses				
Printing Federal Reserve notes	687,705	734,774	47,069	6.8
Other	3,132	3,435	303	9.7
Board expenses				
Currency transportation	17,180	30,697	13,517	78.7
Currency quality assurance	7,260	13,400	6,140	84.6
Currency education program	482	9,512	9,030	1,874.2
Counterfeit-deterrence research	5,316	5,782	466	8.8
Total cost of new currency	**721,074**	**797,600**	**76,525**	**10.6**

BEP Bureau of Engraving and Printing.

Printing of Federal Reserve Notes

The cost for printing the calendar-year 2013 currency order is budgeted at $734.8 million, a 6.8 percent increase over the cost for the 2012 order. The average cost per thousand notes also increased 3.5 percent from $88.73 in 2012 to $91.81 in 2013. The increase is primarily attributable to a higher volume of more-expensive new-design $100 notes included in the 2013 budget compared with 2012. As the country's highest denomination note, the $100 note is a prime target of counterfeiters around the world; the new-design notes are the most expensive of all U.S. notes to produce because they contain new security features to deter counterfeiting.

Currency Transportation

The 2013 currency transportation budget is $30.7 million, which includes the costs of shipping new currency from the BEP's two facilities to the Reserve Banks, of shipping fit and unprocessed currency between Reserve Banks, and of returning currency pallets to the BEP.

The 2013 budget for currency transportation increased nearly 80 percent from 2012 costs. More than 95 percent of the difference between the 2013 budget and 2012 estimate ($13 million) is attributable to costs associated with shipping 2.5 billion new-design $100 notes from the BEP's two facilities to each of the Federal Reserve offices in preparation for issuance.

Currency Quality Assurance Program

The 2013 currency quality assurance program budget is $13.4 million. During 2010, the Board hired a consulting firm to assist with the development and implementation of a comprehensive currency quality assurance program for the BEP. During 2013, the consultants will continue to facilitate the implementation of the new quality system for the BEP, support the new-design $100 note issuance by ensuring the BEP produces a sufficient quantity of notes that meet agreed-upon quality standards, and provide temporary resources to the BEP to sustain critical aspects of the quality system.

Currency Education Program

The 2013 currency education program budget is $9.5 million. The goal of the program is to provide information on the design and security features of Federal Reserve notes to users worldwide. To do that, the program is focused on ensuring that users of U.S. currency know what genuine Federal Reserve notes look like, are aware of the security features in each denomination, and know how to use those security features to distinguish between genuine and counterfeit notes. In addition to these general currency-education-related tasks, in 2013, the currency education program will dedicate significant resources to education efforts in support of the new-design $100 note. Because there are currently more than 8 billion $100 notes in circulation worldwide, the currency education program must reach a diverse global population to ensure a smooth transition to the new design.

Counterfeit-Deterrence Research

The 2013 budget for counterfeit-deterrence research is $5.8 million, which includes costs associated with the Central Bank Counterfeit Deterrence Group and the Reprographic Research Center. The Central Bank Counterfeit Deterrence Group, established by the Governors of the G10 central banks to combat digital counterfeiting, is a consortium of 32 central banks and monetary authorities that issue bank notes. The Board's $5.5 million share of the 2013 Central Bank Counterfeit Deterrence Group budget comprises 95 percent of the Federal Reserve's counterfeit-deterrence budget. The remaining 5 percent reflects additional research toward increasing security features of Federal Reserve notes.

Other Reimbursements to the Bureau of Engraving and Printing

The 2013 budget includes $3.4 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. The Office of Compliance develops Reserve Bank standards for cancellation and destruction of unfit currency and for note accountability, and reviews Reserve Banks' cash operations for compliance with its standards. As a public service, the Mutilated Currency Division processes claims for the redemption of damaged or mutilated currency.

Appendix A

Federal Reserve Budget Processes

The budgets for the Board of Governors, the Federal Reserve Banks, and currency are separate, and each has its own budget process.

Board of Governors

The Board's budget covers one calendar year, and the budget process is as follows:

- The Board's budget is structured by division, office, or special account (see appendix B, table B.1 on page 35).
- The Board establishes a base budget to support current operations.
- Each division identifies new initiatives required to achieve its objectives for the next budget cycle as well as potential savings from its ongoing operations.
- The Board's chief operating officer, chief financial officer, and the Executive Committee of the Board evaluate each new initiative and proposed savings in the context of the Board's strategic framework.
- New initiatives not aligned with the themes identified in the strategic framework require savings offsets.
- Staff submits the proposed budget to the Committee on Board Affairs (CBA) for review.
- The CBA submits the budget to the Board for review and final action.
- Monthly expenses are compared with budgets by division and accounting classification. Variances are analyzed and reported.

