Annual Report: Budget Review

2012

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Annual Report: Budget Review

2012

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 Consumer Advisory 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 has numerous, varied responsibilities, including

- conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices;
- supervising and regulating banks and other important financial institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the rights of consumers;

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[1] Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Consumer Advisory Council was dissolved on July 21, 2011, the designated transfer date upon which certain consumer protection functions were transferred from the Board to the Consumer Financial Protection Bureau (CFPB). The act authorized the CFPB to establish a Consumer Advisory Board to advise and consult on the exercise of the bureau's functions.

- maintaining the stability of the financial system and containing systemic risk that may arise in financial markets; and
- providing certain financial services to U.S. financial institutions, the U.S. government, and foreign official institutions.

Summary of 2011 Income and Expenditures

In carrying out its responsibilities in 2011, the Federal Reserve System incurred $3.4 billion in net expenses. Total spending of $4.4 billion was offset by $1.0 billion in revenue from priced services, claims for reimbursement, and other income. Total 2011 expenses were $156.9 million, or 3.5 percent, less than the amount budgeted for 2011 (**table 1**).

Table 1. Total expenses of the Federal Reserve System, 2011
Millions of dollars, except as noted

Item	Budgeted	Actual	Variance	
			Amount	Percent
Reserve Banks	3,351.2	3,261.3	-89.9	-2.7
Board[1]	493.2	452.3	-40.9	-8.3
Currency	676.1	650.0	-26.1	-3.9
Total System expenses	**4,520.5**	**4,363.6**	**-156.9**	**-3.5**

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

1 Includes expenses of the Office of Inspector General (OIG). During 2011, the Board approved a $0.4 million decrease in the Board's initial operating budget of $475.6 million; budgeted figure includes combined Board and OIG operating budgets after the decrease (see table 4 in the "Board of Governors Budgets" section on page 13).

The Reserve Banks' current income in 2011 was $85.2 billion.[2] The major sources of income were interest earnings from the portfolio of U.S. government securities ($45.3 billion) and federal agency mortgage-backed securities (MBS) ($38.3 billion) in the System Open Market Account. Earnings in excess of expenses, dividends, and surplus are transferred to the U.S. Treasury—in 2011, a total of $75.4 billion. (These net earnings are treated as receipts in the U.S. budget accounting system when received and as anticipated earnings projected by the Office of Management and Budget in the *Budget of the United States Government*.)

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 *2011 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*.

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 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 activities undertaken to monitor the stability of financial institutions and financial markets and to develop appropriate policy responses to structural and emerging risks.

During 2011, the economic recovery continued, albeit at an uneven pace. The Federal Open Market Committee (FOMC) held eight regularly scheduled meetings in 2011, plus two additional meetings by videoconference.[3] As part of the Committee's efforts to further enhance the clarity and timeliness of monetary policy communications, regular quarterly press briefings were instituted beginning in April 2011.

To promote continued economic recovery, the FOMC maintained the target range for the federal funds rate at 0 to ¼ percent throughout the year. In June 2011, the Federal Reserve completed its program of purchasing $600 billion in longer-term Treasury securities that was announced in November 2010.[4]

In response to a slowdown in growth over the first part of the year, and to support a stronger economic recovery and help ensure that inflation, over time, is at levels consistent with its dual mandate, the FOMC provided additional monetary policy accommodation during the second half of 2011. In August, the Committee modified its forward rate guidance, noting that economic conditions were likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. In order to put downward pressure on longer-term interest rates and foster more accommodative financial conditions and so provide additional stimulus to support the economic recovery, the FOMC decided at its September meeting to extend the average maturity

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3 FOMC meeting minutes and policy statements are available on the Board's website at www.federalreserve.gov/monetarypolicy/fomccalendars.htm.

4 The program was announced in November 2010; see the November 3, 2010, FOMC statement at www.federalreserve.gov/newsevents/press/monetary/20101103a.htm.

of its Treasury holdings. In particular, the Committee announced it would purchase, by the end of June 2012, $400 billion of Treasury securities with remaining maturities of 6 years to 30 years and sell an equal amount of Treasury securities with remaining maturities of 3 years or less. In addition, in order to help support conditions in mortgage markets, the Committee decided in September to reinvest principal payments from its holdings of agency debt and agency MBS in agency MBS, rather than in Treasury securities.

In November, against a backdrop of increased pressures in global money markets, the Federal Reserve, along with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank, agreed to lower the pricing on their existing temporary U.S. dollar liquidity swap arrangements and to extend the authorization of these swap arrangements through early 2013. As a contingency measure, the central banks also agreed to establish temporary bilateral liquidity swap arrangements so that liquidity could be provided in each jurisdiction in any of their currencies, should market conditions warrant. These actions were taken to ease strains in financial markets and thereby mitigate the effects of such strains on the supply of credit to households and businesses and so help foster economic activity.

Meanwhile, the Board and the FOMC continued to develop the tools, including reverse repurchase agreements with a range of counterparties and a new term deposit facility, that will allow the Federal Reserve to reduce the supply of reserve balances, if needed, when it becomes appropriate to begin removing monetary policy accommodation. Tests of both reverse repurchase agreements and the term deposit facility were conducted over the course of 2011 to ensure the effectiveness of the tools and to provide eligible institutions with an opportunity to gain familiarity with the procedures.

The Board and the FOMC base their monetary policy decisions on high-quality research and thorough analysis of economic and financial data. A vast amount of banking and financial data 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 at the Reserve 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 by preparing detailed economic and financial analyses and projections for the domestic economy and international markets. The Board and the FOMC use these analyses and projections in establishing the appropriate stance for monetary policy. Staff members also conduct longer-run economic studies on regional, national, and international issues.

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 works closely with other groups throughout the System to monitor financial institutions, markets, and infrastructure; assess potential risks; and develop appropriate policy responses. It also helps develop and evaluate alternative approaches to implementing macroprudential regulations and works with bank supervisory committees on a variety of issues, such as developing quantitative loss models and alternative scenarios to serve as the basis for stress tests. 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.

Supervision and Regulation of Financial Institutions

The Federal Reserve plays a major role in the supervision and regulation of banks, bank holding companies (BHCs), and savings and loan holding companies (SLHCs).[5] The Board's supervisory responsibilities extend to the foreign operations of U.S. banks and, under the International Banking Act, to the U.S. operations of foreign banks. The Board also develops regulations to carry out statutory directives, and establishes System supervisory and regulatory policies.

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 2011, the Federal Reserve conducted 507 examinations of state member banks (some of them jointly with state agencies), 642 inspections of large BHCs, and 3,160 inspections of small, noncomplex BHCs; it acted on 1,457 proposals, representing 2,078 individual applications involving BHC formations and acquisitions, bank mergers, and other transactions. The Federal Reserve, in coordination with appropriate state regulatory authorities, conducted or participated in 379 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, 2010, to June 30, 2011, the System conducted 279 consumer compli-

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5 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.

ance examinations of its 835 state member banks and two foreign banking organizations.[6] During this period, the System also conducted 250 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 2011, the Reserve Banks distributed approximately $734.3 billion in currency and $6.5 billion in coin to depository institutions. The Reserve Banks also received approximately $642.0 billion in currency and $5.9 billion in coin from depository institutions, and they destroyed $81.9 billion in unfit currency. In 2011, the Board paid $650.0 million for currency-related expenses.

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 2011, the Banks collected approximately 6.8 billion commercial checks, with a total value of about $9.9 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 2011, the Reserve Banks processed approximately 11.7 billion ACH transactions, valued at about $22.3 trillion. Approximately 11 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

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[6] 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.

2011, the Reserve Banks processed approximately 127 million Fedwire funds transfers, valued at more than $663.8 trillion.

The Reserve Banks' National Settlement Service allows participants in private clearing arrangements to settle transactions through their Federal Reserve accounts. In 2011, 16 local and national private arrangements, primarily check clearinghouse associations, used the National Settlement Service. The Reserve Banks processed more than 571,300 settlement entries for these arrangements, with a debit value of more than $15.7 trillion in 2011.

