Board of Governors of the Federal Reserve System

Annual Report to the Congress on the Presidential $1 Coin Program

June 2011

2011 Report to the Congress on the Presidential $1 Coin Program

Background

Pursuant to section 104 of the Presidential $1 Coin Act of 2005 (Public Law 109-145), the Board of Governors of the Federal Reserve System is required to submit an annual report to the Congress on the remaining obstacles to the efficient and timely circulation of $1 coins; on consultations with industry representatives, the vending industry, and other coin-accepting organizations; and recommendations for legislative action that the Board may determine to be appropriate.

Recent Activities and Feedback from Depository Institutions

Since our 2010 annual report, the Federal Reserve Banks (the Reserve Banks) distributed nearly 290 million James Buchanan, Abraham Lincoln, Andrew Johnson, and Ulysses Grant Presidential $1 Coins, satisfying depository institution demand.[1] To facilitate this successful distribution, the Federal Reserve continued to refine the Presidential $1 Coin Program based on stakeholder input and experiences with previous Presidential $1 Coin releases. The Federal Reserve held meetings with depository institutions and community bankers, as well as with armored carrier representatives, to gather feedback about demand and potential obstacles to the circulation of $1 coins.[2]

At these meetings, industry representatives noted that the coins continue to be easy to order and that our communication about program dates and changes is effective. Participants again indicated that transactional demand for $1 coins has not increased since the start of the program and that overall demand continues to come primarily from collectors. Most meeting participants did not believe that demand would increase significantly for future coin releases, with the possible exception of the coins commemorating the most popular former Presidents. Some depository institutions stated that because of operational challenges associated with distributing the $1 coin to all of its branches and decreasing demand, as well as increased levels of $1 coin inventories at the branch level, they may not continue ordering $1 coin for all branches or may stop participating in the program altogether.

At these meetings during 2009, some depository institutions noted that more time was needed to allow remotely located branches to have the $1 coins on hand by the public release date. As a result, the Reserve Banks implemented a new special ordering period in 2010, beginning with the Millard Fillmore Presidential $1 Coin release.[3] We discussed the change to the ordering period in last year's report, but at that

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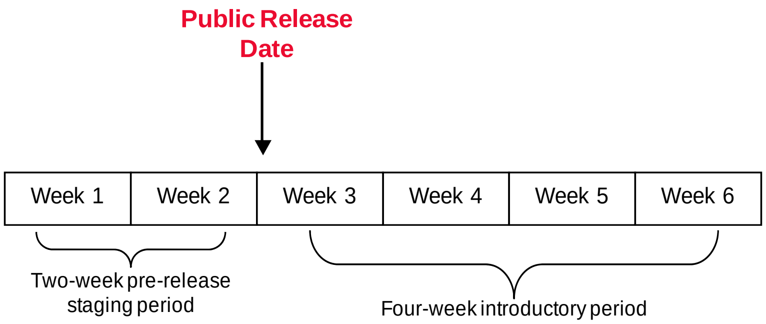
[1] The 2010 Annual Report to the Congress on the Presidential $1 Coin Program can be found at http://www.federalreserve.gov/boarddocs/rptcongress/dollarcoin/2010/dollarcoin2010.pdf

[2] Beginning in 2008, the Federal Reserve and the United States Mint agreed to meet with their respective coin user groups through each organization's normal channels each year of the program and share feedback as appropriate.

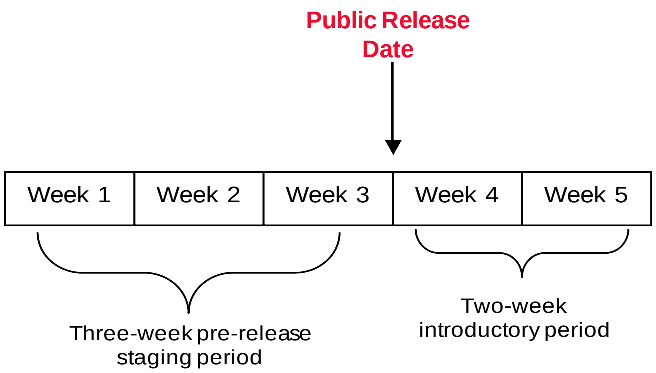
[3] The "special ordering period" consists of the both the "pre-release staging period" before the United States Mint's public release date (when depository institutions can order the coins from the Reserve Banks but cannot provide them to the public) and the "introductory period" after the release date (when depository institutions can provide the coins to the public and can continue ordering from the Reserve Banks).

time the depository institutions did not have sufficient experience to evaluate it fully. (See figure 1 below for diagrams of the previous and current special ordering periods.)