The Board's Office of Inspector General (OIG), in keeping with its statutory independence, prepares its proposed budget apart from the Board's budget. The OIG presents its budget directly to the Chairman for action by the Board.

Federal Reserve Banks

The Reserve Banks' budgets cover one calendar year. Annually, each Reserve Bank establishes major operating goals for the coming year, devises strategies for attaining those goals, estimates required resources, and monitors results. The Reserve Banks' budgets are structured by operational area, with support and overhead attributable to each area and charged to that area.

The financial performance of the Reserve Banks are monitored throughout the year by way of a cost-accounting system, the Planning and Control System (PACS). Under PACS, the costs of all Reserve Bank functions are grouped by operational area, and the associated costs of support and overhead are charged to these areas accordingly. Apart from the budget approval process, the Reserve Banks must submit proposals for major capital acquisitions and projects to the Board for further review and approval.

Following is a summary of the Reserve Bank budget process:

- Business area leaders provide budget guidance to the Reserve Banks for the upcoming budget year.
- The Reserve Banks develop early budget projections that incorporate the business leader guidance provided. The budgets are reviewed by senior leadership in the Reserve Banks for consistency with the System direction.
- The Reserve Banks submit preliminary budget information to the Board for review, including documentation to support the budget request.
- Board staff analyzes the Banks' budgets, both individually and in the context of Systemwide initiatives and other Banks' plans.
- The Committee on Federal Reserve Bank Affairs (BAC) reviews the Bank budgets.
- The Reserve Banks make any requested or needed changes to the budgets, and the revised projections are submitted to the Board.
- Staff submits the proposed budgets to the BAC for review and the Board for review and final action.
- Throughout the year, Reserve Bank and Board staff compare actual performance to budgeted projections.

Currency

The currency budget covers one calendar year. On a monthly basis, Board staff monitors payments of currency to and receipts of currency from circulation and the number of unfit notes destroyed at the Reserve Banks. Board staff estimates the number of notes the Board will order from the Bureau of Engraving and Printing (BEP) to meet demand based on monthly monitoring and forecasts of growth rates for payments of currency to circulation and receipts of currency from circulation. Historically, more than 90 percent of the notes that the Board orders each year replace unfit currency that Reserve Banks receive from circulation.

The currency budget process is as follows:

- Each August, based on Board staff's assessment of currency demand, the director of the Division of Reserve Bank Operations and Payment Systems submits a fiscal year print order for currency to the director of the BEP.
- Each December, Board staff estimates expenses for the currency budget, including printing expenses (based on estimated production costs provided by the BEP); certain other BEP costs; and expenses for the currency education program, currency transportation, and counterfeit-deterrence research.
- The BAC reviews the new currency budget.
- Board staff makes any requested or needed changes to the new currency budget and the revised budget is submitted to the Board.
- Staff submits the proposed new currency budget to the BAC for review and to the Board for final action.
- Throughout the year, Board staff compares actual performance to budgeted projections.

Appendix B

Expenses and Employment at the Board of Governors

Table B.1. Operating expenses of the Board of Governors, by division, office, or special account, 2011–13

Millions of dollars

Division, office, or special account	2011 (budgeted)[1]	2011 (actual)	2012 (budgeted)	2012 (actual)	2013 (budgeted)
Board Members	18.7	17.5	24.8	24.8	26.9
Secretary	8.6	8.4	8.9	9.0	9.4
Research and Statistics	57.9	55.5	60.3	58.6	64.3
International Finance	22.0	20.1	22.7	22.3	25.1
Monetary Affairs	23.6	21.5	27.7	26.1	30.9
Office of Financial Stability Policy and Research	2.7	1.8	3.4	3.4	4.9
Bank Supervision and Regulation	75.0	73.8	91.4	92.9	102.6
Consumer and Community Affairs	26.4	23.6	23.4	22.4	24.1
Legal	21.1	18.7	20.3	19.9	22.7
Chief Operating Officer[2]	0.0	0.0	0.0	0.1	3.0
Financial Management[2]	0.0	0.0	0.0	0.0	9.5
Reserve Bank Operations and Payment Systems	32.0	30.0	33.7	33.4	33.9
Staff Director[3]	11.6	10.6	0.0	0.0	0.0
Information Technology	69.0	65.8	78.4	76.1	81.6
Management	107.7	101.6	123.3	118.6	110.8
Data processing income	-28.8	-29.0	-33.8	-35.0	-36.5
Residual retirement	12.9	6.8	10.4	11.2	14.7
Special projects	14.3	13.4	14.8	12.2	17.9
Savings and reallocations	0.0	0.0	0.7	0.0	-1.9
Extraordinary items	0.5	0.3	1.5	1.5	16.0
Total, Board operations	**475.2**	**440.4**	**511.8**	**497.4**	**560.0**
Office of Inspector General	18.0	11.9	20.6	14.9	26.9

