



Banking & Treasury Management

Best Practices for Minnesota Local Governments

Today's Agenda

- Primary cash management tools
- Paying for bank services
- Managing cash balances efficiently
- Balances vs. sweep
- Banking services RFPs

Primary Cash Management Tools: Collection

In branch

- Tax & utility payments
- Remote deposit

Vault

- Virtual vault

ACH debit origination

- Utility payments
- Retiree collections
- Check conversion

Primary Cash Management Tools: Collections

Online & mobile

- Bill pay
- 3rd party vendors
- E-check
- Credit cards

Perfect receivables

- Proxy account numbers

Credit cards

- Fines
- Permits
- Golf courses

Primary Cash Management Tools: Disbursements

- Fraud protection
 - ✓ Positive pay
 - ✓ ACH debit filters or blocks
 - ✓ Tokens/virtual tokens
 - ✓ Mobile device security
- Purchasing card
- ACH & wire transfer
- Payroll direct deposit & paycard



Primary Cash Management Tools: Control

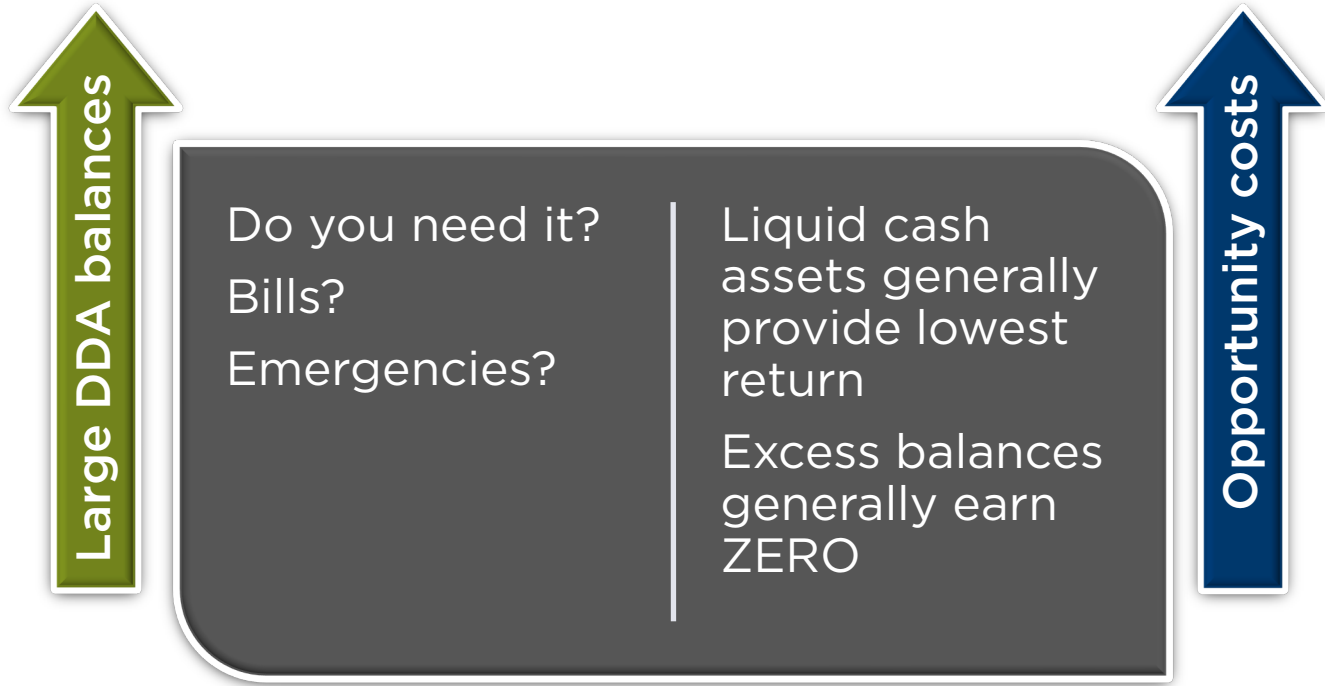
- Online information reporting
- Investment sweep account
 - ✓ Repurchase agreements
 - 102% collateralization required
 - ✓ Money market accounts
 - Must comply with state statutes
 - Not collateralized (Govt or U.S. Treasury Fund often available)