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 2011, participants originated 19.2 million transfers, valued at more than $296.7 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 reimbursed the Reserve Banks for the costs of providing fiscal agency and depository services. In 2011, reimbursable expenses amounted to $484.2 million.

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 2011, the Reserve Banks conducted 269 Treasury securities auctions and processed nearly 11.1 million Treasury securities transfers. The Reserve Banks also printed and mailed more than 7.9 million savings bonds.[7] 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 2011, the Reserve Banks processed 1.3 billion government ACH

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7 As part of the Treasury's all-electronic initiative, the agency eliminated the paper savings bonds payroll program in 2010. The number of savings bonds printed and mailed by the Reserve Banks in 2011 decreased by 8.1 million, or 50.6 percent. As of January 1, 2012, paper savings bonds are no longer sold at financial institutions.

payments and 159 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 2011, 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 2012 are budgeted at $4,720.7 million, an increase of 8.2 percent from 2011 actual expenses. Of this total, $3,441.3 million is for the Reserve Banks, $532.4 million is for the Board and the Office of Inspector General (OIG), and $747.0 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 $436.8 million, or 9.3 percent of total budgeted expenses. This revenue, combined with claims for reimbursement and other income, results in the recovery of approximately 20 percent of the System's budgeted 2012 expenses.[8] When these items are deducted from budgeted expenses, 2012 net expenses for the System are 11.4 percent higher than 2011 net expenses (table 2).

Table 2. Total expenses of the Federal Reserve System, net of receipts and claims for reimbursement, 2010–12

Millions of dollars, except as noted

Item	2010 (actual)	2011 (actual)	2012 (budgeted)	Percent change	
				2010 to 2011	2011 to 2012
Total System expenses[1]	4,243.3	4,363.6	4,720.7	2.8	8.2
Less					
Revenue from priced services	574.7	478.6	436.8	-16.7	-8.7
Claims for reimbursement[2]	456.4	485.3	497.6	6.3	2.5
Other income	1.5	1.6	2.2	6.7	37.5
Equals					
Net System expenses	**3,210.7**	**3,398.1**	**3,784.1**	**5.8**	**11.4**

Note: Components may not sum to totals and may not yield percentages shown because of rounding. Total expenses reflect all redistributions for support and overhead and exclude capital outlays.

1 Includes expenses of the Office of Inspector General.

2 Reimbursable claims include 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 billed and reimbursed by those entities.

8 *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 billed and reimbursed by those entities. *Other income* is the fee that depository institutions pay for the settlement component of the Fedwire Security Service transactions. In addition, a further portion of the System's expenses since July 21, 2011, related to carrying out supervisory and regulatory responsibilities for large financial institutions will be recouped in accordance with the Dodd-Frank Act.

Table 3. Expenses of the Federal Reserve System for operations and currency, 2010–12
Millions of dollars, except as noted

Item	2010 (actual)	2011 (actual)	2012 (budgeted)	Percent change	
				2010 to 2011	2011 to 2012
Reserve Banks[1]	3,183.0	3,261.3	3,441.3	2.5	5.5
Personnel	2,211.8	2,317.2	2,454.7	4.8	5.9
Nonpersonnel	971.2	944.1	986.6	-2.8	4.5
Board of Governors[2]	437.4	452.3	532.4	3.4	17.7
Personnel	325.0	333.1	373.1	2.5	12.0
Nonpersonnel	112.4	119.2	159.3	6.0	33.6
Currency[3]	622.9	650.0	747.0	4.4	14.9
Total System expenses	**4,243.3**	**4,363.6**	**4,720.7**	**2.8**	**8.2**

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

1 Excludes capital outlays and pension expenses 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 that are chargeable to the Reserve Banks. Reflects all redistributions for support and allocations for overhead. For detailed information on Reserve Bank expenses, see the "Federal Reserve Bank Budgets" section on page 19.

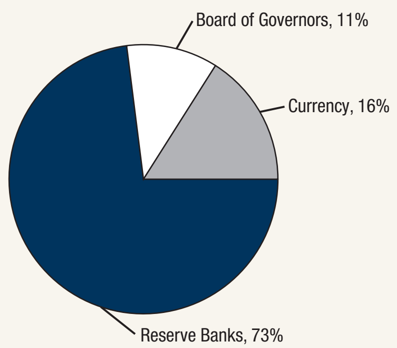
2 Includes expenses of the Office of Inspector General. See also the "Board of Governors Budgets" section on page 13.

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

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**).

System employment is budgeted at 20,544 for 2012, an increase of 528 from the 2011 level, primarily due to planned staff additions needed to implement requirements under the Dodd-Frank Act.[9]

Figure 1. Distribution of budgeted expenses of the Federal Reserve System, 2012

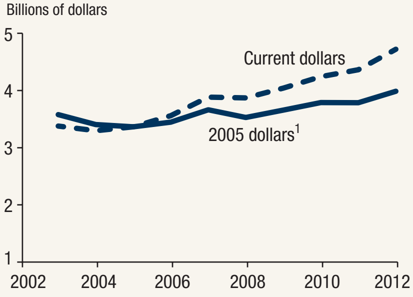


9 Employment numbers stated include position counts for the Board and average number of personnel (ANP) for the Reserve Banks. ANP is the average number of employees expressed in terms of full-time positions for the period. For instance, a full-time employee who works one-half of the year counts as 0.5 ANP for that calendar year; two half-time employees who work the full year count as 1 ANP.

2012 System Budget Initiatives

The Federal Reserve System budget is funding increases for several initiatives, specifically in supervision to promote financial stability and to continue to implement the Dodd-Frank Act, as well as in support of application development projects for Treasury and financial services. The major factors affecting the 2012 Board and Reserve Bank budgets are outlined in more detail in the "Board of Governors Budgets" section on page 13 and "Federal Reserve Bank Budgets" section on page 19, respectively.

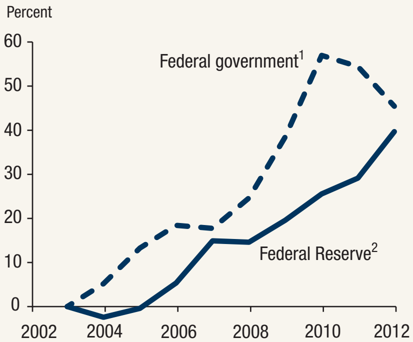
Figure 2. Total expenses of the Federal Reserve System, 2003–12



Note: For 2012, 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, 2003–12



Note: For 2012, 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.

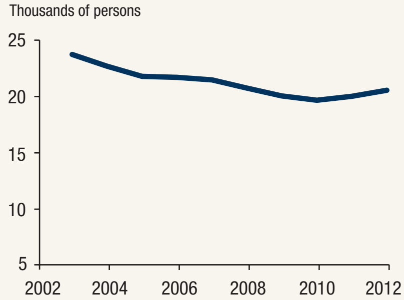
[2] Includes expenses of the Office of Inspector General.

Trends in Expenses and Employment

From the actual 2003 level to the budgeted 2012 amount, the total expenses of the Federal Reserve System have increased an average of 3.8 percent per year (1.2 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 4.2 percent per year (**figure 3**). Over the 2003–2012 period, Federal Reserve System employment has decreased by 3,183 (**figure 4**).

The most recent budgets reflect increases for resources to address requirements under the Dodd-Frank Act. In addition, budgets also included funding to address the financial market turmoil and deteriorating economic conditions. Reserve Bank expenses associated with these programs peaked in 2010 and have since declined, as liquidity

Figure 4. Employment in the Federal Reserve System, 2003–12



Note: For 2012, budgeted. Employment numbers presented include position counts for the Board and average number of personnel for the Reserve Banks.

programs wind down.[10] 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.

