



# UNITED STATES MINT

## Report to Congress on Operations

From April 1 through June 30, 2008  
Third Quarter Fiscal Year 2008



*John Quincy Adams  
Presidential \$1 Coin*



*New Mexico  
Commemorative  
Quarter-Dollar Coin*



*Arizona  
Commemorative  
Quarter-Dollar Coin*

**Third Quarter Fiscal Year (FY) 2008 Financials:** FY 2008 third quarter total revenue declined four percent from the same quarter last year. Circulating revenue decreased by 30 percent, and numismatic revenue decreased by 13 percent, while bullion revenue increased by 294 percent compared to third quarter FY 2007 revenues. FY 2008 year-to-date total revenue was one percent above FY 2007 third quarter cumulative revenue.

**Presidential \$1 Coin Act:** The sixth coin in the Presidential \$1 Coin Program honors President John Quincy Adams and was released to the general public on May 15, 2008. Shipments of the John Quincy Adams Presidential \$1 Coin to the Federal Reserve Bank totaled 105 million coins at the close of the third quarter of 2008.

**50 State Quarters® Program:** United States Director Edmund C. Moy joined Governor Bill Richardson to introduce the New Mexico commemorative quarter-dollar coin in a ceremony on April 7, 2008, at the New Mexico State Capitol Building in Santa Fe. On June 2, 2008, Director Moy joined Governor Janet Napolitano in introducing the Arizona commemorative quarter-dollar coin in a ceremony at the State Capitol Senate Lawn in Phoenix.

**Legislative Update:** Director Moy continues to discuss the benefits of "The Coinage Materials Modernization Act of 2007." This legislation would authorize the Secretary of the Treasury to prescribe the weights and compositions of U.S. circulating coins, which could save taxpayers billions of dollars.

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In a conference report to Public Law 104-52 that created the United States Mint Public Enterprise Fund (PEF), Congress directed the United States Mint to report quarterly on implementation of the PEF. This report is designed to fulfill that requirement.

# **State of the United States Mint**

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## **Vision and Goals of the United States Mint**

The vision of the United States Mint is "to embody the American spirit through the creation of our nation's coins and medals." The United States Mint is committed to minimizing costs, streamlining operations, and ensuring that every product illustrates our American values and history. The United States Mint established the following strategic goals to uphold its vision:

- Establish and reinforce the exclusive brand identity of the United States Mint;
- Create and execute the most effective coin and medal portfolio strategy;
- Achieve greater excellence in coin and medal design;
- Increase operational efficiency while meeting the highest quality standards;
- Develop optimal workforce and workplace culture.

## **Responsibilities of the United States Mint**

The United States Mint's primary responsibilities are the following:

- Enabling commerce by minting and issuing circulating coins in amounts necessary to meet the needs of the United States.
- Striking national medals, including Congressional Gold Medals.
- Manufacturing, marketing and selling proof and uncirculated coins, commemorative coins and medals to the general public. The value of these products, known as numismatic items, generally depends on factors such as mintage, rarity, condition and age.
- Manufacturing, marketing and selling gold, silver and platinum bullion coins through the American Eagle and American Buffalo Bullion Programs. The value of bullion coins generally depends on their weight in specific precious metals. These products are sold by the United States Mint to Authorized Purchasers. The coins are available to the general public through precious metal and coin dealers, brokerage companies and participating banks.
- Safeguarding United States Mint assets and non-United States Mint assets in the bureau's custody, including bullion reserves at the United States Bullion Depository at Fort Knox.

## **Current Business Environment**

### Price of Metals

The sustained increase in the prices of zinc, copper, and nickel over the past four years has driven up the cost of producing circulating coinage. Metal has become a significant portion of overall production costs and has begun to substantially erode seigniorage derived from circulating operations. Significant cost savings can be achieved by changing the composition of the circulating coins to less expensive alternatives. The United States Mint and the Department of the Treasury continue to monitor the proposed legislation, now H.R. 3330 and S. 1986, which would allow for the use of alternative materials to mitigate the effect of high metal prices. The United States Mint does not support the other versions of the legislation that have been introduced in the House because they are excessively prescriptive and would not secure permanent cost savings.

