BOARD OF GOVERNORS OF

THE FEDERAL RESERVE SYSTEM,

Washington, DC, December 5, 2005.

Hon. MICHAEL G. OXLEY,

Chairman, Committee on Financial Services, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: I am writing to provide you with information and perspective on H.R. 902 and S. 1047, the House- and Senate-passed versions of the “Presidential $1 Coin Act of 2005,” particularly as these bills would affect the Federal Reserve Banks. These bills are intended, in part, to increase the circulation of $1 coins. Prior to House passage, I provided comments on H.R. 902 in a letter dated March 15, 2005, and my colleague, Federal Reserve Board Governor Mark Olson, provided comments on a similar bill in an earlier letter dated August 31, 2004. Federal Reserve Board staff also briefed House and Senate staff on similar issues. I appreciate that the bills passed by the House and Senate address several of the comments that were raised in the previous letters and briefings; however, we continue to have concerns about several aspects of the proposed bills.

Both bills require the issuance of four new Presidential $1 coins each year. as well as the continued issuance of the Sacagawea $1 coin. Although both bills provide the Secretary of the Treasury with discretion to determine the appropriate number of Presidential $1 coins per design to issue each year, the Senate bill requires (and the House bill suggests) that the Secretary and the Board ensure that unmixed supplies of each newly-issued $1 coin be available to all institutions that want them during an introductory period. The experience of the Reserve Banks with regard to the state quarter and golden dollar programs has been that the commemorative coin designs increase Reserve Banks’ inventories well beyond levels that they would otherwise hold and increase operating costs associated with coin inventory management. The public initially tends to demand a large number of coins for numismatic purposes, but eventually many of those coins are returned to the Reserve Banks. This results in the accumulation of excessive inventories. Assuming that the flow back of excess Presidential $1 coins to the Reserve Banks is consistent with that of earlier commemorative coin designs, we estimate the net present value of the cost associated with storing excess Presidential $1 coins to be approximately $45 million over the life of the program. As we have previously suggested, slowing the rate at which new coin designs are introduced would help reduce these costs.

The Senate-passed bill would exacerbate the Reserve Banks’ inventory challenges, compared to the House-passed bill, by requiring the minting and issuance of Sacagawea $1 coins “in quantities no less than 1/3 of the total $1 coins minted and issued” under the Presidential $1 coin program. Establishing such a relative quota for Sacagawea coins, irrespective of the actual public demand for that specific coin design, would likely further increase the amount of excess coin held at the Reserve Banks. Federal Reserve Board staff estimates that the Sacagawea coin quota would further increase the cost associated with storing excess dollar coins by as much as one-third, or $15 million, to an estimated net present value of approximately $60 million over the life of the program. We would expect the Mint to continue to produce Sacagawea coins, and the Reserve Banks to put Sacagawea coins into circulation as needed, and we recommend that the final bill not include a specific requirement that a fixed fraction of new $1 coin production be dedicated to the Sacagawea design.

It has proven very difficult over time to stimulate public demand for the $1 coin. As you may know, the Government Accountability Office (GAO) has reported several times on a number of barriers to the effective circulation of $1 coins, including the U.S. public's continued preference for $1 notes. As a result, we urge that the final legislation be flexible enough to address the possibility of continued low public demand for the $1 coin and the potential implications of slow growth in usage for the costs incurred by the Mint and the Federal Reserve.

On another issue, the House-passed bill provides a sense of the Congress that at such time as the Secretary of Treasury determines to be appropriate, and after consultation with the Federal Reserve, the Secretary should declare the Susan B. Anthony $1 coin to be obsolete. Neither existing law nor the bill defines the word "obsolete." We continue to be concerned that the public might interpret such language as withdrawing the legal tender status of the coin. Further, if "obsolete" means that Susan B. Anthony coins would remain legal tender but that the Treasury and Federal Reserve should remove the coins from circulation, this would likely impose significant operational costs that would also reduce the potential value to the government of the proposed $1 coin program. For example, currently available equipment does not enable the Federal Reserve to sort the different $1 coins according to their designs in order to remove some designs from circulation. Therefore. we continue to believe that it would be prudent not to include language in the bill suggesting that the Susan B. Anthony coin will be withdrawn from circulation or declared obsolete.

We hope these thoughts help clarify some of the remaining technical issues with the two bills. As the House and Senate work to resolve the differences between the bills, we ask that you take into consideration the concerns outlined in this letter.

Sincerely,

DONALD L. KOHN,

Member of the Board.