2012 Capital Budgets

The capital budgets for the Reserve Banks and the Board total $444.9 million, with $404.2 million budgeted for the Reserve Banks, Federal Reserve Information Technology (FRIT), and Office of Employee Benefits (OEB) and $40.7 million budgeted for the Board and the OIG. As in previous years, the 2012 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.

[10] Expenses associated with the remaining programs will continue to diminish, but this decrease will be dependent on continued activity, especially for the Maiden Lane facilities. In addition, the higher expenses reflect an increase in activities related to assessing value and margining collateral pledged to the Reserve Banks and steps that the New York Bank, in particular, took structurally to manage its risk more effectively. These expenses are not likely to decrease over time and reflect additional ongoing activities.

Board of Governors Budgets

The Board of Governors operates under a one-year budget. The budget for 2012 was approved in December 2011.

2012 Budgets

Board of Governors

For 2012, the Board approved a $511.8 million operating budget, a $17.1 million single-year capital budget, and a $22.8 million increase to the multiyear capital projects budget (**table 4**). The operating budget, including new initiatives and savings, represents a 7.7 percent increase over the 2011 operating plan.

The operating budget includes amounts to fund the Board's ongoing operations (the current services budget) as well as new initiatives. Increases to the current services budget include additional rental expenses, which reflect a full year of lease costs for additional office space to address staff growth, as well as increases for contractual professional services to fund several internal stra-

Table 4. Operating expenses and capital expenditures of the Board of Governors, 2010–12

Millions of dollars, except as noted

Item	2010 (budgeted)	2010 (actual)	2011[1] (budgeted)	2011 (actual)	2012 (budgeted)
Board of Governors	431.8	426.8	475.2	440.4	511.8
Office of Inspector General	19.2	10.6	18.0	11.9	20.6
Single-year capital expenditures[2]	8.4	8.2	6.2	5.0	17.9
Multiyear capital projects[3]	16.5	5.2	31.9	23.4	22.8

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

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

tegic projects, such as implementing recommendations arising from the 2010 organizational assessment of the Human Resources function. These increases are partially offset by decreases in contractual professional services for rulemaking in the Division of Consumer and Community Affairs and in outside counsel support for the Legal Division, as well as a decrease in budgeted benefit costs resulting from a change in the methodology for determining the liability for long-term disability.

New initiatives in the Board's 2012 operating budget address such areas as implementation of Dodd-Frank Act requirements, office space needs, technology projects, data requirements, staffing requests to meet increased work demands, and infrastructure support. The approved 2012 operating budget includes $24.6 million in new initiatives, partly offset by $0.3 million in savings from printing changes. Over half of the costs for initiatives are for personnel expenses for new positions. Approximately $7.3 million, or 30.0 percent, of the total initiatives is related to the increased responsibilities associated with the Dodd-Frank Act.

The increase in single-year capital provides funding for several technology initiatives. The increase in multiyear capital provides funding for space requirements and infrastructure-related projects.

Office of Inspector General

In keeping with its statutory independence, the OIG prepares its proposed budget apart from the Board's budget. For 2012, the Board approved the OIG's $20.6 million operating budget, $0.8 million single-year capital budget, and a $0.1 million increase to the multiyear capital budget. The operating budget represents a 14.2 percent increase over the 2011 operating plan. The operating increase is primarily driven by personnel services growth needed to effectively conduct legislatively mandated and discretionary audits, investigations, inspections, and other reviews of Board and Consumer Financial Protection Bureau (CFPB) programs and activities.[11] Offsetting this increase is a decrease in contractual professional services of $1.8 million due to an anticipated reduction in material loss reviews.

Authorized Positions

The Board's 2012 budget includes 2,442 authorized positions, representing a 3.3 percent increase over year-end 2011 total authorized positions (**table 5**).

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[11] Title X of the Dodd-Frank Act established the CFPB, which regulates consumer financial products and services in compliance with federal law. The new bureau, which began operating in July 2011, is an autonomous entity within the Federal Reserve System, and operates independently of the Board and other federal agencies. The Dodd-Frank Act designates the Board's OIG as the OIG for the CFPB.

Table 5. Positions authorized at the Board of Governors, 2010–12

Item	Position count[1]				
	2010 (budgeted)	2010 (ending)	2011 (budgeted)	2011 (ending)	2012 (budgeted)
Board of Governors[2]	2,190	2,210	2,331	2,363	2,442
Office of Inspector General	61	65	85	85	113

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 2010 and 2011 include positions for cooperative education, worker trainee, and student aide programs that assist divisions Boardwide.

The 2012 initiatives include requests to increase staffing by 112 positions. Fifty-nine of the requested positions, representing 52.7 percent of the total increase, are needed to implement requirements of the Dodd-Frank Act. Thirty of the requested positions, representing 26.8 percent of the total increase, are to address workload demands in the Division of Banking Supervision and Regulation and the Board's research divisions related (either directly or indirectly) to the financial crisis or financial stability. The remaining positions address increased workload or infrastructure support requirements across several other divisions and offices.

The OIG's 2012 budget includes 113 authorized positions, an increase of 28 positions from the prior year, to conduct the activities mentioned above.

Areas of Risk

Risks to the budget for the coming year remain largely consistent with those recognized during the prior year. In particular, the Board's ability to attract and retain qualified staff to meet the challenges created by passage of the Dodd-Frank Act, in addition to other ongoing work requirements, remains a concern. 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, the Board will need to fill a large number of positions in a short time, and projected growth by other federal financial regulators and CFPB will require the Board to act quickly to compete for and recruit the most qualified applicants. Work-life balance will also remain an issue for staff who continue to work long hours dealing with the aftermath of the financial crisis and added requirements of the financial reform legislation.

2011 Budget Performance

Board of Governors

The Board ended 2011 with expenses that totaled less than its operating plan by $34.8 million.[12] All divisions, offices, and special accounts ended the year with expenses less than their respective operating plans. The Board's capital spending for 2011 single-year capital was also less than its operating plan, and multiyear capital projects remained within their project life budgets.[13]

Expenses for salaries and benefits were $20.0 million, or 5.8 percent, less than the operating plan, mainly attributable to the following factors:

- Actual payout of accrued annual leave was less than expected.
- Divisions and offices took longer than expected to fill vacancies.
- The methodology for determining the liability for long-term disability changed.

Expenses for goods and services were $14.7 million, or 11.1 percent, less than the operating plan; the underrun was primarily in contractual professional services due to reduced usage of temporary help by divisions, fewer-than-expected executive searches, and the timing of compensation surveys/projects. Furthermore, spending for the Reserve Banks' financial statement audit was less than budgeted. Furniture and equipment and repairs and alterations were both under budget because of revised timelines for various build-out projects.

The Board's 2011 single-year capital purchases totaled less than the operating plan by $1.2 million. The Board encountered certain project delays, causing some projects to fall below budget expectations. As of year-end 2011, budgets for multiyear capital projects for the Board and the OIG totaled $70.6 and $0.4 million, respectively. Spending on these projects to-date totaled $35.7 and $0.4 million for the Board and the OIG, respectively. All multiyear capital projects are still in process and are expected to be completed within their budgeted amounts.

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[12] During 2011, the Board approved a $0.4 million, or 0.1 percent, decrease in the Board's operating budget as part of the midyear adjustments.

[13] During 2011, the Board approved a $0.7 million, or 12.6 percent, increase in the 2011 single-year capital budget and a $12.2 million increase in multiyear capital projects.

Office of Inspector General

The OIG's operating expenses for 2011 totaled $11.9 million, or $6.1 million less than the $18.0 million operating budget. Expenses for salaries and benefits were $10.1 million, or 19.2 percent less than the operating plan as a result of higher-than-anticipated attrition and slower-than-anticipated hiring as the OIG sought well-qualified candidates. Expenses for goods and services were $1.8 million, or 67.2 percent less than the operating plan; underrun was primarily in contractual professional services due to the raised threshold for when OIG must conduct material loss review of failed state member banks and the lower-than-anticipated number of bank failures. In addition, lower-than-anticipated staffing, along with the fewer number of failed banks, resulted in lower travel expenses, training expenditures, and furniture purchases.

