

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: December 13, 2002
To: Board of Governors
From: Vice Chairman Ferguson
Subject: 2003 Final Reserve Bank Budgets

The Committee on Federal Reserve Bank Affairs has reviewed staff's recommendation that the Board approve the Reserve Bank budgets for 2003. In aggregate, the 2003 Reserve Bank budgets total \$2,629.9 million, an increase of \$54.5 million or 2.1 percent over 2002 estimated expenses. I am forwarding the attached staff memorandum to the Board for its consideration.

Attachment

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

Date: December 13, 2002

To: Board of Governors

From: Lauren Oriente, Stuart Sperry, Cathie Austin, Dorothy Lachapelle, and Paul Bettge

Subject: 2003 Final Reserve Bank Budgets

ACTION REQUESTED

Staff requests Board approval of the 2003 Reserve Bank budgets totaling \$2,629.9 million, an increase of \$54.5 million or 2.1 percent over 2002 estimated expenses.¹ This includes Reserve Bank operating budgets totaling \$2,615.3 million and a special project budget totaling \$14.6 million.

Staff also requests Committee review of staff's recommendation that the Board approve the 2003 Reserve Bank and FRIT capital budgets totaling \$491.4 million. The capital budgets are approved with the understanding that approval for actual capital outlays will be in accordance with the Board's Policies and Guidelines Concerning Reserve Bank Operations (S-2602).

TOTAL EXPENSE AND EMPLOYMENT SUMMARY

Reserve Banks developed their 2003 budgets by incorporating spending guidance provided by System business leaders. Due in large part to poor cost/revenue performance in the check service, business leaders have set aggressive spending targets for most functions. The Monetary Control Act provides that "The Board shall require reductions in the operating budgets of the Federal Reserve banks commensurate with any actual or projected decline in the volume of services to be provided by such banks." The Banks' 2002 estimate and 2003 budget plans

¹ These expenses include those budgeted for by Federal Reserve Information Technology (FRIT) and the Office of Employee Benefits (OEB). Expenses from these entities have been charged to the Reserve Banks, as appropriate, and included in their budgets. Because of their unique roles within the System, FRIT and OEB have prepared their own budgets for Committee review. Unless otherwise noted, expenses also include costs associated with the check standardization special project. Special project costs are projected to be \$14.9 million in the 2002 estimate and \$14.6 million in the 2003 budget.

reflect, in part, the spending restraint necessary to improve cost/revenue performance in the check service.

By adhering to specific targets for check direct costs and to guidance provided for most of the support and overhead areas contributing to the check service, the 2003 budget reflects lower check service costs. Targets established for the 2003 budget process, however, were not limited to areas affecting check. The supervision and regulation and cash services areas also established budget targets.

Approximately 48 percent of Reserve Bank expenses in the 2003 budget are offset by priced service revenues (35 percent) and reimbursable claims for services provided to the U.S. Treasury and other agencies (13 percent). While budgeted 2003 revenue is up slightly from estimated 2002 levels, it is still significantly below the 2002 budgeted level, reflecting declines in check volume.

Reimbursable claims are expected to increase 4.0 percent, reflecting higher costs for Treasury-requested projects partially offset by efficiency measures and lower allocated costs from support and overhead functions.

Table 1
Change in Net Expenses
(dollars in millions)

Expenses	2002 Budget	2002 Estimate	2003 Budget	Percent Change	
				02B-03B	02E-03B
Reserve Banks	2,580.2	2,575.4	2,629.9	1.9%	2.1%
Less:					
Priced service revenue	954.4	909.6	925.8	-3.0%	1.8%
Reimbursable claims	307.9	316.3	328.9	6.8%	4.0%
Net expense	\$1,317.9	\$1,349.5	\$1,375.2	4.3%	1.9%

The Reserve Banks' 2003 budgeted net operating expenses are \$1,375.2 million, or 1.9 percent higher than the 2002 estimate. The moderate increase reflects efforts by all Banks to reduce costs to improve priced services performance and to meet System targets established by national business leaders. Banks have been able to limit overall cost increases through plans to self-fund many new initiatives, implement productivity and efficiency measures, and continue consolidating functions at a regional or national level.