Figure 1
Previous Special Ordering Period
(through the Zachary Taylor Presidential $1 Coin)



Current Special Ordering Period
(beginning with the Millard Fillmore Presidential $1 Coin)



Depository institutions have stated that the new ordering period has improved the ability of their remotely located branches to order and receive coins by the release date, while accommodating their customers' ordering patterns.

Some of the Federal Reserve's largest cash customers have indicated that they are considering whether to continue providing the Presidential $1 Coin to customers.[4] If these depository institutions opt not to order Presidential $1 Coins, then the size of Reserve Bank orders from the United States Mint would decline significantly.

[4] These depository institutions provide coin and currency services to many small depository institutions that do not obtain cash services directly from the Federal Reserve.

Depository Institution Demand Continues to Decline

The Federal Reserve's experience with circulating commemorative coins other than $1 coins has differed significantly from our experience with $1 coins. In the early years of the 50 State Quarters® Program, in an effort to support the legislation, the Reserve Banks ordered more quarters than were necessary to meet demand and filled many depository institution orders with new coins rather than with available inventories of circulated quarters.[5] The residual coins from each release, plus the excess quarters redeposited by depository institutions, created excessive inventories at the Reserve Banks. The Reserve Banks were able to reduce those inventories over time, however, because of significant, ongoing transactional demand for quarters.[6]

For previous $1 coin programs, the Reserve Banks experienced large excess inventories for much longer periods of time because transactional demand was very low. The Presidential $1 Coin Program experience is consistent with those other $1 coin programs. Dollar coin payments to circulation increased significantly in the first year of the program but have declined since that time, and are now declining at a lesser rate, while receipts from circulation have significantly increased. We do not believe that demand will improve. We also note that a 2008 Harris poll found that more than three-fourths of people questioned continue to prefer the $1 note.[7]

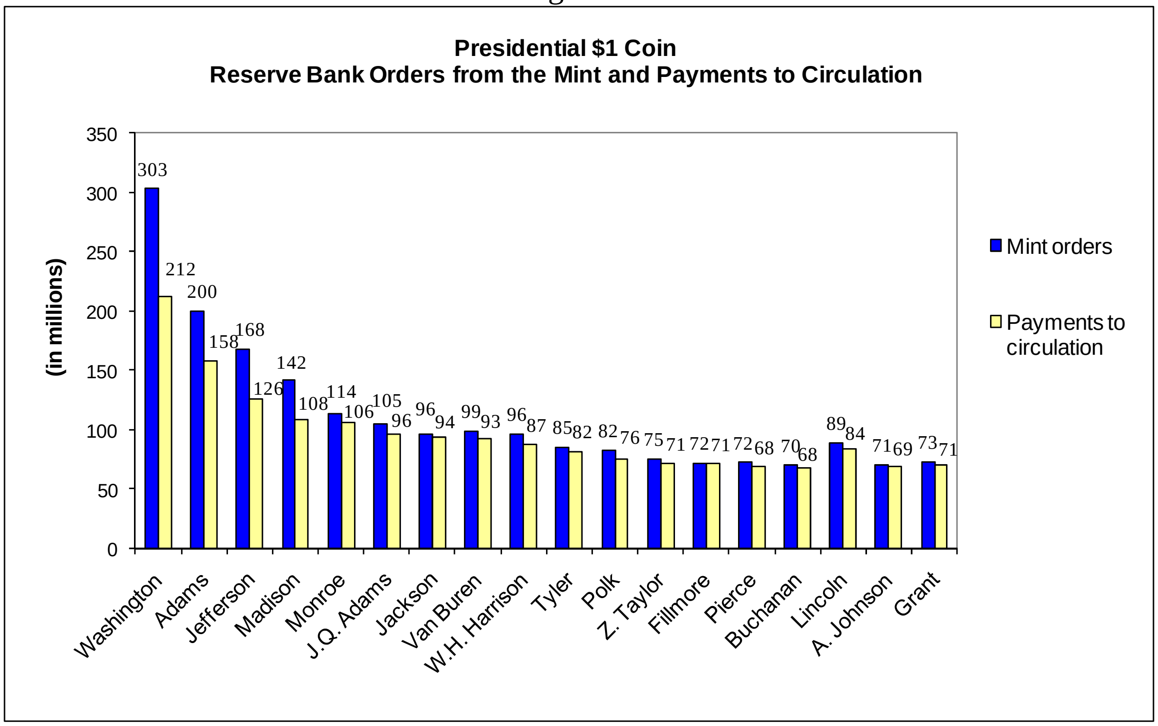
The Reserve Banks have studied detailed payment and inventory data for previous Presidential $1 Coin releases at the Reserve Bank offices and off-site coin terminals, supplemented these data with feedback from depository institutions about expected demand, and developed better forecasts for each successive release. The Reserve Banks have actively managed inventories throughout the special ordering period for each coin, relocating coins around the country, as necessary, to meet demand. As figure 2 indicates, however, depository institution demand has generally continued to decline, albeit at a decreasing rate.

