

1. *2002 Performance*—The noncash collection service recovered 100.6 percent of total expenses in 2002, including imputed expenses, and targeted ROE, exceeding the budgeted recovery rate of 94.3 percent. Volume for 2002 declined 19.2 percent from 2001 levels, as expected.

2. *2003 Estimate*—Through August 2003, the noncash collection service recovered 131.5 percent of its costs. For full-year 2003, the Reserve Banks estimate that the noncash collection service will recover 118.9 percent of costs, including imputed expenses, and targeted ROE, compared with the budgeted recovery rate of 110.9 percent. This overrecovery is attributed to higher-than-expected revenues, as volume has not decreased from 2002 as much as anticipated. Noncash volume through August has decreased 13.1 percent compared with volume during the same period in 2002. For the full year, the Reserve Banks estimate that 2003 volume will decrease 18.9 percent

from 2002, compared with a budgeted decline of 21.0 percent.

3. *2004 Pricing*—The Reserve Banks are keeping fees for the noncash collection service unchanged from 2003. As the number of outstanding physical municipal securities continues to decline, the volume of coupons and bonds presented for collection also will decline. New issues of bearer municipal securities effectively ceased in 1983 after the Tax Equity and Fiscal Responsibility Act of 1982 removed tax advantages for investors. In 2004, the Reserve Banks project that the noncash collection service will recover 113.3 percent of total costs, including imputed expenses, and targeted ROE. The Reserve Banks project that volume will decrease 18.9 percent from the 2003 estimate.

The Board believes that the cost, volume, and revenue projections are reasonable and has approved the price changes for the Reserve Banks' noncash collection service.

H. *Special Cash*—Special cash services represent a *de minimis* portion

(less than one tenth of one percent) of overall priced services provided by the Reserve Banks to depository institutions. In 2002, special cash services included wrapped coin, nonstandard packaging of currency orders and deposits, and, for part of the year, registered mail shipments of currency and coin. The offices that offered registered mail shipments discontinued this service in mid to late 2002. In 2003, special cash services consisted of wrapped coin for half of the year and nonstandard packaging of currency. The Helena office discontinued its wrapped coin service in June 2003, and the Seventh District will discontinue its nonstandard packaging service in December 2003. With the Helena office and the Seventh District exiting these businesses, the Reserve Banks will not provide any special cash services in 2004. Table 13 below shows 2002 and estimated 2003 cost recovery performance for special cash services.

Table 13

Special Cash Pro Forma Cost and Revenue Performance (\$ millions)					
YEAR	1 REVENUE	2 TOTAL EXPENSE	3 NET INCOME (ROE) (1-2)	4 TARGET ROE	5 RECOVERY RATE AFTER TARGET ROE [1/(2+4)]
2002	1.401	1.403	-0.003	0.074	94.8%
2003 (estimate)	0.409	0.485	-0.076	0.084	71.9%

1. *2002 Performance*—Special cash services recovered 94.8 percent of total expenses, including imputed expenses, and targeted ROE in 2002, compared with a targeted recovery rate of 103.4 percent. The underrecovery was due primarily to the Kansas City District and the Helena office discontinuing registered mail shipments of currency earlier than budgeted in 2002, but continued to incur support charges throughout the year.

2. *2003 Estimate*—Through August 2003, special cash services has recovered 72.1 percent of total expenses, including imputed expenses, and targeted ROE. For full-year 2003, the Reserve Banks project that special cash services will recover 71.9 percent of costs, compared with a targeted

recovery rate of 77.3 percent. Compared with 2002, total expenses are projected to decrease \$0.9 million, or 65.6 percent, and revenue is expected to decrease \$1.0 million, or 70.5 percent.

3. *2004 Pricing*—There is no special cash service planned for 2004, and no costs will be allocated to this service.

II. Private-Sector Adjustment Factor

A. *Background*—Each year, as required by the Monetary Control Act of 1980, the Reserve Banks set fees for priced services provided to depository institutions. These fees are set to recover, over the long run, all direct and indirect costs and imputed costs, including financing costs, taxes, and certain other expenses that would have been incurred, as well as return on

equity (profit) that would have been earned, if a private business firm provided the services. These imputed costs are based on data developed in part from a model comprising consolidated financial data for the nation's fifty largest bank holding companies (BHCs).¹³ The imputed costs and imputed profit are collectively referred to as the PSAF. In a comparable fashion, investment income is imputed and netted with related direct costs associated with clearing balances to estimate NICB.¹⁴

¹³ The peer group of the fifty largest bank holding companies is selected based on total deposits.

¹⁴ See companion notice, Federal Reserve Bank Services, elsewhere in today's **Federal Register**, on the change to the imputed investment income on clearing balances method for 2004. Using the