Total 2003 projected employment for the Reserve Banks, FRIT, and OEB is 22,422 ANP, a decrease of 743 ANP or 3.2 percent from 2002 estimated staff levels.² Although all Districts are planning to reduce staffing in 2003, three Banks – New York, Atlanta, and San

² 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.

Francisco – account for slightly more than half of the overall reductions. All Banks are reducing staffing in check as a result of declining volumes and efforts to improve productivity. Several Banks also will reduce staff in the check service after successful

**Table 2
Employment**

transitions to the standardized check-processing platform. The remainder of the reduction is the net effect of several System and District efforts to meet System cost reduction initiatives and improve operational efficiencies. Tables 1 through 5 in the appendix provide more detail on expense and ANP changes by District and service line.

	2002 Budget	2002 Estimate	2003 Budget	ANP Change	
				02B-03B	02E-03B
Reserve Banks	22,753	22,359	21,607	-1,146	-752
FRIT	763	774	779	16	5
OEB	34	32	36	2	4
Total	23,550	23,165	22,422	-1,128	-743

2002 BUDGET PERFORMANCE

The Reserve Banks estimate 2002 expenses to be \$2,575.4 million, which represents a decrease of \$4.8 million or 0.2 percent from the approved 2002 budget of \$2,580.2. The 2002 estimate is \$116.1 million above the 2001 actual expense of \$2,459.3 million. The Banks estimate ANP at 23,165, a decrease of 385 from approved 2002 budgeted levels and 54 ANP below 2001 actual staffing levels.

**Table 3
Current Year Budget Comparisons
(dollars in millions)**

	2001 Actual	2002 Budget	2002 Estimate	Percent Change	
				01A-02E	02B-02E
Dollars	2,459.3	2,580.2	2,575.4	4.7%	-0.2%
ANP	23,219	23,550	23,165	-0.2%	-1.6%

Most Bank estimates include targeted staff reductions and realignment of resources due to volume declines in the check service. Check expenses and staffing are declining in nine Banks as resources are aligned to the lower volume projections, resulting in an underrun of \$100 million and 241 ANP from the 2002 budget. Support and overhead costs, primarily in Information Technology (IT), are declining by a total of \$9.3 million, largely as a result of staff reductions and lower depreciation expense. The 2002 estimate also reflects reductions in cash operations totaling \$6.5 million from the 2002 budget, resulting primarily from lower staffing-related costs due to less-than-anticipated volume growth in several Districts, productivity improvements, and delayed implementation of equipment upgrades.

There are several offsets to the underruns, including two large, one-time expenses. The Customer Relations and Support Office in Chicago incurred an \$8.6 million expense as a result of canceling the FedLine for Windows project. Also, estimated 2002 severance payments are \$16.9 million, \$13.7 million higher-than-budgeted. Excluding these expenses, the 2002 estimate would be approximately \$27 million lower than the approved 2002 budget.³ In addition to these one-time expenses, the estimate includes slightly higher-than-anticipated costs in several Districts for check standardization implementations and fully-reimbursable Treasury projects.⁴

FACTORS AFFECTING THE 2003 BUDGET

Efforts to reduce spending in 2002 have positioned the Banks to develop 2003 budgets consistent with guidance provided by the System business leaders during the budget outlook process. The national business guidance has assisted Reserve Banks in developing their 2003 budgets and multi-year business plans and has provided the Banks with a management tool to better monitor direct spending plans. Overall, Reserve Banks have met or exceeded the aggressive business leader guidance established earlier this year. Adherence to the guidance, in conjunction with other cost reduction initiatives, helps the System to address the cost recovery pressures in the check service, while enabling the Banks to fund other high-priority initiatives. The following discussion identifies significant factors affecting the Reserve Banks' 2003 budgets.

Perhaps the single biggest factor influencing 2003 expense and staffing levels is the Banks' effort to address the check cost recovery shortfalls, while managing the completion of the check modernization projects. Check modernization encompasses four projects, check standardization, Enterprise Wide Adjustments (EWA), FedImage (formerly known as Image Services System), and Check Electronic Access and Delivery. These projects are adding \$16.6 million to the 2003 budgets over estimated 2002 expenses. Based on the current transition schedule, all Banks should be using the standard check-processing platform by year-end 2003. Completion of this transition will allow Banks to gain efficiencies and reduce expenses associated with "bubble staff" retained through conversions to ensure a smooth transition. These

³ Excluding these one-time costs, the 2003 budget would reflect an increase of about \$77 million or 3.0 percent from the adjusted 2002 estimate.