Paying For Bank Services: Typical Fees

- Hard charges
- Earnings credit
- Compensating balances
- Account analysis statement

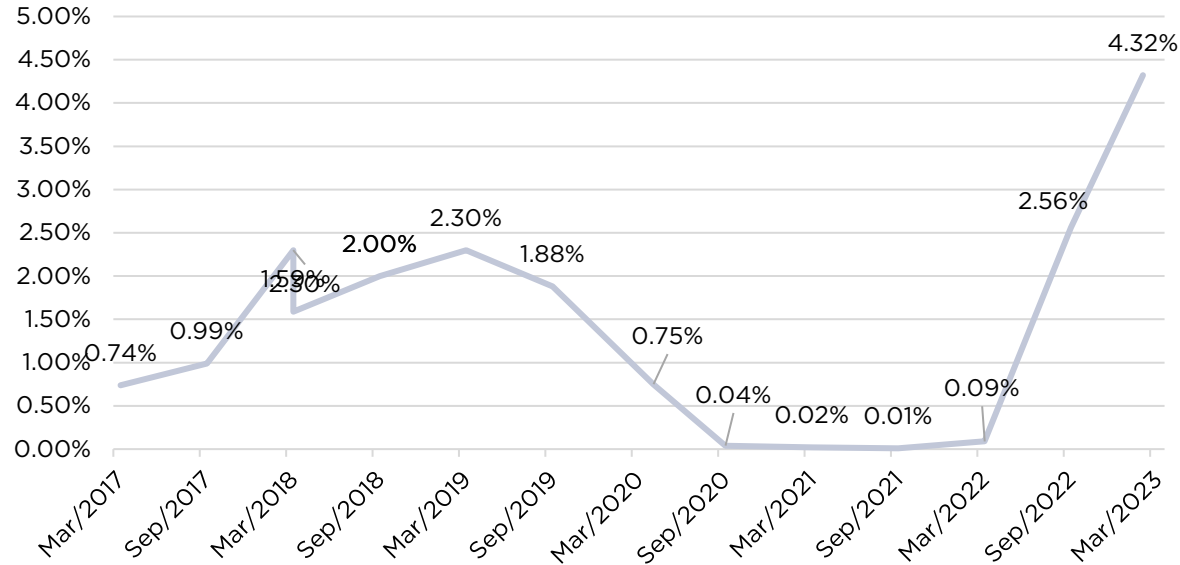


Managing Cash Balances Efficiently: The DDA Conundrum



Managing Cash Balances Efficiently

MN Trust Historic 7-Day Yields
(Semi-Annual Snapshots)



Source: S&P Global Ratings Pool Profile <http://investmtrust.org/news.aspx>

Managing Cash Balances Efficiently

The Process

Develop
a cash
forecast

Analyze
bank
services

Investigate
investment
options

Managing Cash Balances Efficiently

The Process



**Develop a
cash
forecast**

- Commit to paper
- Keep it current
- Cash needs met: 12 months

Managing Cash Balances Efficiently

The Process



Analyze
bank
services

- Are bank charges competitive?
- Are you using services you're paying for?
- How are you paying for services?

Managing Cash Balances Efficiently

The Process



Investigate
investment
options

- If you can invest, in what?
- For how long?
- If balances fall, do charges & fees go up?