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

1 During 2011, the Board approved a \$0.4 million decrease in the Board's initial operating budget of \$475.6 million, a \$0.7 million increase for the Board's single-year capital budget, and a \$12.2 million increase in the Board's multiyear capital budget.

2 Effective October 16, 2012, select office functions, including positions within the Management Division, were reallocated to formally establish the Office of the Chief Operating Officer and the Division of Financial Management.

3 Effective January 1, 2012, the Office of Staff Director was abolished, and office functions were reallocated to other divisions.

Table B.2. Operating expenses of the Board of Governors, by account classification, 2011–13

Millions of dollars

Account classification	2011 (budgeted)[1]	2011 (actual)	2012 (budgeted)	2012 (actual)	2013 (budgeted)
Personnel services					
Salaries	278.1	266.7	294.1	289.4	314.3
Retirement/thrift plans	37.8	35.3	38.4	39.8	43.3
Employee insurance	27.0	21.0	24.6	25.2	28.9
Subtotal, salaries and benefits	343.0	323.0	357.1	354.3	386.5
Goods and services					
Postage and shipping	0.7	0.5	0.8	0.5	0.7
Travel	12.8	14.2	13.4	14.5	14.2
Telecommunications	5.0	4.8	6.9	5.9	7.4
Printing and binding	2.1	1.6	2.3	1.6	2.4
Publications	0.8	0.7	0.6	0.5	0.6
Stationery and supplies	1.6	1.7	1.6	1.7	1.6
Software	10.8	9.3	11.6	10.8	12.1
Furniture and equipment	9.2	7.1	9.0	7.6	9.7
Rentals	8.4	6.6	16.1	14.4	12.8
Books and subscriptions	1.0	0.8	1.1	1.0	1.1
Utilities	4.0	3.9	3.9	3.2	3.9
Repairs and alterations bldg.	3.0	2.5	3.1	2.9	3.0
Repairs and maintenance F&E	2.2	2.2	2.3	2.8	2.9
Contingency processing center	1.3	1.2	1.4	1.2	1.3
Contractual professional services	45.5	37.1	54.7	50.5	71.8
Interest expense	0.0	0.0	0.1	0.0	0.0
Tuition	4.4	3.8	4.6	3.8	4.9
Subsidies and contributions	0.8	0.5	0.8	0.7	0.8
Depreciation/amortization	18.1	19.4	20.5	21.9	24.1
All other[2]	0.4	-0.7	-0.3	-2.3	-1.8
Subtotal, goods and services	132.1	117.4	154.7	143.1	173.5
Total, Board operations	**475.2**	**440.4**	**511.8**	**497.4**	**560.0**
Office of Inspector General	18.0	11.9	20.6	14.9	26.9

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

1 During 2011, the Board approved a $0.4 million decrease in the Board's initial operating budget of $475.6 million, a $0.7 million increase for the Board's single-year capital budget, and a $12.2 million increase in the Board's multiyear capital budget.

2 *All other* includes, among other items, income from outside agencies for data processing services, rental income, and transportation subsidy benefits for employees.