⁴ Although projected to be over budget in 2002, overall check standardization project costs are still expected to be under budget for the life of the project.

savings alone, however, are not enough to address the challenges presented by lower volume projections, changes in deposit mix, and corresponding revenue shortfalls.

The Banks are taking steps to address these cost and revenue challenges. Banks that have completed the transition to check standardization and EWA have begun to capitalize on the efficiencies gained in the forward and adjustment processing environments. These savings are reflected in the overall check service costs, which are \$17.2 million or 2.2 percent less than 2002 estimated expenses. Staff in the 2003 budget for check is 568 ANP below 2001 actual levels.

The overall reduction in check costs is due to the Reserve Banks' efforts to reduce direct costs and restrain support and overhead spending. Because check receives about 30 percent of its costs from support and overhead areas, cost reductions from these areas are a necessary, though alone not sufficient, factor in achieving spending targets in the check service. Much like the accounting area's cost reduction guidance provided over the last five years, each of the major support and overhead areas had specific spending guidance for 2003. In aggregate, these areas have reduced expenses by \$18.5 million and 504 ANP. Most support services project expense growth of 2 percent or less, with the majority achieving budgeted expenses below the estimated 2002 levels.

The most significant reductions are in the IT area. These cost reductions reflect the multi-year targeted reduction initiative established by the Reserve Banks to reduce local IT costs from the 2001 budget by \$65 million.⁵ Several efficiency initiatives are underway, including the e-mail server administration and management centralization project, standardization of desktop PC software application and hardware configurations, and implementation of Active Directory.⁶ FRIT also has efforts underway to use its resources more effectively, such as improved efficiency of its mainframe-processing environment. Budgeted IT costs for 2003 are \$30.1 million below the 2001 budgeted levels.

The IT cost reduction target was designed to be an ambitious goal that supported reengineering the way Reserve Banks provide IT services. Reserve Banks recently have recognized that it is unlikely that the multi-year target will be achieved due in part to delays in the desktop standardization initiative and further study of a server management initiative. They

⁵ The IT multi-year target excludes support for Treasury initiatives, check modernization projects, and economic research.

⁶ The Active Directory project is a centralized and standardized system that automates network management of user data, security, and distributed resources, enabling interoperability with other directories.

do believe, however, that the target has been successful in fostering a fresh look at opportunities to streamline and consolidate operations where necessary. Local IT staffing has decreased 154 ANP in the 2003 budget from the 2002 estimate. About half of the local IT staff reductions have been redirected to support initiatives in several of the nationally provided support services.

The Customer Relations and Support Office plans to consolidate the electronic access customer support function at two offices. Although project costs are expected to total \$8.6 million in the 2003 budget, these costs are expected to be more than offset with savings in the other ten Banks over the next three years.

The growth of 5.6 percent in Treasury-related functions is due to higher FRIT costs for Treasury Web Applications Infrastructure (TWA) and Treasury Account Management Information (TAMI) system (\$15.8 million). TWA involves developing a network to support the Treasury applications that will connect customers and other businesses through the web. TAMI will also use web-based technology to improve reporting and reconciliation of Treasury account information. This increase is partially offset by reduced costs from the support and overhead areas, along with the savings that have been achieved through efficiency measures, such as the consolidation of Treasury check processing sites from eight to four during 2002.

Supervision and regulation total expenses are increasing \$31.8 million or 6.7 percent in the 2003 budget, primarily due to the growth in the number and asset size of state member banks and an increased need to monitor closely large regional institutions in several Districts. The Reserve Banks have found ways to achieve efficiencies through increased use of risk-focused examinations and resource sharing among Reserve Banks, as well as greater use of video conferencing to reduce travel costs. Systemwide, staffing levels remain flat with a shift of personnel from foreign and community bank work to multi-state banking organizations. As with Treasury costs, growth in supervision and regulation would have been higher if not for the reductions in support and overhead costs.

The Cash Product Office also established budget guidance for the cash function as part of the budget outlook process. Most of the Banks have budgeted to meet the guidance primarily through increased efficiencies and adjusting staffing levels to meet volume projections, which appear to be more stable after several years of substantial growth.