### Circulating Demand

Circulating revenues are currently lagging behind FY 2007 levels because of low demand for circulating coinage. The continued slowdown in economic activity has weakened demand and decreased circulating revenue. The Federal Reserve Bank has also experienced heightened returns of accumulated coins by commercial banks, resulting in high inventory levels and less need for new coin production. While circulating revenue may follow seasonal patterns and temporarily return to FY 2007 levels in the fourth

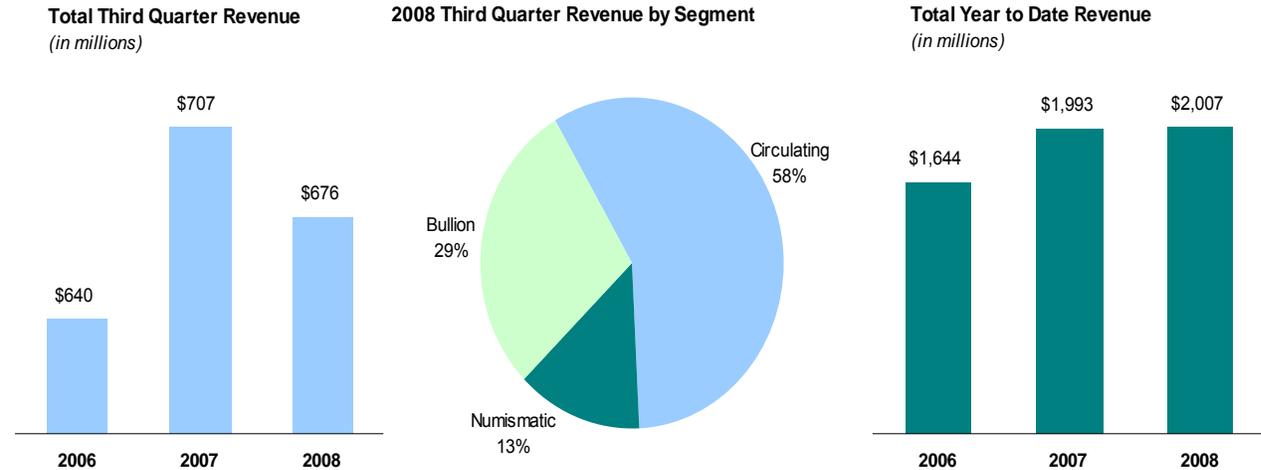
## **State of the United States Mint**

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quarter, a prolonged economic slowdown may result in continued suppressed demand for newly minted coins for use in the economy.

# Status of the Public Enterprise Fund

The United States Mint's Public Enterprise Fund is financed by the sale of circulating coins to the Federal Reserve and the sale of numismatic and bullion coins and other products to customers worldwide.



	Third Quarter Ended June 30,				Year to Date			
	2008	2007	2006	% Change 2007 to 2008	2008	2007	2006	% Change 2007 to 2008
<i>(\$ in millions)</i>								
Circulating	\$388	\$553	\$352	-30%	\$990	\$1,337	\$968	-26%
Numismatic	\$91	\$104	\$135	-13%	\$424	\$383	\$287	11%
Bullion	\$197	\$50	\$153	294%	\$593	\$273	\$389	117%
<b>Total Revenues</b>	<b>\$676</b>	<b>\$707</b>	<b>\$640</b>	<b>-4%</b>	<b>\$2,007</b>	<b>\$1,993</b>	<b>\$1,644</b>	<b>1%</b>

\*Numismatic figures w/out bullion and include surcharges.

## Circulating

Third quarter revenue from circulating operations totaled \$388 million in FY 2008, down 30 percent from FY 2007. The year-to-date circulating revenue totaled \$990 million, a 26 percent decrease compared with FY 2007 third quarter cumulative revenue and slightly higher than the same period in FY 2006. Circulating shipments to the Federal Reserve Bank totaled 3.2 billion coins in the third quarter, a 36 percent decline from the 5.0 billion coins shipped in the third quarter of FY 2007. FY 2008 year-to-date circulating shipments totaled approximately 7.2 billion coins, down 35 percent from FY 2007 third quarter cumulative shipments of 11.6 billion coins. Circulating coin shipments continued to decline during the third quarter of FY 2008 because of lower demand for newly minted coins from the Federal Reserve System.

Circulating coinage shipments for the fourth quarter FY 2008 are expected to be level with or slightly below the 3.2 billion shipped during the fourth quarter FY 2007. Demand for circulating coinage throughout FY 2008 has been considerably lower than FY 2007 because of slow economic activity resulting from broader market forces. Efforts by the Federal Reserve Bank to reduce inventories have also suppressed the demand for newly minted coins.

## Numismatic

Numismatic revenue for the third quarter of FY 2008 totaled \$91 million, down 13 percent from the same quarter in FY 2007. The release of fewer products during third quarter of this fiscal year, in comparison to FY 2007, contributed to this decline, as well as temporary unavailability of several precious bullion coins, such as Platinum Proof coins. This was due to re-pricing activities undertaken as a result of price

## **Status of the Public Enterprise Fund**

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volatility in the precious metals commodities markets. Year-to-date numismatic revenue through third quarter FY 2008 totaled \$424 million, up 11 percent from FY 2007 third quarter cumulative revenue.