Federal Reserve Bank Budgets

The 2012 operating budgets of the 12 Reserve Banks total $3,441.3 million. The 2012 total is $180.0 million, or 5.5 percent, above 2011 actual expenses. The growth is driven by increases in central bank functions, specifically in supervision, which represents 30 percent of total expenses. The implementation of the Dodd-Frank Act continues to be a significant factor in budget growth. These increases are partially offset by decreases in priced services as a result of continued declines in check volume and a reduction in vendor fees and staffing related to the winding down or closing of the liquidity facilities at the Federal Reserve Bank of New York.[14]

Budgeted net expenses for 2012, after revenue and reimbursements, are expected to increase by $208.9 million, or 9.1 percent, over actual 2011 net expenses (**table 6**). Approximately 27 percent of Reserve Bank expenses in the

Table 6. Operating expenses of the Federal Reserve Banks, net of receipts and claims for reimbursement, 2011 and 2012

Millions of dollars, except as noted

Item	2011 (actual)	2012 (budgeted)	Change	
			Amount	Percent
Total operating expenses	3,261.3	3,441.3	180.0	5.5
Less				
Revenue from priced services	478.6	436.8	-41.8	-8.7
Claims for reimbursement[1]	485.3	497.6	12.3	2.5
Other income	1.6	2.2	0.6	37.5
Equals				
Net expenses	**2,295.8**	**2,504.7**	**208.9**	**9.1**

Note: Excludes capital outlays and pension expenses 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 that are chargeable to the Reserve Banks. 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 Reimbursable claims include 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 billed and reimbursed by those entities.

14 Although most of the liquidity programs have ended, the Federal Reserve Bank of New York continues to support several liquidity programs, including Maiden Lane, Maiden Lane II, Maiden Lane III, and the Term Asset-Backed Securities Loan Facility (TALF).

Table 7. Employment at the Federal Reserve Banks, FRIT, and OEB, 2011 and 2012
Average number of personnel, except as noted

Item	2011 (actual)	2012 (budgeted)	Change	
			Amount	Percent
Reserve Banks	16,535	17,003	468	2.8
Federal Reserve Information Technology (FRIT)	1,072	1,048	-23	-2.2
Office of Employee Benefits (OEB)	47	51	4	8.6
Total	**17,653**	**18,102**	**449**	**2.5**

Note: Components may not sum to totals and may not yield percentages shown because of rounding. See text note 9 for definition of *average number of personnel*.

2012 budget are offset by priced service revenues (12.7 percent) and reimbursable claims for services provided to the Treasury and other agencies (14.5 percent).[15] Budgeted 2012 priced services revenue is 8.7 percent lower than the 2011 actual level, reflecting continued declines in check volume as customers shift to other payment methods. Reimbursable claims are projected to remain fairly stable in 2012.

Total 2012 projected employment for the Reserve Banks, FRIT, and the OEB is 18,102 ANP, an increase of 449 ANP, or 2.5 percent, from the 2011 actual staff level (**table 7**). Staffing levels in 2012 are projected to increase as supervision resources are added in all Districts. From 2002 to 2010, total staffing levels consistently decreased, primarily as a result of multiyear restructuring efforts in the check-processing function. During that period, staffing reached its lowest level of 17,459 ANP in 2010. Subsequent staffing increases have been primarily driven by (1) additional resources—mainly in supervision—spurred initially by the need to address the financial crisis, then beginning in 2011, to implement the Dodd-Frank Act and (2) growth in monetary policy and information technology.

2011 Budget Performance

Total 2011 actual expenses were $3,261.3 million, a decrease of $89.9 million, or 2.7 percent, from the approved 2011 budget of $3,351.2 million. Total 2011 actual staffing was 17,653 ANP, a decrease of 326 ANP from 2011 budgeted levels of 17,979 ANP.

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15 Reimbursable claims include 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 billed and reimbursed by those entities.

The expense decrease is driven by the faster-than-projected decline in the volume of check and adjustment items (-$20.7 million). Another significant factor contributing to the underrun is lower-than-budgeted expenses in supervision, primarily caused by hiring delays for staff with specialized skills and higher-than-anticipated turnover (-$16.8 million). The research function also experienced hiring delays that resulted in lower-than-planned expenses (-$9.2 million).

Also contributing to the underrun are lower expenses associated with loans to depository institutions and others, which resulted from lower loan volume; in turn, the lower volume resulted in decreasing vendor costs, dedicated staff, and operating expenses for the Maiden Lanes, TALF facilities, and the American International Group, Inc. credit facility (-$14.8 million).

Additionally, the cash function is under budget due to greater-than-anticipated productivity and efficiency gains from the implementation of machine upgrades. As a result, several Reserve Bank cash functions reduced the number of machine shifts and experienced lower equipment repair and maintenance costs (-$12.3 million).

Treasury services are under budget as a result of a net underrun across various programs (-$12.0 million). The primary drivers of the underrun are the decision by the Treasury to cancel the planned expansion of the Stored Value Card program, accelerated consolidation of Treasury Retail Securities operations, and decommissioning of other programs. These decreases are partially offset by the implementation of new projects, such as the Do Not Pay Portal (formerly known as GOVerify).[16]

The underrun in total staffing of 326 ANP, as compared to the approved budget, reflects a decrease of 162 ANP within central bank services, primarily due to hiring delays in supervision (58 ANP), operational efficiencies in cash (37 ANP), and lower resource requirements in the loans to depository institutions and others function (33 ANP). Additionally, there were significant decreases in local support functions' staffing as operations are streamlined and consolidated (103 ANP). Treasury services are below budget by 97 ANP, primarily due to acceleration of the Treasury Retail Securities operations consolidation. Reductions in check operations (specifically check adjustments) to align resources to changing external and internal factors further contributed to the underrun (68 ANP). Offsetting these underruns is increased staffing at FRIT, primarily to support the System's server-consolidation initiative (106 ANP).

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[16] The Do Not Pay Portal is a project in which the Federal Reserve Bank of Kansas City is developing a data repository portal for the Bureau of Public Debt that will allow federal program agencies to verify the propriety of federal payments before they are disbursed.

Initiatives Affecting the 2012 Budgets

For 2012, the Reserve Banks' budgets reflect growth of $180.0 million, or 5.5 percent, compared to 2011 actual in several initiatives, primarily for financial stability and enhanced resiliency, implementation of the Dodd-Frank Act, and application development projects for Treasury and financial services. The majority of the growth is driven by costs associated with the projected staff increases.

Central Bank Services

In the central bank area, which includes monetary policy, public programs, supervision, and services to financial institutions and the public (other than priced services), expenses are increasing $166.5 million, or 6.9 percent, compared to 2011 actual expenses. The staffing level is increasing 384 ANP, or 5.4 percent.

The majority of the expense increase is in the supervision function, which is increasing $115.1 million, or 12.5 percent, for additional staffing to implement the requirements of the Dodd-Frank Act, as well as to address training initiatives and increased workload (349 ANP).

The total 2012 budget for monetary policy is increasing $19.8 million, or 3.7 percent, which reflects a staffing increase of 57 ANP. The monetary policy increases are primarily due to the full-year effect of 2011 staff additions for financial stability work, including work related to the Dodd-Frank Act, as well as investments in data and data analytical tools and support for improved capabilities for MBS sales.

Expenses in cash operations are increasing $22.6 million, or 4.4 percent, as work continues on the CashForward project.[17] Although expenses are increasing for national project investments, cash operations are decreasing 20 ANP as a result of continued operational efficiencies.

The increases in central bank services expenses are being partially offset by a decrease of $4.5 million, or 5.0 percent, in expenses related to the loans to depository institutions and others function, primarily in New York, as a result of lower vendor fees and staffing reductions of eight ANP as the liquidity facilities created during the financial crisis continue to wind down.

[17] 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 business.