During the budget outlook process, growth in the Research area was estimated to be 4.7 percent based on a trend forecast. The Research functions have budgeted an aggregate increase of 4.7 percent, with staffing expected to be 7 ANP higher than the 2002 estimate.

2003 PERSONNEL EXPENSES

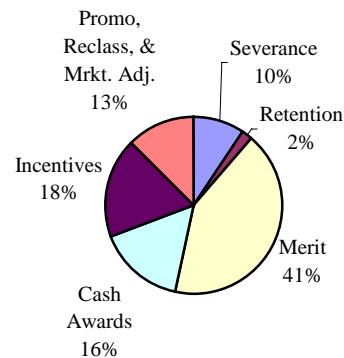
Personnel expenses, which include both salaries and benefits, represent 64 percent of the budget. As shown in Figure 1, the largest component of the salary programs is merit.⁷ The average merit increase is budgeted at 3.6 percent for officers and 3.5 percent for employees, totaling \$43.2 million, or 41 percent of the total salary administration budget. The other programs that affect base salaries – promotions, reclassifications, and market adjustments – total \$13.5 million.

Officer and employee cash awards and incentive payments represent about 34 percent or \$36.6 million of salary program costs. As shown in Table 6 of the appendix, cash award and incentive payment programs are increasing \$3.2 million compared to 2002 estimated spending.

Retention and severance payments (programs designed to deliver one-time payments most often associated with reengineering and efficiency initiatives) total \$2.1 million and \$10.3 million, respectively. The 2003 budget reflects a decrease in funding from the 2002 estimate for retention payments (\$0.6 million) and for severance payments (\$6.7 million).

Officer incentive payments and cash awards total \$11.3 million or 7.1 percent of officer salary liability. Although the officer variable pay threshold was set at 8.0 percent of salary liability for 2003, half of the Banks and FRIT did not fully fund officer incentive/cash awards. In 2003, ten Banks, FRIT, and OEB targeted more than half the officer variable pay pool toward incentives. Employee incentive payments and cash awards total \$25.3 million or 2.3 percent of employee salary liability. The mix between incentive and cash awards in the employee

Figure 1
Reserve Bank Salary Program Costs



⁷ Salary program costs described in this section include program expenses budgeted at the Reserve Banks, FRIT, and OEB.

category continues to be weighted toward cash awards (cash awards represent 1.3 percent of salary liability; incentives represent 1.0 percent).

Officer turnover, including retirements, is projected to decrease from an estimate of 5.3 percent in 2002 to 3.9 percent in 2003.⁸ Reserve Banks estimate, however, that approximately one third of all officers will be eligible to retire by second quarter 2004. Average employee turnover is projected to remain flat at 11 percent. Reserve Banks believe that continuing market pressures for critical skill sets will increase the risk of losing key employees. As a result, the Banks plan to use variable pay, retention incentives, and other monetary and non-monetary rewards for key officers and employees.

Retirement and other benefit expenses, which account for 14 percent of Reserve Bank budgets, are anticipated to increase by \$21.8 million or 6.1 percent in 2003. The primary factors driving the high costs include increases in salary-related benefits, such as Social Security and Thrift Plan contributions, which are directly related to an increase in salaries, and higher health care costs. The increases in employer contributions for health benefits average 19 percent for non-HMO plans, 8.9 percent for HMOs, and 11 percent for dental plans. The Reserve Banks' new consolidated health care program has helped to moderate the increase in employer contributions.

RISKS IN THE 2003 BUDGET

Reserve Banks note extremely challenging conditions in the check service and related Bank-wide cost-reduction strategies as areas that present the most imminent risks to the 2003 budget. In addition, most Banks have submitted budgets for their supervision and regulation functions that are based on the current condition of the banking industry. Deterioration of banks' financial condition could require additional resources. Although fully reimbursable, services performed by Reserve Banks on behalf of the Treasury continue to present some risk as the Treasury historically has requested additional work from the Banks throughout the year that was not contemplated when the budgets were developed.