Quarterly revenue is projected to increase significantly in the fourth quarter of FY 2008 because of the upcoming release of several new gold coin products, including American Buffalo 24-karat gold fractional coins and a special gold collectible product celebrating the date August 8, 2008 (8-8-08), a significant, once-in-a-lifetime event that is important in many Asian cultures. Additionally, strong sales of collectible products released in the third quarter are expected to continue.

### **Bullion**

Bullion revenues for the third quarter of FY 2008 totaled \$197 million, up 294 percent from the same quarter in FY 2007 and surpassing growth rates for the last three fiscal years because of unprecedented demand for bullion products. Year-to-date bullion revenue totaled \$593 million, 117 percent above FY 2007 third quarter cumulative revenue.

### **Consolidated**

The United States Mint's revenue from third quarter operations totaled \$676 million, down four percent from FY 2007 third quarter revenue but above the same quarter in FY 2006.

FY 2008 year-to-date total revenue was \$2.0 billion, up slightly from FY 2007 third quarter cumulative total revenue. FY 2008 cumulative revenue continues to be above FY 2007 levels as increases in numismatic and bullion sales have offset the decrease in circulating activity.

NOTE: Net circulating revenue (seigniorage) is used as a means of financing the national debt, while numismatic revenue may be used as current operating revenue. Furthermore, circulating revenue may not be used to offset numismatic losses, nor may numismatic revenue be used to augment seigniorage. Accordingly, consolidated financial reporting should be used for year-to-year comparison performances only.

## **Update on Activities**

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### **Presidential \$1 Coin Act**

#### John Quincy Adams Presidential \$1 Coin

On May 15, 2008, the John Quincy Adams Presidential \$1 Coin was released into general circulation. Shipments of the John Quincy Adams Presidential \$1 Coin to the Federal Reserve Bank totaled 105 million coins at the close of the third quarter of FY 2008. Shipments of the James Monroe Presidential \$1 Coin, released in the second quarter of FY 2008, totaled about 114 million coins. Total shipments of the Presidential \$1 Coin have steadily declined since the program began in the second quarter of FY 2007. Shipments of the previously issued Presidential \$1 Coin are as follows: George Washington Presidential \$1 Coin - 304 million coins, John Adams Presidential \$1 Coin - 200 million coins, Thomas Jefferson Presidential \$1 Coin - 170 million coins, and James Madison Presidential \$1 Coin - 142 million coins.

#### Demand and use of circulating \$1 coins

FY 2008 third quarter net pay, the difference between coins distributed by the Federal Reserve Bank to commercial banks and coins returned from commercial banks, for all \$1 coins, totaled 64 million coins, up five percent from the second quarter total of 61 million coins. This represented a 59 percent decline from the same quarter last fiscal year. Net pay for \$1 coins has steadily declined since the release of the first Presidential \$1 Coin in the second quarter of FY 2007.

Net pay for all \$1 coins in FY 2007 totaled 467 million coins. FY 2008 annual net pay for \$1 coins is currently tracking at approximately 260 million coins. This steep decline is largely attributable to a steady decline in orders for \$1 coins from commercial banks because of overestimation of first-year demand and higher than normal returns from commercial banks since the beginning of the program. The reduced demand for the Presidential \$1 Coin is likely the result of collector demand waning as the program enters its second year. However, net pay for \$1 Coins is expected to recover in FY 2009, reaching about 425 million coins. This estimate is based on returns to the Federal Reserve Bank declining as commercial banks' inventories of \$1 Coins normalize. It also assumes that the robust circulation program will stimulate transactional demand, offsetting the effect of declining collector demand.

A quarterly survey commissioned by the United States Mint found that an estimated 23 percent of the United States adult population possessed a Presidential \$1 Coin within the 12-month period prior to taking the survey and that 11 percent of the same population had used a Presidential \$1 Coin in a transaction during that time. Similar questions posed during the first quarter of FY 2008 revealed that 15 and eight percent of the population had possessed and used the coin, respectively.

During the third quarter of FY 2008, the United States Mint continued work on implementing a pilot plan for establishing robust circulation of Presidential \$1 Coins. The Office of \$1 Coin Programs is executing this circulation program in four pilot market areas during the fourth quarter of FY 2008 and the first quarter of FY 2009. The initial goal of the marketing and public relations campaign is to achieve a 100 percent increase in \$1 coin usage in the four markets, as measured by the quarterly survey. If successful, the program will be rolled out at the national level.