Table B.3. Positions authorized at the Board of Governors, by division, office, or special account, 2011–13

Division, office, or special account	Position count[1]				
	2011 (budgeted)	2011 (ending)	2012 (budgeted)	2012 (ending)	2013 (budgeted)
Board Members	89	90	115	115	115
Secretary	51	53	53	53	53
Research and Statistics	324	325	341	341	353
International Finance	124	124	129	129	136
Monetary Affairs	112	110	120	144	144
Office of Financial Stability Policy and Research	12	14	19	21	34
Bank Supervision and Regulation	328	347	383	383	412
Consumer and Community Affairs	95	99	103	103	103
Legal	94	94	99	99	105
Chief Operating Officer[2]	...	...	...	2	16
Financial Management[2]	...	...	...	...	67
Reserve Bank Operations and Payment Systems	151	154	154	154	156
Staff Director[3]	49	50	...	...	...
Information Technology	369	369	397	397	397
Management[4]	533	534	529	527	449
Total, Board operations	**2,331**	**2,363**	**2,442**	**2,468**	**2,540**
Office of Inspector General	85	85	113	113	115

Note: Includes only those divisions, offices, and special accounts that have authorized position counts.

1 Interns are not included in the numbers for positions or employment.

2 Effective October 16, 2012, select office functions, including positions within the Management Division, were reallocated to formally establish the Office of the Chief Operating Officer and the Division of Financial Management.

3 Effective January 1, 2012, the Office of Staff Director was abolished, and functions of that office were reallocated to other divisions.

4 The counts (budgeted and ending) for 2011 include positions for cooperative education, worker trainee, and student aide programs that assist divisions Boardwide.

... Not applicable.

Appendix C

Expenses and Employment at the Federal Reserve Banks

Table C.1. Operating expenses of the Federal Reserve Banks, by district, 2012 and 2013
Thousands of dollars, except as noted

District	2012 (budgeted)[1]	2012 (actual)	2013 (budgeted)	Percent change	
				2012 actual compared with 2012 budgeted	2013 budgeted compared with 2012 actual
Boston	177,787	180,536	207,175	1.5	14.8
New York	848,775	875,085	896,777	3.1	2.5
Philadelphia	181,466	177,948	198,951	-1.9	11.8
Cleveland	158,730	152,230	158,372	-4.1	4.0
Richmond	342,474	355,672	372,699	3.9	4.8
Atlanta	314,935	306,022	318,710	-2.8	4.1
Chicago	307,724	306,344	326,131	-0.4	6.5
St. Louis	234,700	234,030	258,046	-0.3	10.3
Minneapolis	172,645	173,046	189,561	0.2	9.5
Kansas City	195,327	193,624	214,515	-0.9	10.8
Dallas	207,152	207,758	214,455	0.3	3.2
San Francisco	304,337	299,786	332,772	-1.5	11.0
Total	**3,446,053**	**3,462,081**	**3,688,165**	**0.5**	**6.5**

Note: Excludes capital outlays as well as assessments for the Board of Governors operating expenses, currency costs, the Consumer Financial Protection Bureau, and the Office of Financial Research. Includes expenses budgeted by Federal Reserve Information Technology and the System's Office of Employee Benefits. Reflects all redistributions for support and allocations for overhead. Components may not sum to totals and may not yield percentages shown because of rounding.

1 The final 2012 budget of $3,441,287 thousand was approved by the Board in December 2011. In May 2012, the Board approved an additional $4,767 thousand for employee equity adjustments, which is included in the 2012 budget number above.

Table C.2. Employment at the Federal Reserve Banks, by district, and at FRIT and OEB, 2012 and 2013

Average number of personnel

District	2012 (budgeted)	2012 (actual)	2013 (budgeted)	Amount change	
				2012 actual compared with 2012 budgeted	2013 budgeted compared with 2012 actual
Boston	968	975	1,080	7	105
New York	3,254	3,336	3,326	81	-9
Philadelphia	917	893	944	-24	51
Cleveland	973	979	908	5	-70
Richmond	1,506	1,493	1,541	-14	48
Atlanta	1,593	1,596	1,630	3	34
Chicago	1,425	1,441	1,490	16	49
St. Louis	1,006	1,007	1,066	2	58
Minneapolis	1,109	1,126	1,147	17	21
Kansas City	1,343	1,384	1,430	41	47
Dallas	1,340	1,254	1,239	-85	-16
San Francisco	1,568	1,573	1,599	5	25
Total, all Districts	**17,003**	**17,056**	**17,400**	**53**	**344**
Federal Reserve Information Technology (FRIT)	1,048	1,196	1,202	147	6
Office of Employee Benefits (OEB)	51	48	53	-3	5
Total	**18,102**	**18,300**	**18,656**	**198**	**356**

Note: The term *average number of personnel* (ANP) describes levels and changes in employment. ANP is the average number of employees in terms of full-time positions for the period. For instance, a full-time employee who starts work on July 1 counts as 0.5 ANP for that calendar year; two half-time employees who start on January 1 count as 1 ANP. Components may not sum to totals and may not yield variances shown because of rounding.