Treasury-Related Functions

The budget for services to the Treasury, which are fully reimbursable, is increasing $15.5 million, or 3.4 percent, as a result of business requirements associated with ongoing Treasury projects, including the Do Not Pay Portal, the All-Electronic Treasury Initiative, and the Payment Information Repository.[18] These expense increases are being offset largely by cost decreases related to the consolidation of the Treasury Retail Securities operation. Overall staffing for the Treasury function is budgeted to decrease by 10 ANP.

Priced Services

Total priced services expenses are declining $2.1 million, or 0.5 percent, driven by the decrease in check operations. Check expenses are decreasing $24.9 million, or 12.5 percent, reflecting lower costs associated with declining check volume as well as continued operational efficiencies and lower information technology support costs. Check staffing levels are decreasing 121 ANP, or 20.9 percent, in the 2012 budget as a result of these actions. This decrease is partially offset by the increase of $17.0 million for the Fedwire Funds and Fedwire Securities services, primarily due to work related to the Fedwire Modernization program.[19] Full cost recovery is projected in the aggregate for the priced services in 2012.[20]

Support Services

Support costs are increasing $19.2 million, or 1.9 percent, and 79 ANP. The expense increases are driven primarily by information technology ($8.0 million) and legal ($5.2 million). Information technology costs are increasing mainly as a result of application development in support of cash, Treasury, and priced services projects at the Reserve Banks. The increase in legal is primarily driven by the shift of resources back to core business from the focus on the liquidity facilities and the expansion of work related to the Dodd-Frank Act.

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[18] The All-Electronic Treasury Initiative implements the requirement for all federal payments to be made electronically and eliminates paper payroll savings bonds.

[19] The Fedwire Modernization initiative is a large-scale multiyear information technology 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.

[20] The Monetary Control Act of 1980 requires the Federal Reserve to charge depository institutions for certain payment services. The fees charged for providing these priced services are set to recover, over the long run, all direct and indirect costs of providing the services, plus an imputation of the costs that would have been incurred, such as taxes that would have been paid, and the profits that would have been earned (return on equity) had the priced services been provided by a private business firm.

2012 Personnel Expenses

In December 2010, Congress enacted legislation prohibiting statutory pay adjustments for most federal civilian employees for a two-year period ending December 31, 2012. Although not required to do so under the legislation, the Federal Reserve complied with the spirit of the civilian federal government salary freeze enacted by Congress and interpreted in subsequent Office of Personnel Management (OPM) guidance, which permits increases for staff under performance-based compensation systems such as those used by the Reserve Banks. Therefore, the 2012 Reserve Bank budgets reflect a 2.0 percent program for merit and equity adjustments for eligible staff; the budgets provide no funding for increases in officer and senior professional base salaries, other than funding for promotions.

Budgeted Reserve Bank officer and staff salaries and other personnel expenses for 2012 total $1,877.1 million, an increase of $112.6 million, or 6.4 percent, compared with 2011 actual expenses. The increase reflects additional staff and budgeted salary administration programs, including merit and equity increases, promotions, and variable pay. Funding for employee base-salary administration programs totals $35.1 million; merit and equity pools for employees total $23.8 million; and funding for employee promotions totals $11.3 million. The budget also includes $2.6 million for officer promotions.

Risks in the 2012 Budgets

The most significant 2012 budget risks are related to staffing. Attracting qualified staff and hiring as scheduled was challenging during 2011 and is expected to remain so in 2012. Many Reserve Banks have aggressive hiring plans, particularly in supervision, to address current banking conditions and to meet the responsibilities mandated by the Dodd-Frank Act. Increases in market demand for labor could lead to significant turnover in key business areas, and Reserve Banks could be further challenged to retain the necessary talent to meet critical business objectives. Conversely, there is a risk that Reserve Banks will not achieve the full projected staff reductions associated with various consolidation efforts.

Another risk to the 2012 budgets is management of information technology costs. Continued growth in System projects could strain already stretched information technology resources, which could result in project delays or increased costs.

In addition, Treasury project changes and delays could affect budgeted expenses. The Treasury continues to refine its future vision for collections, payments, and cash management systems, along with the timing of different components of the project.

2012 Capital Budgets

The 2012 capital budgets submitted by the Reserve Banks, FRIT, and OEB total $404.2 million, a $139.2 million, or 52.5 percent, increase from 2011 actual levels.[21] 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 2012 budgets include three categories of capital initiatives: information technology and System automation projects, building and infrastructure, and Treasury initiatives.

The Reserve Banks and FRIT included $186.4 million in funding for major information technology initiatives and System automation projects. Multiyear projects currently under way to migrate major applications off the mainframe represent $51.1 million of the total 2012 capital budget.[22] Cash services initiatives represent $39.7 million of the Reserve Banks' capital budgets, including $16.5 million for the CashForward project and $3.0 million for cash sensor upgrades. The Reserve Bank server-consolidation effort and related network services account for an additional $18.1 million. The remaining total capital budget will fund other initiatives, such as data security, scheduled software and equipment upgrades, and telecommunications and LAN equipment for renovated or expanded office space.

The total proposed capital budget includes $177.4 million for building and infrastructure projects. Of the total building capital, $63.9 million is related to major projects begun in previous years in Boston, New York, Chicago, and San Francisco. Major new initiatives in 2012, totaling $9.2 million, include an office reconfiguration in New York to accommodate increased supervision staff and a vault-automation project in Chicago. Several Banks included capital for emergency generators, uninterruptible power-supply

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21 The total 2012 capital budget does not include the Federal Reserve Bank of New York's acquisition of the Maiden Lane building in February 2012 for $207.5 million. The acquisition provides a cost-effective, long-term alternative to the current practice of leasing space in this and other buildings and allows for greater control over maintenance, operation, and security of the building.

22 The System's migration strategy involves moving a majority of applications from the mainframe to alternate processing environments. The migration strategy is managed in stages to minimize excess capacity and expenses. Projects included in the 2012 budget include the migration of the Fedwire Funds, Fedwire Securities, FedACH, check, accounting, and statistics/reserves systems.

equipment, and security enhancements. Additional outlays in this category will fund other building renovation and refurbishment projects and various facility improvement projects.

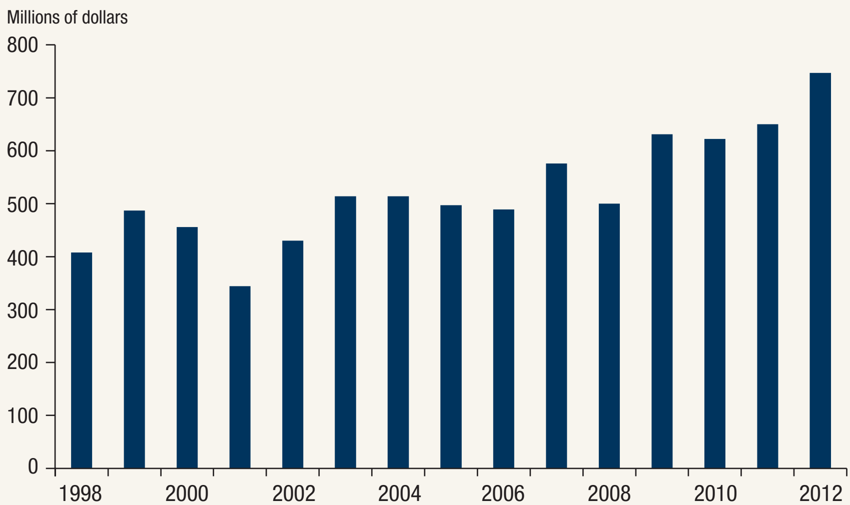
The capital budgets also include $40.4 million for reimbursable Treasury initiatives, including support of Treasury Web Application Infrastructure, Government-Wide Accounting, Collections and Cash Management-related efforts, and various other projects.

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 use to prepare the annual budget for new currency. Each month, the Board assesses the costs of new currency to each Federal Reserve Bank through an accounting procedure similar to that used in assessing the costs of the Board's operating expenses to the Banks. Total new currency expenses for 2011 were under budget by $26.1 million, or 3.9 percent, primarily because the BEP printed fewer notes than budgeted.