In its budget, each Bank points to the check service as the primary budget risk. The Banks are challenged to recover costs in an environment where fee-based service revenues are adversely affected by commercial check volume declines and market pressures that restrict

⁸ Turnover rates include voluntary and involuntary departures.

price increases and where resource demands remain high in order to complete the check modernization projects. The Banks' 2003 budgets reflect changes made to align resources with lower volumes. The Reserve Banks project a \$34.7 million reduction in fee-based services to financial institutions direct costs in 2003 compared to the 2002 estimate. While savings realized from the completion of check platform conversions in several Districts account for part of the reduction, Banks are relying on productivity gains and various cost reduction initiatives in order to achieve their budgets. To achieve cost recovery targets in the long term, the Banks will continue to explore initiatives to improve the cost effectiveness of their check service and to identify new revenue opportunities.

Several Reserve Banks plan to trim budgets by reducing personnel-related costs. Some Banks plan to use targeted early retirement programs, and most Banks plan to limit merit pay and fund less than the allowable variable pay. Banks have expressed concerns that while these programs will lower budgets, the compensation programs are not without risk. All programs have the potential for loss of key personnel and can potentially cause employee morale concerns at a time when increased productivity is a key factor in achieving budget assumptions. Reserve Banks also warn that budget targets have been met in some cases by delaying initiatives originally planned for 2002 or 2003, which may create a cost bubble in future years.

2003 CAPITAL BUDGET

The 2003 capital budget submitted by the Reserve Banks and FRIT totals \$491.4 million, a \$160.6 million increase from the 2002 estimated levels. The budget includes \$430.5 million for the Banks and

\$60.9 million for FRIT. The increase in 2003 outlays from the 2002 estimate is due largely to planned new building programs and various other building renovation projects. Tables 7 and 8 in the appendix provide detail of capital expenditures by District and by category.

**Table 4
Capital**
(dollars in millions)

	2002 Budget	2002 Estimate	2003 Budget	Percent Change	
				02B-03B	02E-03B
Reserve Banks	338.3	273.3	430.5	27.3%	57.5%
FRIT	33.5	54.0	60.9	81.6%	12.7%
OEB	-	3.4	-	na	na
Total	371.8	330.8	491.4	32.2%	48.5%

As in previous years, the 2003 capital budgets include funding for projects that support the strategic direction outlined in the Banks' plans. These strategic goals include improving operational efficiency and effectiveness, improving services to Bank customers, and providing a safe, quality work environment. In support of these strategies, the 2003 budget identifies four major categories of capital outlays: building and facility improvements, payment system improvements, automation-and communication-related initiatives, and security enhancements.

The proposed capital budget includes an estimated \$268.7 million for **building-related projects and facility improvements**. Of this total, 58 percent or \$156.8 million is related to the planned new building projects in Detroit, Houston, Kansas City, and Seattle. The remaining outlays in this category will fund various other major building renovations, as well as miscellaneous facility improvement and energy efficiency projects and contingency equipment acquisitions.

The proposed capital budget includes \$109.0 million for initiatives related to **payment system improvement**. Over 40 percent of these funds (\$45.4 million) support reimbursable initiatives, including the Treasury Web Applications Infrastructure, Pay.gov, and Savings Bond Architecture projects. Outlays for the cash services area account for about one third of the outlays. The 2003 budgets include funds for upgraded currency processing equipment sensors (\$19.0 million). Also, Bank budgets include funding for cash inventory management systems and Standard Cash Automation initiatives. Other outlays are associated with equipment and software needed in Districts migrating to the standard check processing software platform in 2003 (\$15.9 million) and for FRIT's Web Applications Infrastructure initiative (\$3.3 million), which includes outlays for the Secure IP project.

The proposed capital budget includes \$55.0 million in funding for major **automation and communication initiatives**. These initiatives do not include the automation components of building or payment systems initiatives that are discussed separately. The strategic objectives outlined in the individual Bank budgets are directed toward achieving the System's goal to increase the business value of System IT investments and to reduce technology costs. Of the total automation-related outlays, FRIT projects and acquisitions account for over half, or \$30.9 million. The FRIT budget includes capital for the distributed processing, network, and mainframe environments, including a CPU replacement project and various software and

hardware upgrades and enhancements. Aside from FRIT, the Districts have budgeted to begin replacing aging servers in compliance with the System's Server Management Initiative (\$6.9 million). Bank budgets also include outlays for various other local initiatives and for systems operated or developed on behalf of the System.

The proposed capital budget includes \$49.2 million in funding for **security enhancements**. Almost all Districts have included capital spending for security measures necessary to enhance the security at Reserve Bank facilities.