[5] After the initial years of the 50 State Quarters Program, the Reserve Banks began to move to centralized management of coin ordering and distribution, which resulted in improved forecasts of coin demand. In 2008, the Reserve Banks fully centralized coin management at the National Cash Product Office, located at the Federal Reserve Bank of San Francisco.

[6] Because of lower payments of quarters to circulation during the financial crisis, Reserve Banks' quarter inventories increased significantly in 2008 and 2009; however, in 2010 and year-to-date 2011 demand has improved and Reserve Banks began to work down those inventories.

[7] http://www.reuters.com/article/idUSN1435329120080414

Figure 2



Note: We believe that the increase in demand for the Abraham Lincoln Presidential $1 Coin is because of his popularity as a president and does not reflect a change in the overall demand for the Presidential $1 Coin. We expect similar results for other popular presidents.

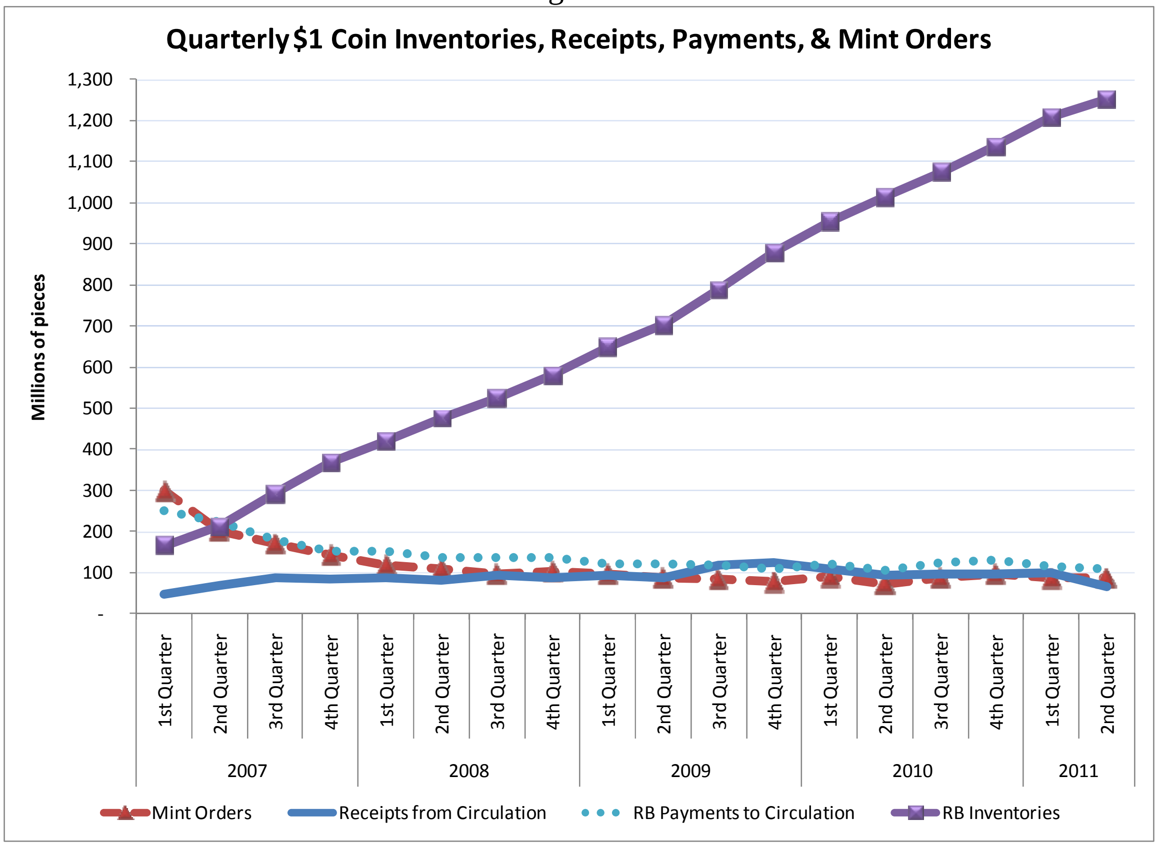
Significant Growth of $1 Coin Inventories