The approved 2012 new currency budget of $747.0 million is 14.9 percent higher than 2011 costs (**figure 5**). Printing costs for Federal Reserve notes represent 95 percent of the new currency budget; certain other BEP costs, expenses for the currency education program, the currency quality assurance

Figure 5. Federal Reserve costs for new currency, 1998–2012



Note: For 2012, budgeted.

Table 8. Federal Reserve budget for new currency, 2011 and 2012
Thousands of dollars, except as noted

Item	2011 (actual)	2012 (budgeted)	Percent change
BEP-related expenses			
Printing Federal Reserve notes[1]	618,714	707,231	14.3
Currency education program[2]	4,500	…	…
Other	3,475	3,692	6.2
Board expenses			
Currency education program	114	2,800	…
Currency quality assurance	2,992	5,200	73.8
Currency transportation	15,728	22,795	44.9
Counterfeit-deterrence research	4,487	5,318	18.5
Total cost of currency	**650,011**	**747,036**	**14.9**

1 Expenses for printing Federal Reserve notes do not include costs associated with the currency education and currency quality assurance programs. These costs were included in printing costs in previous budget documents.

2 The BEP managed the currency education program through September 30, 2011. The Board began managing the program effective October 1, 2011; therefore, 2011 estimates for BEP expenses include costs incurred by the BEP during the first three quarters, and 2011 estimates for Board expenses include costs incurred by the Board during the fourth quarter.

BEP Bureau of Engraving and Printing.

…Not applicable.

program, currency transportation, and counterfeit-deterrence research represent the remaining 5 percent (**table 8**).

Printing of Federal Reserve Notes

The cost for printing the calendar-year 2012 currency order is budgeted at $707.2 million, a 14.3 percent increase over the cost for the 2011 order. The increase is primarily attributable to a higher volume of more-expensive Series 2004 notes included in the 2012 budget compared with 2011. Series 2004 notes are more expensive because they include colored backgrounds and additional security features, resulting in higher costs of paper and ink, compared with older-series notes. The average cost per thousand notes, however, decreased 8.6 percent from $97.26 in 2011 to $88.89 in 2012, primarily because the BEP's high fixed costs will be spread over a greater number of notes in 2012.

Currency Quality Assurance Program

The 2012 currency quality assurance program budget is $5.2 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. The long-term goals of this program are to improve the BEP's ability to produce high-quality notes consistently, thereby reducing spoilage and functional failures of notes in circulation.[23] During 2012, the currency quality assurance consultants will continue work to facilitate this multiyear initiative.

Currency Education Program

The 2012 currency education program budget is $2.8 million.[24] The goal of the currency education 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.

Currency Transportation

The 2012 currency transportation budget is $22.8 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 2012 budget for currency transportation increased 45 percent from 2011 costs, primarily because the Board has ordered more notes in 2012. The Board estimates that it will make approximately 500 (25 percent) more shipments in 2012 than in 2011.

Counterfeit-Deterrence Research

The 2012 budget for counterfeit-deterrence research is $5.3 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 $5.3 million

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[23] During 2012, the Board estimates that the cost of spoilage, based on 2012 variable printing costs and historical spoilage rates, will be approximately $38.5 million.

[24] On October 1, 2011, management of the currency education program transitioned from the BEP to the Board, aligning currency education with the Board's other currency-related responsibilities as the issuing authority for Federal Reserve notes.

share of the 2012 Central Bank Counterfeit Deterrence Group budget comprises 99 percent of the Federal Reserve's counterfeit-deterrence budget.[25]

Other Reimbursements to the Bureau of Engraving and Printing

The 2012 budget includes $3.7 million to reimburse the BEP for expenses incurred by its Destruction Standards and Compliance Division of the Office of Compliance and Mutilated Currency Division of the Office of Financial Management. 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.

[25] The estimated Reprographic Research Center payment of $41,000 represents the remaining 1 percent of the counterfeit-deterrence research budget. The Reprographic Research Center is a state-of-the-art facility, hosted by the National Bank of Denmark, that is used for adversarial testing of banknote designs and counterfeit-deterrent features for its 13 member countries.

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 and savings required to achieve its objectives for the next budget cycle.
- The Board's Strategic Planning Group, a committee of senior officers representing major lines of business, evaluates each new initiative and proposed savings in the context of the Board's, as well as the division's, mission.
- Staff submits the proposed budget to the Committee on Board Affairs (CBA).
- 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 operations and 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. PACS facilitates comparison of the financial and operating performances of the Reserve Banks. Apart from the budget approval process, the Reserve Banks must submit proposals for major capital acquisitions and capitalized projects to the Board for further review and approval.

Following is a summary of the Reserve Bank budget process:

- The business leader in each functional area provides budget guidance to the Reserve Banks for the upcoming year.
- The Reserve Banks develop early budget projections that incorporate the business leader guidance. The budgets are reviewed by 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 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, forecasts of growth rates for payments of currency to circulation and receipts of currency from circulation, operational factors, and other policy considerations. Historically, over 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 November, 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 proposed currency budget.
- Staff submits the proposed currency budget to the Board for final action.

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, 2010–12

Millions of dollars

Division, office, or special account	2010 (budgeted)	2010 (actual)	2011[1] (budgeted)	2011 (actual)	2012 (budgeted)
Board Members	17.1	16.1	18.7	17.5	24.7
Secretary	8.1	8.0	8.6	8.4	8.9
Research and Statistics	53.6	52.4	57.9	55.5	60.2
International Finance	19.9	18.6	22.0	20.1	22.7
Monetary Affairs	22.9	20.8	23.6	21.5	27.7
Office of Financial Stability Policy and Research	0.1	0.1	2.7	1.8	3.4
Bank Supervision and Regulation	67.7	67.5	75.0	73.8	91.9
Consumer and Community Affairs	25.9	24.6	26.4	23.7	23.4
Legal	17.7	17.5	21.1	18.7	20.2
Reserve Bank Operations and Payment Systems	32.9	31.5	32.0	30.0	33.7
Staff Director[2]	11.3	10.9	11.6	10.7	0.0
Information Technology	61.0	61.1	69.0	65.8	79.0
Management	90.0	87.7	107.7	101.6	123.7
Data processing income	-28.6	-29.2	-28.8	-29.0	-34.4
Residual retirement	9.9	7.7	12.9	6.8	10.4
Special projects	11.4	20.5	14.3	13.4	14.8
Extraordinary items	11.0	11.1	0.5	0.3	1.5
Total, Board operations	**431.8**	**426.8**	**475.2**	**440.4**	**511.8**
Office of Inspector General	19.2	10.6	18.0	11.9	20.6

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.

[2] 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, 2010–12

Millions of dollars

Account classification	2010 (budgeted)	2010 (actual)	2011[1] (budgeted)	2011 (actual)	2012 (budgeted)
Personnel services					
Salaries	256.8	261.9	278.1	266.7	294.1
Retirement/thrift plans	34.7	33.2	37.9	35.3	38.4
Employee insurance	23.5	22.2	27.1	21.0	24.6
Subtotal, salaries and benefits	315.0	317.3	343.0	323.0	357.1
Goods and services					
Postage and shipping	0.4	0.4	0.7	0.5	0.8
Travel	10.3	10.5	12.8	14.2	13.4
Telecommunications	4.5	4.7	5.0	4.8	6.9
Printing and binding	1.8	1.8	2.1	1.6	2.3
Publications	0.5	0.5	0.8	0.7	0.7
Stationery and supplies	1.4	1.4	1.6	1.7	1.7
Software	9.0	8.0	10.8	9.3	11.6
Furniture and equipment	4.7	4.4	9.2	7.2	9.0
Rentals	7.4	7.4	8.4	6.6	16.1
Books and subscriptions	1.0	0.7	1.0	0.8	1.1
Utilities	4.0	4.0	4.0	3.9	3.9
Repairs and alterations bldg.	2.0	1.4	3.0	2.5	3.1
Repairs and maintenance F&E	2.3	2.0	2.2	2.2	2.4
Contingency processing center	1.3	1.3	1.3	1.2	1.4
Contractual professional services	50.1	46.5	45.5	37.1	54.7
Interest expense	0.0	0.0	0.0	0.0	0.1
Tuition	3.5	3.0	4.4	3.8	4.6
Subsidies and contributions	1.2	0.6	0.8	0.5	0.8
Depreciation/amortization	15.8	15.8	18.1	19.4	20.5
All other[2]	-4.4	-4.7	0.5	-0.8	-0.3
Subtotal, goods and services	116.8	109.5	132.1	117.4	154.7
Total, Board operations	**431.8**	**426.8**	**475.2**	**440.4**	**511.8**
Office of Inspector General	19.2	10.6	18.0	11.9	20.6

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.