Attachments

TO THE PRESIDENT OF EACH FEDERAL RESERVE BANK

Dear _____:

The Board of Governors has approved the Federal Reserve Bank of _____ 2003 expense budget of \$_____million and a special project budget totaling \$_____ million. The Board has also approved your District's 2003 capital budget of \$_____million with the understanding that approval of actual outlays for building and equipment purchases will be in accordance with the Board's Policies and Guidelines Concerning Reserve Bank Operations (S-2602).

The Board approved a 2003 budget for all Reserve Banks totaling \$2,629.9 million, a 2.1 percent increase over 2002 estimated expenses. [The budget includes \$14.6 million for the check standardization special project.¹]

The Board recognizes the difficult decisions that the Reserve Banks have made this year. The Board also recognizes that each Reserve Bank has been challenged to make trade-offs so that continued improvements in productivity can be achieved in 2003 and beyond.

As in the past, you are asked to keep the Board informed of any major changes anticipated in the spending plans for 2003. Please notify us as soon as possible should any major changes occur that affect your resource needs.

Very truly yours,

Jennifer J. Johnson
Secretary

¹ Included in Federal Reserve Bank of Atlanta's letter only.

TO THE DIRECTOR OF FEDERAL RESERVE INFORMATION TECHNOLOGY

Dear Mr. Summers:

The Board of Governors has approved the FRIT 2003 expense budget of \$222.0 million and special project budget totaling \$2.6 million. The Board has also approved your 2003 capital budget of \$60.9 million, with the understanding that approval of actual outlays for building and equipment purchases will be in accordance with the Board's Policies and Guidelines Concerning Reserve Bank Operations (S-2602).

The Board approved a 2003 budget for all Reserve Banks totaling \$2,629.9 million, a 2.1 percent increase over 2002 estimated expenses.

As in the past, you are asked to keep the Board informed of any major changes anticipated in the spending plans for 2003. Please notify us as soon as possible should any major changes occur that affect your resource needs.

Very truly yours,

Jennifer J. Johnson
Secretary

TO THE EXECUTIVE DIRECTOR OF THE OFFICE OF EMPLOYEE BENEFITS

Dear Mr. McAuliffe:

The Board of Governors has approved the Office of Employee Benefits' 2003 expense budget of \$25.6 million. The Board approved a 2003 budget for all Reserve Banks totaling \$2,629.9 million, a 2.1 percent increase over 2002 estimated expenses.

As in the past, you are asked to keep the Board informed of any major changes anticipated in the spending plans for 2003. Please notify us as soon as possible should any major changes occur that affect your resource needs.

Very truly yours,

Jennifer J. Johnson
Secretary

APPENDIX
Statistical Supplement

Table 1	Total Expenses of the FR Banks, by District
Table 2	Ongoing Operations of the FR Banks, by District
Table 3	Total Employment of the FR Banks, by District
Table 4	Total Expenses of the FR Banks, by Service Line
Table 5	Total Employment of the FR Banks, by Service Line
Table 6	Salary Administration Expenses of the FR Banks, Officers and Employees
Table 7	Capital Outlays of the FR Banks, by District
Table 8	Capital Outlays of the FR Banks, by Category

Note: In the following tables, components may not add to totals because of rounding. Table-to-table comparisons may also differ due to rounding.

2003 Final Budget

TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS
by District, 2002 and 2003
(Dollars in Thousands)

District	2002 Budget	2002 Estimate	2003 Budget	Percent Change	
				02B to 02E	02E to 03B
Boston	155,701	159,186	167,228	2.2%	5.1%
New York	508,994	498,229	497,362	-2.1%	-0.2%
Philadelphia	125,751	123,265	127,758	-2.0%	3.6%
Cleveland	138,766	137,568	146,181	-0.9%	6.3%
Richmond	198,829	205,410	205,593	3.3%	0.1%
Atlanta	298,857	292,010	297,992	-2.3%	2.0%
Chicago	244,842	253,911	247,443	3.7%	-2.5%
St. Louis	139,348	139,415	154,319	0.0%	10.7%
Minneapolis	145,083	141,852	147,318	-2.2%	3.9%
Kansas City	170,040	169,611	174,960	-0.3%	3.2%
Dallas	151,614	152,658	162,630	0.7%	6.5%
San Francisco	290,009	287,383	286,523	-0.9%	-0.3%
Subtotal	2,567,834	2,560,498	2,615,309	-0.3%	2.1%
Special Projects	12,387	14,890	14,627	20.2%	-1.8%
Total	2,580,220	2,575,388	2,629,936	-0.2%	2.1%