Table C.3. Operating expenses of the Federal Reserve Banks, FRIT, and OEB, by operational area, 2012 and 2013

Thousands of dollars, except as noted

Operational area	2012 (budgeted)	2012 (actual)	2013 (budgeted)	Percent change	
				2012 actual compared with 2012 budgeted	2013 budgeted compared with 2012 actual
Monetary and economic policy	552,149	563,260	602,317	2.0	6.9
Services to the U.S. Treasury and other government agencies	474,653	477,269	522,712	0.6	9.5
Services to financial institutions and the public	985,700	977,472	1,033,104	-0.8	5.7
Supervision and regulation	1,032,540	1,056,582	1,146,259	2.3	8.5
Fee-based services to financial institutions	396,244	387,497	383,773	-2.2	-1.0
Total	**3,441,287**	**3,462,081**	**3,688,165**	**0.6**	**6.5**
Salary administration adjustments[1]	4,767				
Revised total	**3,446,054**	**3,462,081**	**3,688,165**	**0.5**	**6.5**

Note: Excludes capital outlays as well as assessments for the Board of Governors operating expenses, currency costs, the Consumer Financial Protection Bureau, and the Office of Financial Research. Includes expenses budgeted by Federal Reserve Information Technology (FRIT) and the Office of Employee Benefits (OEB). Reflects all redistributions for support and allocations for overhead. Components may not sum to totals and may not yield percentages shown because of rounding.

[1] The final 2012 budget of $3,441,287 thousand was approved by the Board in December 2011. In May 2012, the Board approved an additional $4,767 thousand for employee equity adjustments, which is included in the 2012 budget number above.

Table C.4. Employment at the Federal Reserve Banks, and at FRIT and OEB, by operational area, 2012 and 2013

Average number of personnel

Operational area	2012 (budgeted)	2012 (actual)	2013 (budgeted)	Amount change	
				2012 actual compared with 2012 budgeted	2013 budgeted compared with 2012 actual
Monetary and economic policy	1,236	1,223	1,259	-14	37
Services to U.S. Treasury and other government agencies	1,104	1,071	1,108	-34	38
Services to financial institutions and the public	2,625	2,579	2,605	-45	26
Supervision and regulation	3,688	3,725	3,904	37	179
Fee-based services to financial institutions	803	840	720	37	-120
Support and overhead	8,645	8,862	9,059	217	196
Total	**18,102**	**18,300**	**18,656**	**198**	**356**

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

FRIT Federal Reserve Information Technology.

OEB Office of Employee Benefits.

Table C.5. Expenses of the Federal Reserve Banks for salaries of officers and employees, by district, 2012 and 2013

Thousands of dollars, except as noted

District	2012 (budgeted)[1]	2012 (actual)	2013 (budgeted)	Percent change	
				2012 actual compared with 2012 budgeted	2013 budgeted compared with 2012 actual
Boston	93,118	92,868	106,240	-0.3	14.4
New York	393,929	393,188	416,877	-0.2	6.0
Philadelphia	73,466	72,221	80,962	-1.7	12.1
Cleveland	77,834	76,309	78,105	-2.0	2.4
Richmond	124,738	122,999	132,561	-1.4	7.8
Atlanta	136,198	132,584	139,699	-2.7	5.4
Chicago	134,492	131,171	142,332	-2.5	8.5
St. Louis	83,659	80,789	89,085	-3.4	10.3
Minneapolis	81,168	80,366	87,927	-1.0	9.4
Kansas City	98,139	97,064	106,170	-1.1	9.4
Dallas	90,049	86,381	93,895	-4.1	8.7
San Francisco	154,956	153,068	163,183	-1.2	6.6
Total, all Districts	**1,541,744**	**1,519,005**	**1,637,036**	**-1.5**	**7.8**
Federal Reserve Information Technology (FRIT)	103,807	116,062	120,711	11.8	4.0
Office of Employee Benefits (OEB)	6,823	6,387	7,277	-6.4	13.9
Total	**1,652,375**	**1,641,453**	**1,765,024**	**-0.7**	**7.5**

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

1 The final 2012 salaries budget of $1,647,608 thousand was approved by the Board in December 2011. In May 2012, the Board approved an additional $4,767 thousand for employee equity adjustments, which is included in the 2012 budget number above.