#### Outreach

As part of a local activation initiative with financial institutions, the Office of \$1 Coin Programs met with a total of 96 bank managers to familiarize them with the program and provide materials to help promote the use and distribution of \$1 coins. These meetings resulted in key attitudinal and behavioral findings. A majority of bank managers and staff still perceive the Presidential \$1 Coin Program as a numismatic collectible series made available to the general public through the Federal Reserve System. Viewed primarily as a collectible, rather than currency, it is generally dispensed in rolls, upon request, and few banks dispense the coins proactively as ordinary change during normal transactions. Possibly because of this, the Federal Reserve Bank's minimum ordering quantity of \$1 coins (\$1,000) is excessive for most bank branches to dispense in a timely manner. Older coins languish on vault shelves, and banks are reluctant to order more. To address concerns about the 1,000-coin minimum ordering quantity, in June

## **Update on Activities**

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the United States Mint introduced the Circulating \$1 Coin Direct Ship Program. This Program makes quantities of 250 or 500 rolled circulating \$1 coins available to customers at cost with free shipping and handling. The response to the Program was so strong (1.5 million shipped as of June 30<sup>th</sup>) that initial inventory quantities were exhausted within a few weeks. To address this demand, in addition to re-stocking the currently issued Presidential \$1 Coin, the United States is adding quantities of older \$1 coin issues still in United States Mint inventory.

The Office of \$1 Coin Programs continues to modify its approach and outreach to financial institutions and the public beginning the fourth quarter of FY 2008.

### First Spouse 24-Karat Gold Coins

In accordance with the Presidential \$1 Coin Act, the United States Mint is issuing one-half ounce, 24-karat gold proof and uncirculated coins commemorating our Nation's First Spouses, in the order they served. The Louisa Adams Gold Coin, the second in the series for the 2008 calendar year, was released on May 29, 2008. Sales as of June 30, 2008, were 6,011 coins, approximately 14 percent of a 40,000 maximum mintage.

### **50 State Quarters<sup>®</sup> Program**

#### New Mexico Quarter

United States Mint Director Edmund C. Moy joined Governor Bill Richardson to introduce the New Mexico commemorative quarter-dollar coin in a ceremony on April 7, 2008, at the New Mexico State Capitol Building in Santa Fe. Secretary Stuart Ashman, Department of Cultural Affairs, served as master of ceremonies. The New Mexico quarter was the second quarter of 2008, and the 47th to be introduced in the United States Mint's 50 State Quarters<sup>®</sup> Program. The reverse of the New Mexico quarter features a Zia sun symbol over a topographical outline of the state with the inscription "Land of Enchantment." The coin's design also bears the inscriptions "New Mexico" and "1912."

#### Arizona Quarter

On June 2, 2008, Director Moy joined Governor Janet Napolitano to introduce the Arizona commemorative quarter-dollar coin in a ceremony at the State Capitol Senate Lawn in Phoenix. The Arizona quarter was the third state commemorative quarter-dollar coin of 2008, and the 48th to be introduced in the United States Mint's 50 State Quarters<sup>®</sup> Program. The reverse of the Arizona quarter features an image of the Grand Canyon with a Saguaro cactus in the foreground. A banner reading "Grand Canyon State" separates the two images to signify that the Saguaro cactus does not grow in the Grand Canyon. The coin also bears the inscriptions "Arizona" and "1912."

### **Legislative Update**

#### Alternative Materials For Circulating Coins

Legislation recommended by the United States Mint and Department of the Treasury has been introduced in the House of Representatives as H.R. 3330 and in the U.S. Senate as S. 1986, "The Coinage Materials Modernization Act of 2007." Director Moy testified before the House Subcommittee on Domestic and International Monetary Policy, Trade and Technology on March 11, 2008.

H.R. 3330 assigns the responsibility for determining the metal content of all circulating coinage to the Secretary of the Treasury. This is the approach recommended by the Department of the Treasury to fairly and efficiently manage the highly technical evaluations of alternative metals using the public process and public protections afforded by the Administrative Procedures Act. All other statutory provisions applicable to coinage – denominations, size, required inscriptions and other factors – are unaffected.

The Department of the Treasury is requesting the ability to determine the metal content of the Nation's coinage because it would ultimately result in significant taxpayer savings by providing the Department

## **Update on Activities**

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with the flexibility to respond to changing market conditions through an open, fair and deliberative process.