2003 Final Budget

ONGOING OPERATIONS OF THE FEDERAL RESERVE BANKS
by District, 2002 and 2003
(Dollars in Thousands)

District	2002 Budget	2002 Estimate	2003 Budget	Percent Change	
				02B to 02E	02E to 03B
Boston	106,558	105,338	105,351	-1.1%	0.0%
New York	440,123	430,490	430,963	-2.2%	0.1%
Philadelphia	106,691	100,905	103,919	-5.4%	3.0%
Cleveland	113,440	109,758	112,877	-3.2%	2.8%
Richmond	170,433	174,447	174,856	2.4%	0.2%
Atlanta	228,215	216,739	219,990	-5.0%	1.5%
Chicago	226,295	220,391	218,585	-2.6%	-0.8%
St. Louis	109,966	105,333	106,858	-4.2%	1.4%
Minneapolis	96,065	93,366	93,236	-2.8%	-0.1%
Kansas City	131,248	127,180	125,929	-3.1%	-1.0%
Dallas	128,230	124,715	120,717	-2.7%	-3.2%
San Francisco	256,353	253,568	247,869	-1.1%	-2.2%
Total	2,113,618	2,062,231	2,061,149	-2.4%	-0.1%

2003 Final Budget

TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS
by District, 2002 and 2003

District	2002 Budget	2002 Estimate	2003 Budget	Change	
				02B to 02E	02E to 03B
Boston	1,341	1,327	1,270	-14	-57
New York	3,383	3,351	3,185	-32	-167
Philadelphia	1,298	1,265	1,241	-33	-24
Cleveland	1,402	1,354	1,348	-48	-5
Richmond	2,173	2,126	2,085	-47	-41
Atlanta	2,463	2,430	2,317	-33	-113
Chicago	2,160	2,122	2,053	-38	-69
St. Louis	1,355	1,323	1,310	-32	-13
Minneapolis	1,306	1,291	1,323	-15	32
Kansas City	1,769	1,749	1,701	-21	-48
Dallas	1,531	1,526	1,446	-5	-80
San Francisco	2,572	2,495	2,328	-77	-167
Subtotal	22,753	22,359	21,607	-394	-752
FRIT	763	774	779	11	5
OEB	34	32	36	-2	4
Total	23,550	23,165	22,422	-385	-743

2003 Final Budget

TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS¹
by Service Line
(Dollars in Thousands)

Service Line	2002 Budget	2002 Estimate	2003 Budget	Percent Change	
				02B to 02E	02E to 03B
Monetary and Economic Policy	242,938	246,002	257,610	1.3%	4.7%
Services to U.S. Treasury and Gov't Agencies	284,116	292,711	309,026	3.0%	5.6%
Services to Financial Institutions and the Public	626,783	618,738	648,554	-1.3%	4.8%
Supervision and Regulation	474,993	471,858	503,665	-0.7%	6.7%
Fee Based Services to Financial Institutions	939,004	931,189	896,453	-0.8%	-3.7%
Total	2,567,834	2,560,498	2,615,309	-0.3%	2.1%

¹ Service line expenses exclude costs associated with special projects.

2003 Final Budget

TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS ¹
by Service Line
(Average Number of Personnel)

Service Line	2002 Budget	2002 Estimate	2003 Budget	Change	
				02B to 02E	02E to 03B
Monetary and Economic Policy	850	858	865	8	7
Services to U.S. Treasury and Gov't Agencies	1,334	1,313	1,273	-21	-40
Services to Financial Institutions and the Public	2,916	2,888	2,858	-27	-31
Supervision and Regulation	2,607	2,597	2,588	-10	-9
Fee Based Services to Financial Institutions	5,402	5,165	4,782	-237	-383
Support and Overhead	9,644	9,537	9,241	-107	-296
Total	22,753	22,359	21,607	-394	-752

¹ Service line employment excludes FRIT, OEB, and special project Average Number of Personnel.