Table C.6. Capital outlays of the Federal Reserve Banks, by district, and of FRIT and OEB, 2012 and 2013

Thousands of dollars, except as noted

District	2012 (budgeted)	2012 (actual)	2013 (budgeted)	Percent change	
				2012 actual compared with 2012 budgeted	2013 budgeted compared with 2012 actual
Boston	29,573	20,934	49,710	-29.2	137.5
New York	122,319	263,221	122,460	115.2	-53.5
Philadelphia	15,181	13,370	18,833	-11.9	40.9
Cleveland	14,471	11,711	15,589	-19.1	33.1
Richmond	21,797	16,108	32,146	-26.1	99.6
Atlanta	19,081	16,697	21,874	-12.5	31.0
Chicago	39,384	22,236	49,923	-43.5	124.5
St. Louis	8,378	11,385	8,208	35.9	-27.9
Minneapolis	15,401	17,358	15,624	12.7	-10.0
Kansas City	7,160	5,952	8,458	-16.9	42.1
Dallas	13,385	9,566	15,467	-28.5	61.7
San Francisco	43,393	22,726	53,137	-47.6	133.8
Total, all Districts	**349,523**	**431,263**	**411,431**	**23.4**	**-4.6**
Federal Reserve Information Technology (FRIT)	53,727	65,871	80,510	22.6	22.2
Office of Employee Benefits (OEB)	950	340	200	-64.2	-41.1
Total	**404,200**	**497,474**	**492,141**	**23.1**	**-1.1**

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

Table C.7. Capital outlays of the Federal Reserve Banks, FRIT, and OEB, by asset classification, 2012 and 2013

Thousands of dollars, except as noted

Asset classification	2012 (budgeted)	2012 (actual)[1]	2013 (budgeted)	Percent change	
				2012 actual compared with 2012 budgeted	2013 budgeted compared with 2012 actual
Equipment	88,182	81,009	116,211	-8.1	43.5
Furniture, furnishings, and fixtures	27,198	16,538	23,831	-39.2	44.1
Land and other real estate	430	47,043	814	10,840.2	-98.3
Building	103,677	196,525	130,250	89.6	-33.7
Building machinery and equipment	31,522	31,793	41,563	0.9	30.7
Software	148,475	119,483	176,282	-19.5	47.5
Other[2]	4,715	5,083	3,190	7.8	-37.2
Total	**404,200**	**497,474**	**492,141**	**23.1**	**-1.1**

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

1 The 2012 actual capital outlays were $93,274 thousand over the 2012 budget, primarily due to the Federal Reserve Bank of New York's unbudgeted purchase of the 33 Maiden Lane building in February 2012, which is mainly reflected in the building and land and other real estate asset classes reported above.

2 *Other* includes leasehold improvements and art.

FRIT Federal Reserve Information Technology.

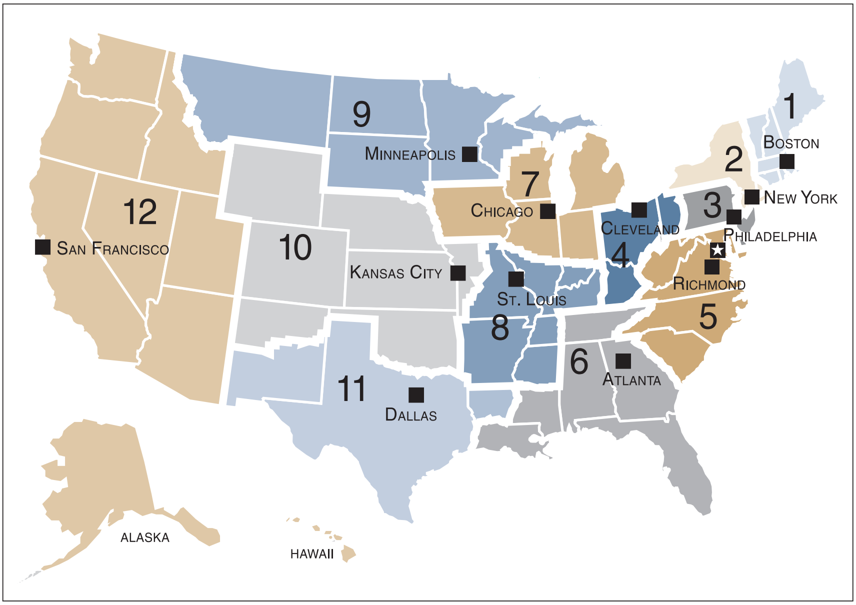
OEB Office of Employee Benefits.