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, 2010–12

Division, office, or special account	Position count[1]				
	2010 (budgeted)	2010 (ending)	2011 (budgeted)	2011 (ending)	2012 (budgeted)
Board Members	88	88	89	90	115
Secretary	51	51	51	53	53
Research and Statistics	296	296	324	325	341
International Finance	115	115	124	124	129
Monetary Affairs	95	103	112	110	120
Office of Financial Stability Policy and Research	...	12	12	14	19
Bank Supervision and Regulation	283	283	328	347	383
Consumer and Community Affairs	120	120	95	99	103
Legal	86	86	94	94	99
Reserve Bank Operations and Payment Systems	138	138	151	154	154
Staff Director[2]	48	48	49	50	...
Information Technology	353	353	369	369	397
Management[3]	517	517	533	534	529
Total, Board operations	**2,190**	**2,210**	**2,331**	**2,363**	**2,442**
Office of Inspector General	61	65	85	85	113

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

3 The counts (budgeted and ending) for 2010 and 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, 2011 and 2012

Thousands of dollars, except as noted

District	2011 (budgeted)	2011 (actual)	2012 (budgeted)	Percent change	
				2011 actual compared with 2011 budgeted	2012 budgeted compared with 2011 actual
Boston	173,988	164,755	177,695	-5.3	7.9
New York	808,668	795,678	846,686	-1.6	6.4
Philadelphia	163,181	159,716	181,300	-2.1	13.5
Cleveland	182,753	183,919	158,538	0.6	-13.8
Richmond	324,123	330,287	342,050	1.9	3.6
Atlanta	326,549	308,839	314,765	-5.4	1.9
Chicago	291,191	284,365	307,244	-2.3	8.0
St. Louis	236,880	219,230	234,550	-7.5	7.0
Minneapolis	159,059	156,791	172,357	-1.4	9.9
Kansas City	186,130	182,609	195,114	-1.9	6.8
Dallas	205,545	198,813	206,961	-3.3	4.1
San Francisco	293,164	276,319	304,027	-5.7	10.0
Total	**3,351,230**	**3,261,321**	**3,441,287**	**-2.7**	**5.5**

Note: Excludes capital outlays and pension expenses 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 that are chargeable to the Reserve Banks. Reflects all redistributions for support and allocations for overhead. Components may not sum to totals and may not yield percentages shown because of rounding.

Table C.2. Employment at the Federal Reserve Banks, by district, and at FRIT and OEB, 2011 and 2012

Average number of personnel

District	2011 (budgeted)	2011 (actual)	2012 (budgeted)	Amount change	
				2011 actual compared with 2011 budgeted	2012 budgeted compared with 2011 actual
Boston	929	903	968	-27	65
New York	3,205	3,136	3,254	-70	119
Philadelphia	873	868	917	-5	49
Cleveland	1,302	1,167	973	-135	-193
Richmond	1,538	1,493	1,506	-45	14
Atlanta	1,648	1,607	1,593	-40	-14
Chicago	1,358	1,340	1,425	-18	85
St. Louis	979	956	1,006	-22	50
Minneapolis	1,036	1,035	1,109	-1	74
Kansas City	1,262	1,275	1,343	14	68
Dallas	1,290	1,239	1,340	-50	100
San Francisco	1,546	1,516	1,568	-30	52
Total, all districts	**16,965**	**16,535**	**17,003**	**-430**	**468**
Federal Reserve Information Technology (FRIT)	965	1,072	1,048	107	-23
Office of Employee Benefits (OEB)	49	47	51	-3	4
Total	**17,979**	**17,653**	**18,102**	**-326**	**449**

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, 2011 and 2012

Thousands of dollars, except as noted

Operational area	2011 (budgeted)	2011 (actual)	2012 (budgeted)	Percent change	
				2011 actual compared with 2011 budgeted	2012 budgeted compared with 2011 actual
Monetary and economic policy	538,422	532,326	552,149	-1.1	3.7
Services to the U.S. Treasury and other government agencies	471,132	459,129	474,653	-2.5	3.4
Services to financial institutions and the public	989,600	954,111	985,700	-3.6	3.3
Supervision and regulation	934,216	917,438	1,032,540	-1.8	12.5
Fee-based services to financial institutions	417,860	398,317	396,244	-4.7	-0.5
Total	**3,351,230**	**3,261,320**	**3,441,287**	**-2.7**	**5.5**

Note: Excludes capital outlays and pension expenses 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 System's Office of Employee Benefits (OEB) that are chargeable to the Reserve Banks. Reflects all redistributions for support and allocations for overhead. Components may not sum to totals and may not yield percentages shown because of rounding.

Table C.4. Employment at the Federal Reserve Banks, and at FRIT and OEB, by operational area, 2011 and 2012

Average number of personnel

Operational area	2011 (budgeted)	2011 (actual)	2012 (budgeted)	Amount change	
				2011 actual compared with 2011 budgeted	2012 budgeted compared with 2011 actual
Monetary and economic policy	1,188	1,179	1,236	-9	57
Services to U.S. Treasury and other government agencies	1,212	1,114	1,104	-97	-10
Services to financial institutions and the public	2,741	2,646	2,625	-95	-21
Supervision and regulation	3,397	3,339	3,688	-58	349
Fee-based services to financial institutions	975	910	803	-64	-107
Support and overhead	8,466	8,464	8,645	-2	181
Total	**17,979**	**17,653**	**18,102**	**-326**	**449**

Note: Table has been recategorized from previous years. Average number of personnel dedicated to a specific operational area have been included in the associated operational area; as a result, the 2011 budgeted amounts have been restated. 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, and of FRIT and OEB, 2011 and 2012

Thousands of dollars, except as noted

District	2011 (budgeted)	2011 (actual)	2012 (budgeted)	Percent change	
				2011 actual compared with 2011 budgeted	2012 budgeted compared with 2011 actual
Boston	86,922	84,777	93,025	-2.5	9.7
New York	379,288	365,012	391,840	-3.8	7.3
Philadelphia	70,226	68,986	73,300	-1.8	6.3
Cleveland	89,355	82,428	77,641	-7.8	-5.8
Richmond	123,910	119,192	124,428	-3.8	4.4
Atlanta	135,822	133,293	136,027	-1.9	2.1
Chicago	123,300	120,656	134,012	-2.1	11.1
St. Louis	79,658	76,978	83,509	-3.4	8.5
Minneapolis	75,044	74,054	80,880	-1.3	9.2
Kansas City	92,575	90,607	97,926	-2.1	8.1
Dallas	87,723	82,931	89,858	-5.5	8.4
San Francisco	150,153	144,788	154,645	-3.6	6.8
Total, all districts	**1,493,974**	**1,443,702**	**1,537,092**	**-3.4**	**6.5**
Federal Reserve Information Technology (FRIT)	96,042	103,738	103,692	8.0	0.0
Office of Employee Benefits (OEB)	6,482	6,296	6,823	-2.9	8.4
Total	**1,596,498**	**1,553,737**	**1,647,608**	**-2.7**	**6.0**