2003 Final Budget

SALARY ADMINISTRATION EXPENSES OF THE FEDERAL RESERVE BANKS
Officers and Employees by District, 2003
(Dollars in Thousands)

District	Salary Base				Variable Pay (Change 02E-03B)			Total	Percent ¹
	Merit	Promo & Reclass	Market Adjustment	Subtotal	Cash Awards	Incentive Payments	Subtotal		
Boston	2,640	552	488	4.5%	-74	-272	-0.4%	3,334	4.1%
New York	9,136	1,845	1,095	4.7%	-175	1,102	0.4%	13,003	5.0%
Philadelphia	2,140	338	192	3.9%	20	352	0.5%	3,042	4.5%
Cleveland	2,379	448	544	4.8%	90	170	0.4%	3,631	5.1%
Richmond	3,362	1,170	283	4.2%	318	104	0.4%	5,237	4.6%
Atlanta	4,148	1,513	340	4.8%	392	250	0.5%	6,642	5.3%
Chicago	4,415	750	135	4.2%	-353	373	0.0%	5,319	4.2%
St. Louis	2,225	544	15	4.1%	-111	388	0.4%	3,061	4.5%
Minneapolis	2,379	366	0	3.9%	225	59	0.4%	3,028	4.3%
Kansas City	3,209	1,679	192	5.5%	147	313	0.5%	5,540	6.0%
Dallas	2,158	246	23	3.3%	300	70	0.5%	2,797	3.8%
San Francisco	3,109	264	113	2.4%	-560	-319	-0.6%	2,607	1.8%
FRIT	1,704	329	0	3.2%	19	383	0.6%	2,435	3.8%
OEB	187	0	18	5.6%	7	5	0.3%	216	5.9%
Total	43,189	10,042	3,438	4.2%	245	2,977	0.2%	59,891	4.4%

Merit: the amount of budgeted salary expense that reflects the cumulative impact of planned salary increases based on performance.

Promo & Reclass: the amount of budgeted salary expense that reflects the cumulative impact of salary increases for individuals as a result of grade promotions and reclassifications resulting from a job evaluation.

Market Adjustment: the amount of budgeted salary expense to bring individual salaries to the minimum of a grade range or to better align salaries with the market.

Cash Awards: the change in the amount of payments for awards in recognition of exceptional achievements.

Incentive Payments: the change in the amount of other personnel expense that represent payments for the achievement of pre-determined goals.

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

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CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS
by District, 2002 and 2003
(Dollars in Thousands)

District	2002 Budget	2002 Estimate	2003 Budget	Percent Change	
				02B to 02E	02E to 03B
Boston	19,282	13,088	24,909	-32.1%	90.3%
New York	66,718	49,964	56,454	-25.1%	13.0%
Philadelphia	19,513	18,587	15,804	-4.8%	-15.0%
Cleveland	22,781	25,842	21,609	13.4%	-16.4%
Richmond	27,284	20,610	17,522	-24.5%	-15.0%
Atlanta	26,877	18,866	20,809	-29.8%	10.3%
Chicago	54,634	45,698	89,437	-16.4%	95.7%
St. Louis	19,312	10,542	36,709	-45.4%	248.2%
Minneapolis	7,374	13,195	6,330	79.0%	-52.0%
Kansas City	19,264	12,338	39,251	-36.0%	218.1%
Dallas	18,579	17,188	56,271	-7.5%	227.4%
San Francisco	36,673	27,414	45,383	-25.2%	65.5%
Subtotal	338,291	273,331	430,489	-19.2%	57.5%
FRIT	33,511	54,021	60,870	61.2%	12.7%
OEB	-	3,439	-	NA	NA
Total	371,802	330,791	491,358	-11.0%	48.5%

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CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS¹
by Category, 2002 and 2003
(Dollars in Thousands)

	2002 Budget ²	2002 Estimate	2003 Budget	Percent Change	
				02B to 02E	02E to 03B
Building Related Projects and Facility Improvements	-	98,219	268,678	-	173.5%
Security Enhancements	-	46,562	49,213	-	5.7%
Automation and Communication Initiatives	-	63,510	55,003	-	-13.4%
Payment System Improvement Initiatives	-	100,379	109,020	-	8.6%
Miscellaneous ³	-	22,121	9,444	-	-57.3%
TOTAL	-	330,791	491,358	-	48.5%

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

² Capital information by category was not collected in the 2002 Budget.

³ Miscellaneous includes other equipment purchases.