Appendix D

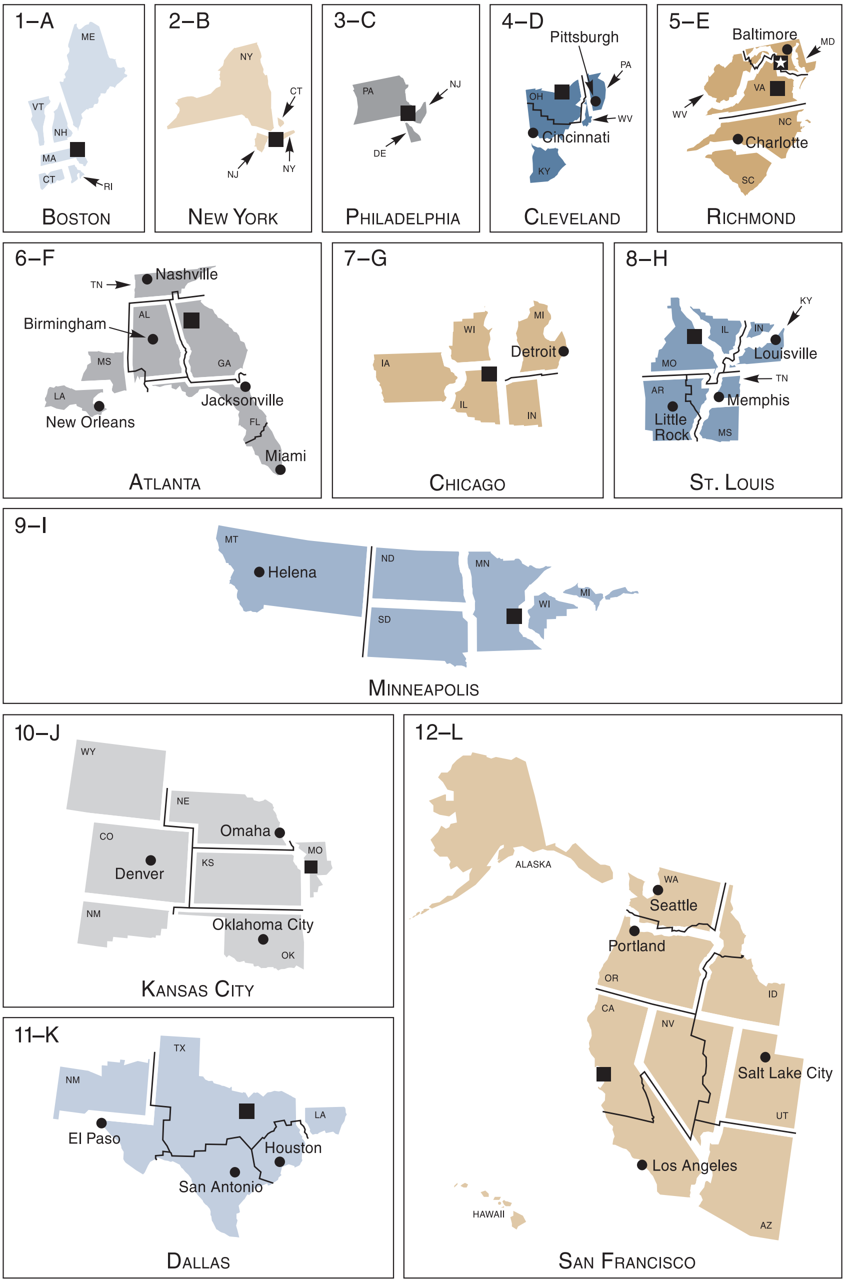
Maps of the Federal Reserve System

Notes

The maps below and on the next page identify Federal Reserve Districts by their official number, city, and letter designations. The maps show the District boundaries as of year-end 2012.



■ Federal Reserve Bank city; ☆ Board of Governors of the Federal Reserve System, Washington, D.C.



■ Federal Reserve Bank city; ● Federal Reserve Branch city; ⛝ Board of Governors of the Federal Reserve System, Washington, D.C.; — Branch boundary

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