Because we have not seen an increase in demand, the Reserve Banks' $1 coin inventories have increased significantly over time, even though improved forecasting and ordering practices have reduced the number of residual coins at the end of each new release period. Payments to depository institutions of new, previously uncirculated Presidential $1 Coins represent 75 percent of all $1 coin payments. Additionally and more significantly, depository institutions have redeposited a significant number of excess $1 coins with the Reserve Banks. A recent sampling of Reserve Bank $1 coins inventories shows that depository institutions have redeposited roughly 40 percent of all Presidential $1 Coins issued. The Reserve Banks hold the residual coins as inventory at their offices and off-site coin terminals. Reserve Banks can only use excess inventories to fill the remaining 25 percent of payments to depository institutions because of the special ordering period requirement in the Presidential $1 Coin Act.

As shown in figure 3 and table 1, previous $1 coin supplies, plus the excess $1 coins returned by depository institutions, elevated total Reserve Bank inventories of all $1 coins to over $1.2 billion as of May 31, 2011, or about $1.1 billion more than the Reserve Banks held before the start of the Program. Based on historical Presidential $1 Coin payments and receipts, along with current inventory growth trends, the Federal Reserve estimates that it could hold more than $2 billion in $1 coins by the time the program is expected to end. Because of vault storage constraints and insurance limitations at coin terminals, the Reserve Banks have been forced to spend resources to expand storage capacity to hold the excess $1 coins, with no perceptible benefit to the taxpayer.

In particular, the Reserve Banks will construct a new storage facility at the Federal Reserve Bank of Dallas, at a cost of approximately $650,000. In addition, the Reserve Banks will incur costs of more than $3 million to ship the surplus inventory from other Reserve Banks to the new facility. We anticipate this will provide enough space to handle forecasted inventory growth through the end of the Presidential $1 Coin Program.

Figure 3



Note: The United States Mint has indicated that it paid to circulation $121 million Native American $1 Coins through its Direct Ship Program in 2009, $47 million in 2010, and $16 million in 2011 (as of June 1). The United States Mint also indicated that it has paid to circulation a total of $60 million Presidential $1 Coins via direct shipments since the start of the Presidential $1 Coin Program (as of June 1). These data are not included in the above Reserve Bank payments to circulation.

Table 1

Quarterly $1 Coin Inventories, Mint Orders, Receipts, & Payments
($ millions)

Quarter	1 Beginning RB Inventory	2 Mint Orders	3 Receipts from Circulation	4 RB Payments to Circulation	5 Ending RB Inventory 1+2+3-4
Q1/2007	67	301	47	250	165
Q2/2007	165	201	69	223	212
Q3/2007	212	171	87	178	292
Q4/2007	292	144	85	153	368
Q1/2008	368	119	87	153	421
Q2/2008	421	109	82	137	475
Q3/2008	475	96	93	138	526
Q4/2008	526	104	88	138	580
Q1/2009	580	96	92	119	649
Q2/2009	649	87	88	122	702
Q3/2009	702	85	118	117	788
Q4/2009	788	77	123	110	878
Q1/2010	878	89	108	120	954
Q2/2010	954	72	92	105	1,013
Q3/2010	1,013	88	96	123	1,074
Q4/2010	1,074	96	97	130	1,137
Q1/2011	1,137	86	101	116	1,208
Q2/2011(as of May)	1,208	88	66	110	1,252

Note: the Reserve Bank payments to circulation do not include the $1 coins that the United States Mint has issued directly into circulation. See note to figure 3.