Reading Your Account Analysis Statement



Balance summary

- Ledger vs. collected vs. investable balance

Results summary

- Earnings credit vs. analyzed fees

Bank service detail

- Review services & charges at least annually

Account Analysis: 2023 Comparison

Earnings credits

- Rates: 0.25% - 1.55% (0.75% most common)

Repurchase sweeps

- Rates between 0.25% - 0.75% (0.15% most common)

12-month certificates of deposit

- Rates from 4.20% to 4.85%

Balances or Sweep? How to Choose

IF...	...THEN
<ul style="list-style-type: none">Earnings credit > sweep/investment rates	<ul style="list-style-type: none">MAY be better to pay fees with balances
<ul style="list-style-type: none">Sweep or investments > earnings credit	<ul style="list-style-type: none">Invest as much as possiblePay bank fees
<ul style="list-style-type: none">More balance than needed for bank fees	<ul style="list-style-type: none">Sweep or invest excess balances

- Even if earnings credit > than sweep: could still pay to sweep
 - ✓ FDIC charges on ledger balances, 10% Federal Reserve requirement
- Repo sweep benefit – 102% collateralization

Balances or Sweep? Example #1

<u>Assumptions</u>	<u>Balances</u>	<u>Sweep</u>
Avg monthly investable balance	\$4,500,00	\$0
Earnings Credit Rate	0.50%	0.00%
Sweep interest rate	0.00%	0.40%
FDIC Charge on ALB	(\$607)	(\$68)
Sweep Fee	\$0	(\$100)
Monthly service charges	(\$1,225)	(\$786)
Earnings credit	\$1,875	\$0
Sweep earnings	<u>\$0</u>	<u>\$1,500⁽¹⁾</u>
Net (Payment)/Receipt	\$650	\$714

Benefit of using a sweep & paying hard charges = \$64

Balances or Sweep? Example #2

<u>Assumptions</u>	<u>Balances</u>	<u>Sweep</u>
Avg monthly investable balance	\$4,500,000	\$0
Earnings Credit Rate	0.50%	0.00%
Sweep interest rate	0.00%	0.25%
FDIC Charge on ALB	(\$607)	(\$68)
Sweep Fee	\$0	(\$100)
Monthly service charges	(\$1,225)	(\$786)
Earnings credit	\$1,875	\$0
Sweep earnings	<u>\$0</u>	<u>\$938⁽¹⁾</u>
Net (Payment)/Receipt	\$650	\$152

If sweep rates significantly < ECR, better to use balances

⁽¹⁾ \$4,500,000 swept daily

Balances or Sweep? Example #3

<u>Assumptions</u>	<u>Balances</u>	<u>Sweep</u>
Avg monthly investable balance	\$6,500,000	\$5,000,000
Earnings Credit Rate	0.50%	0.00%
Sweep interest rate	0.00%	0.25%
FDIC Charge on ALB (\$7MM)	(\$839)	(\$659)
Sweep Fee	\$0	(\$100)
Monthly service charges	(\$1,459)	(\$1,227)
Earnings credit	\$2,708	\$1,250
Sweep earnings	<u>\$0</u>	<u>\$313⁽¹⁾</u>
Net (Payment)/Receipt	(\$0)	\$336

Benefit of using sweep & paying hard charges = \$336

Balances or Invest? Example #4

<u>Assumptions</u>	<u>Balance</u>	<u>Sweep</u>	<u>Invest</u>
Avg monthly investable balance	\$4,500,000	\$0	\$2,000,000
Earnings credit rate	0.50%	0.00%	0.50%
Sweep interest rate	0.00%	0.25%	0.00%
Investment rate of return	0.00%	0.00%	4.50%
FDIC Charge on ALB	(\$607)	(\$68)	(\$270)
Sweep Fee	\$0	(\$100)	\$0
Monthly service charges	(\$1,225)	(\$786)	(\$888)
Investment earnings	<u>\$1,875</u>	<u>\$938 ⁽¹⁾</u>	<u>\$10,208 ⁽²⁾</u>
Net (Payment)/Receipt	\$650	\$152	\$9,320

⁽¹⁾ 4,500,000 swept daily

⁽²⁾ \$2,000,000 invested in laddered portfolio with 1-year average weighted maturity

What to Remember

- **Develop a cash flow forecast**
 - ✓ Minimize excess/uninvested balances
 - ✓ Reduce bank costs: optimize investment revenue
- **Choose bank service payment method carefully**
 - ✓ Hard charges
 - ✓ Compensating balances
 - ✓ Earnings credit
- **Explore investment alternatives**

Let's Talk!