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

Table C.6. Capital outlays of the Federal Reserve Banks, by district, and of FRIT and OEB, 2011 and 2012

Thousands of dollars, except as noted

District	2011 (budgeted)	2011 (actual)	2012 (budgeted)	Percent change	
				2011 actual compared with 2011 budgeted	2012 budgeted compared with 2011 actual
Boston	22,558	14,359	29,573	-36.3	106.0
New York	128,183	66,523	122,319	-48.1	83.9
Philadelphia	12,731	11,894	15,181	-6.6	27.6
Cleveland	13,781	8,493	14,471	-38.4	70.4
Richmond	18,311	10,834	21,797	-40.8	101.2
Atlanta	27,754	17,102	19,081	-38.4	11.6
Chicago	31,446	17,716	39,384	-43.7	122.3
St. Louis	19,418	11,911	8,378	-38.7	-29.7
Minneapolis	16,110	13,790	15,401	-14.4	11.7
Kansas City	1,233	4,794	7,160	288.7	49.4
Dallas	18,676	15,285	13,385	-18.2	-12.4
San Francisco	34,402	21,936	43,393	-36.2	97.8
Total, all districts	**344,603**	**214,636**	**349,523**	**-37.7**	**62.8**
Federal Reserve Information Technology (FRIT)	70,687	48,267	53,727	-31.7	11.3
Office of Employee Benefits (OEB)	2,300	2,123	950	-7.7	-55.3
Total	**417,590**	**265,025**	**404,200**	**-36.5**	**52.5**

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, 2011 and 2012

Thousands of dollars, except as noted

Asset classification	2011 (budgeted)	2011 (actual)	2012 (budgeted)	Percent change	
				2011 actual compared with 2011 budgeted	2012 budgeted compared with 2011 actual
Equipment	96,409	70,288	88,182	-27.1	25.5
Furniture, furnishings, and fixtures	28,818	15,255	27,198	-47.1	78.3
Building	117,296	68,916	103,677	-41.2	50.4
Building machinery and equipment	47,680	15,214	31,522	-68.1	107.2
Software	125,962	93,113	148,475	-26.1	59.5
Other[1]	1,425	2,239	5,145	57.1	129.8
Total	**417,590**	**265,025**	**404,200**	**-36.5**	**52.5**

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

[1] Other includes land and other real estate, leasehold improvements, and art.

FRIT Federal Reserve Information Technology; OEB Office of Employee Benefits.

Appendix D

Maps of the Federal Reserve System

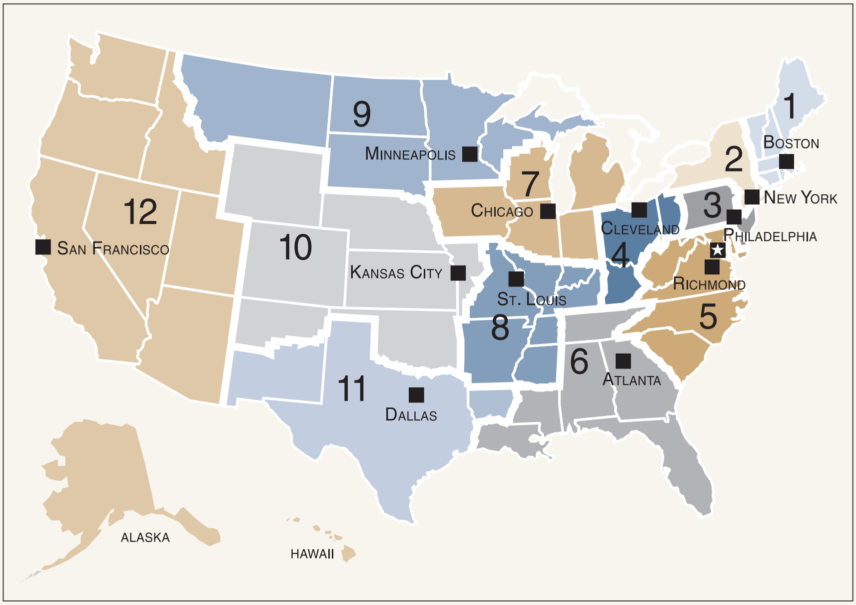
Notes

The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the next page).

In the 12th District, the Seattle Branch serves Alaska and the San Francisco Bank serves Hawaii.

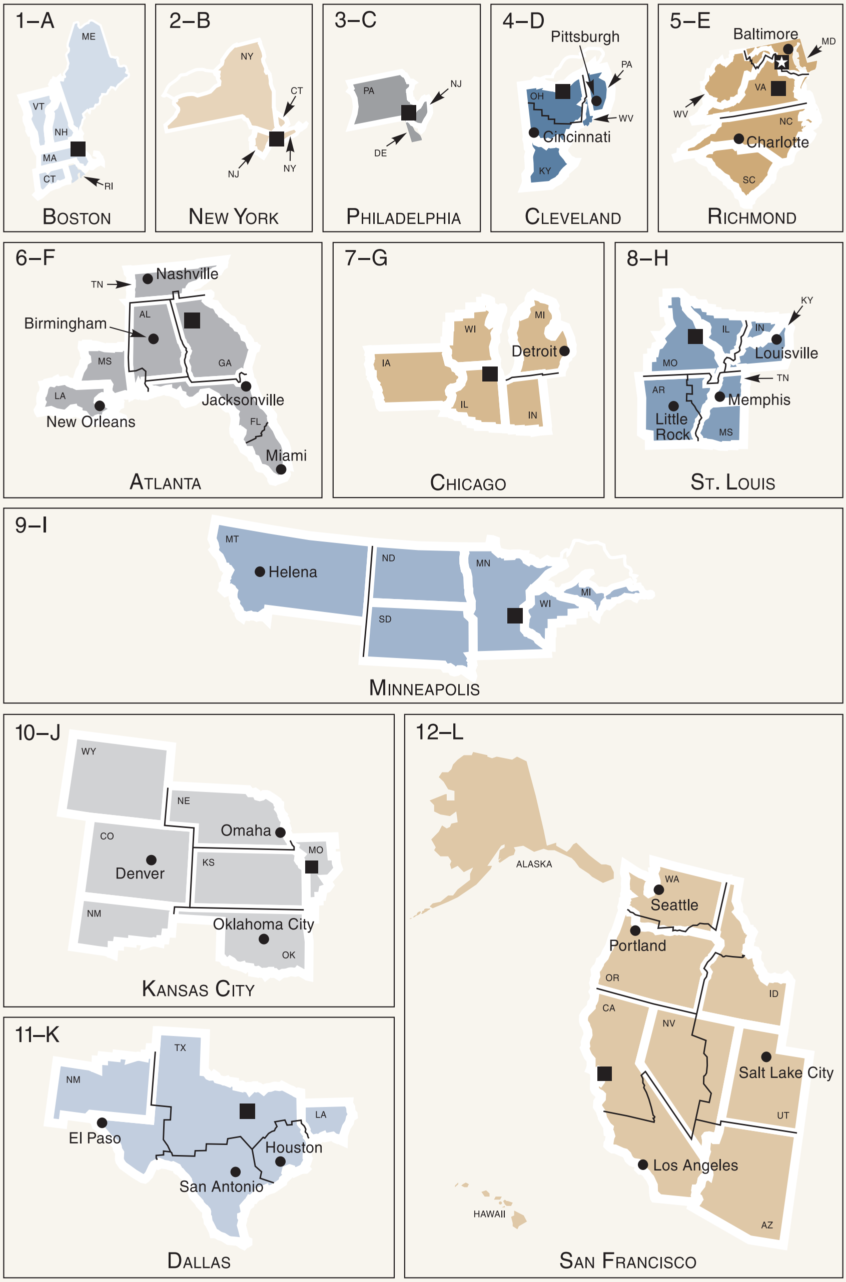
The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The maps show the boundaries within the System as of year-end 2011.

Federal Reserve Districts by Number and City



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

Federal Reserve Banks and Branches by District



■ 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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