Commemorative Circulating Coin Processes in Other Countries

To gain a broader perspective on the management of commemorative circulating coin programs, we reviewed the experiences of other countries. We found that other major industrial countries have implemented very different processes from the United States for issuing commemorative circulating coins. For example, the Eurosystem countries have regulations specifying that all commemorative circulating coins should be limited to the 2-euro coins. Eurosystem countries have also limited the quantities of these coins that these countries may issue.[8] Other countries, such as Canada, limit the issuance periods and continue to issue the traditional design simultaneously with the commemorative circulating coins. Some central banks (for example, the Bank of England and the Bank of Canada) are not involved in the distribution of commemorative circulating coins or do not accept the return of coins from depository institutions. These types of restrictions serve to minimize the number of excess coins produced by the mint or held by the central bank.

[8] The Eurosystem countries' regulations specify that quantities are limited to the higher of the following: 0.1 percent of the total 2-euro coins in circulation, or 5 percent of the total of 2-euro coins from the issuing country.

Recommendations for Legislative Action

Native American $1 Coin Requirement

Our first annual report to the Congress on the Presidential $1 Coin Program recommended that the Congress adjust its required minimum production for "Sacagawea design" $1 coins.[9] The Congress later reduced the Sacagawea production requirement in the Presidential $1 Coin Act with the enactment of the Native American $1 Coin Act (Public Law 110-82). Under the revised requirement, the number of $1 coins minted and issued in a year with the Sacagawea-design on the obverse shall not be less than 20 percent of the total number of $1 coins minted and issued in such year. The Reserve Banks' depository institution customers, however, have again indicated that they have experienced very little or no demand for Native American $1 Coins.[10] Given the lack of evidence to date that the Presidential $1 Coin Program will stimulate demand for $1 coins as a broad-based transactional medium, and a recent survey finding that nearly 60 percent of all Native American $1 Coins issued have been redeposited to the Reserve Banks by depository institutions, the requirement that a specified minimum number of coins be minted and issued in excess of actual public demand will continue to result in production and storage costs to the taxpayer without any offsetting benefits.

Therefore, we support the enactment of the United States Mint's legislative proposal to eliminate the 20 percent requirement in the Native American $1 Coin Act, by striking paragraph (5) of Section 5112(r) of title 31 of the United States Code, as contained in Section 119 of the Administrative Provisions for the Department of the Treasury in the President's Budget for Fiscal Year 2012.

Mandatory Introductory Period

The Federal Reserve has extensive experience successfully managing circulating commemorative coin programs. We have met demand for the 50 State Quarters® Program, the America the Beautiful Quarters Program, the Westward Journey Nickel Series, and the Lincoln Bicentennial One-Cent Program while maintaining operationally efficient inventory levels. The Presidential $1 Coin Program is the only circulating commemorative coin program to have statutorily mandated introductory periods in which Reserve Banks are required to make specific designs available in unmixed quantities. As discussed above, the Reserve Banks' inventory levels of Presidential $1 Coins are growing significantly. This inventory growth, in large part, is because of the introductory period requirement in the Presidential $1 Coin Act. The Reserve Banks must order each new design from the United States Mint even though the Reserve Banks have ample inventories of $1 coins. Therefore, we recommend that Congress eliminate the introductory period required by the Presidential $1 Coin Act, by striking paragraph (i) of Section 5112(p)(3)(D) of title 31 of the United States Code.

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[9] http://www.federalreserve.gov/boarddocs/RptCongress/dollarcoin/dollarcoin.htm

[10] Because of the lack of significant demand from Reserve Banks' depository institution customers for Native American $1 Coins and the Reserve Banks' high inventories of $1 coins, the Reserve Banks are not ordering Native American $1 Coins from the United States Mint. As indicated in the note to figure 3, the United States Mint is issuing these coins directly to the public. The coins end up at the Federal Reserve, however, as the public deposits them with their depository institutions, which then deposit them with their Reserve Banks.