Banking Services RFP: Why?

Periodic relationship review

- Policy may mandate

Unhappy with current provider

- Personnel change
- Bank sale

Competitive shopping

- Pricing
- Interest rates

New service availability

- Does current provider offer?

Banking Services RFP: Internal Team



Banking Services RFP: Resources

- Other municipalities
- Current financial institution
- Consultants
- GFOA
- Association of Financial Professionals (AFP)
 - ✓ Standardized RFPs
 - ✓ Fee for non-members



Banking Services RFP: Process



Write the RFP: What to Include

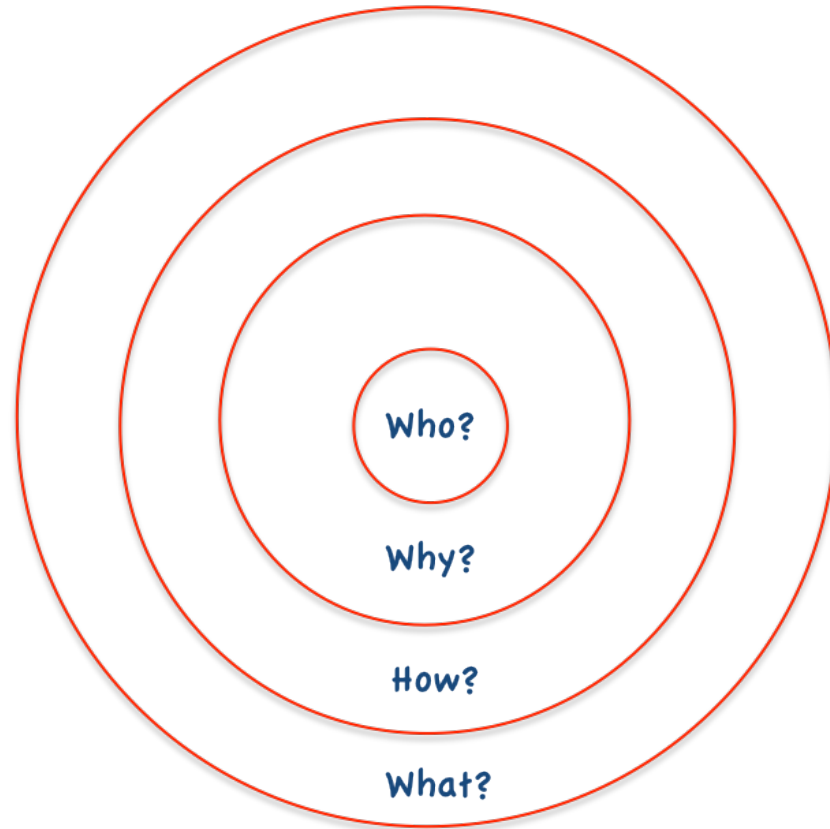
- Current situation & services
- Future plans & needs
- Questions about:
 - ✓ Financial institution requirements
 - ✓ Desired services
 - ✓ Relationship management
- Account analysis volumes
 - ✓ Avg. monthly volume
 - ✓ Highs/lows, if seasonal
- Reference requests
- Deadlines
- Contact for questions of clarification

Evaluate the RFP: Using the Matrix

- Current relationships
- Availability & quality of required services
- Implementation plan
- Service quality
- Personnel stability & experience
- Proximity
- Community involvement



Banking Services RFP: 4 Simple Questions



Let's Talk!



Your Presenters



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