On May 6, 2008, the United States House of Representatives passed, by voice vote, a different approach to the problem, H.R. 5512. The Director of the United States Mint wrote to Chairman Barney Frank on May 6, 2008, stating that "...provisions of the bill are too prescriptive and limiting to allow for the successful implementation of the Act without severely jeopardizing significant and lasting cost savings for the American taxpayer."

H.R. 5512 has been referred to the Senate Committee on Banking, Housing and Urban Affairs. The United States Mint continues to discuss the benefits of S. 1986 with the Committee and asking for consideration of the legislation during the 110<sup>th</sup> Congress.

### Congressional Gold Medals

The United States Congress passed legislation, which the President has signed into law, to award Congressional Gold Medals to Daw Aung San Suu Kyi (P.L. 110-209), to Edward William Brooke (P.L. 110-260), and posthumously to Constantino Brumidi (P.L. 110-259). The United States Mint has begun work to create each of these medals.

### Legislation Approved to Authorize a Commemorative Coin for 2010

On June 18, 2008, the United States Congress passed H.R. 634, the American Veterans Disabled for Life Commemorative Coin Act. It included a revision suggested by the United States Mint to improve the designs that can be considered for the commemorative coins.

### Legislation to Authorize a new Palladium Coin Program

On May 15, 2008, the House of Representatives approved, by a vote of 415 to 0, H.R. 5614, "Original Saint Gaudens Double Eagle Ultra High Relief Palladium Bullion Coin Act." This legislation would add palladium to the current gold, silver and platinum bullion coin programs that the United States Mint is authorized to conduct. The measure passed by the House of Representatives reflected many changes the United States Mint suggested to the lead sponsor, Representative Michael N. Castle (R-DE). The bill has been referred to the Senate Committee on Banking, Housing and Urban Affairs.

## **Medals**

In June, artists began designs for the medal honoring the second term of President George W. Bush, and they are scheduled to be presented to the White House in July. In May, artists developed designs for the medal honoring the Secretary of the Treasury, and they were transmitted to Secretary Paulson for review in late June. In late June, artists were tasked to develop additional designs for the Director of the United States Mint.

## **Coin Designs**

### 2009 Abraham Lincoln Bicentennial One-Cent Coin Redesign Program Process

On April 21, 2008, the Secretary of the Treasury approved the four reverse designs honoring Abraham Lincoln's life.

### 2009 Louis Braille Commemorative Coin Program Design Process

On April 21, 2008, the Secretary of the Treasury approved the designs honoring the bicentennial of the birth of Louis Braille and Braille Literacy efforts.

### 2009 Ultra High Relief Double Eagle Gold Coin (24k)

On April 24, 2008, the Secretary of the Treasury approved designs for a 2009 coin based on the 1907 Saint-Gaudens Double Eagle Ultra High Relief \$20 Gold Coin.

## **Update on Activities**

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### 2009 First Spouse Gold and Medal Design Process

In April, the designs for the five obverse and reverse designs (both coin and medal) honoring Anna Harrison, Letitia Tyler, Julia Tyler, Sarah Polk, and Margaret Taylor were presented to the Federal advisory bodies.

### 2009 Native American \$1 Coin Program Design Process

In April, the design theme for the Native American \$1 Coin 2009 reverse was presented to the Citizens Coinage Advisory Committee (CCAC). Candidate designs were then developed and reviewed by the consulting groups -- the National Congress of American Indians, the Senate Committee on Indian Affairs, and the Congressional Native American Caucus of the House of Representatives. The candidate designs (obverse, reverse, and edge-lettering), and the recommendations of the consulting groups were then presented to the Federal advisory bodies in June. The final recommendation is pending approval.

The themes for the first 10 years of the program were revised, taking into consideration the recommendations of the consulting groups, in consultation with the Smithsonian's National Museum of the American Indian.

### 2009 District of Columbia and United States Territories Program

In April, the design candidates were submitted to the District of Columbia and the five U.S. territories (Puerto Rico, Guam, American Samoa, U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands) for review. Revisions were made to the designs based on recommendations, and the preferred designs (one per theme) were presented to the Federal advisory bodies for review in May. The final design recommendations of the mayor and governors were received in late June, with final approval pending by the Secretary.

### 2009 American Eagle Platinum Design Process

The reverse design for the 2009 American Eagle platinum coin is the first in a new six-year series that highlights the principles of the United States Constitution Preamble. The design theme for 2009, *To Form a More Perfect Union*, is based on a narrative prepared by the Chief Justice of the United States. Designs were developed in May and June. The candidate designs for the reverse and the eagle privy mark will be presented to the Commission of Fine Arts and the CCAC.