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Banking Services: How to Determine What You Need and How to Get It

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Banking Services: How to Determine What You Need and How to Get It



SPEAKERS

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OVERVIEW

- Identifying Needs
- Selecting Providers
- Case Study: Kansas City, Missouri
- Case Study: Town of Cary, NC
- Managing the Banking Services Relationship

IDENTIFYING YOUR NEEDS



IDENTIFYING YOUR NEEDS

- What do we do today?
 - ❖ Analysis – current services, systems and procedures
- What are our goals? (efficiency, modernization, lower costs)
- What is our typical number of annual receivables?
 - ❖ Are there ebbs and flows that need to be addressed?
 - ❖ How many different points of service?
- What is our typical number of annual payables?
 - ❖ Are there ebbs and flows that need to be addressed?
 - ❖ How many checking accounts?
- What service improvements are needed?
 - ❖ Do we want to outsource any functions?
 - ❖ Do we want to add services – internal or external?

IDENTIFYING YOUR NEEDS

- What process improvements are needed?
 - ❖ Have there been changes to internal policies and procedures (e.g., P-Cards?)
 - ❖ Have there been any breaches of conduct or systems that need to be addressed?
- What "new" products are banks offering?
- What new technologies should we consider?
- Am I clear on state/local laws that impact my government and banking services?
- Do I want/need to hire an outside advisor to help with the RFP/selection process?

BANKING SERVICES

PAYMENTS

- ACH and wires
- Controlled disbursements
- Comprehensive payables
- Card solutions (purchasing cards, prepaid cards, travel)
- The Payment Network
- Electronic payments -- Bank Online Platform
- Enhanced interoperability –
- Global solutions and FX
- Trade/supply chain solutions

RECEIPTS

- Remote deposit service
- Image lockbox
- Image cash letter
- Long term image archive/access
- The Receivables Network
- Integrated receivables
- Global solutions and FX
- Trade/supply chain solutions
- Merchant Processing

LIQUIDITY/RISK

- Account reconciliation
- Depository + and zero balance accounts
- Account structure advisory
- Investment solutions
- Global solutions and FX
- Working capital management advice to minimize idle cash

BANKING SERVICES

PLATFORM

- Manage accounts globally from a single platform
- Make payments, track receipts, view account transactions – all online
- Current and previous day information reporting
- Online statements
- Cash forecasting
- Account activity alerts –email notifications
- Mobile/text banking
- 24/7 complimentary support and training

FRAUD PREVENTION

- Check positive pay and payee positive pay
- ACH blocks/filters
- ACH positive pay
- Account reconciliation
- Card solutions
- Online/mobile security

IDENTIFYING YOUR NEEDS

- Who is part of the Banking Services RFP team?
 - ❖ Formulation of scope
 - ❖ Evaluation of responses
- What other parties/departments should be included?
- What is our timeframe?
 - ❖ Developing RFP
 - ❖ Reviewing responses
 - ❖ Interviews
 - ❖ Implementation
- What is our approach to costs associated with banking services?
- Does your government have the wherewithal to change banks if that is determined necessary?

SELECTING PROVIDERS



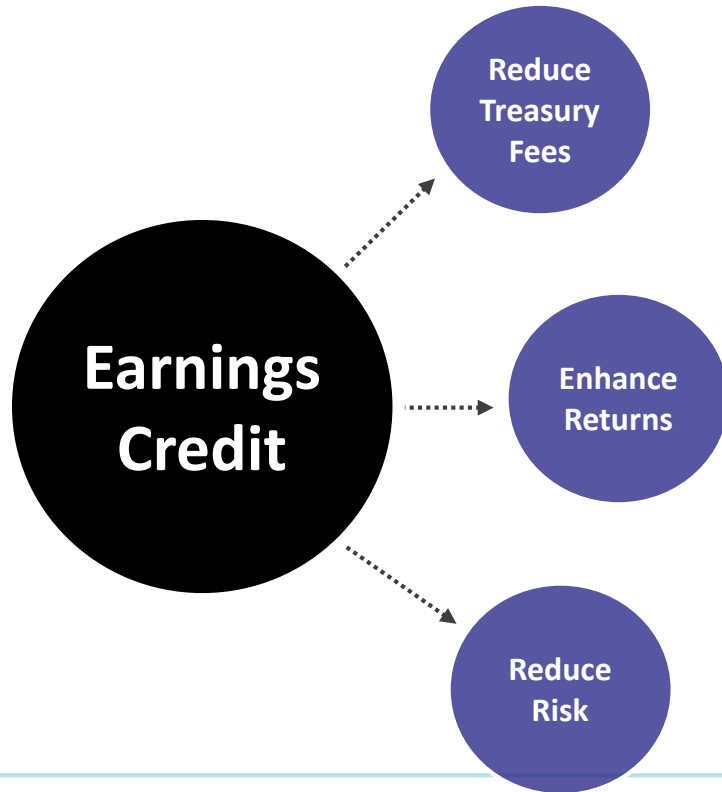
GFOA BP: Procurement of Banking Services

- Establish a procurement process
 - ❖ Periodic review
 - ❖ Defined due diligence
- Know state and local laws and regulations for banking services
- Use a RFP process
- Independently evaluate creditworthiness of bank

GFOA BP: Procurement of Banking Services

- Identify central point of contact
 - ❖ For government
 - ❖ For the bank
- Contractual relationship
 - ❖ Specify services to be provided
 - ❖ Tri-party depository contracts that require custodian to comply with collateral requirements
 - ❖ Availability schedule of deposited funds
 - ❖ Fees (direct, compensating balances, or mixed)
 - Earnings credit rate
 - Reserve requirements
 - Deposit insurance fees
 - ❖ Other compensation components

FEES/EARNINGS CREDIT



- Average positive collected balance is calculated by adding all positive daily collected balances in noninterest-bearing demand deposit accounts during the month and dividing by the number of days in the month
- Average collected balances earn a preferred Earnings Credit Rate (ECR)
- The resulting value is an “earnings allowance” used to offset all or part of your service fees
- Managed via monthly Account Analysis statement

Example
What is the Earnings Credit available to offset P*V charges for the month assuming an ECR Rate of **0.20%** and **\$1MM** in balances?

Avg. Collected Balances	ECR Rate	# Days in Month	Earnings Credit to offset fees
\$1MM	0.20% OR .0020	30 ÷ 365 5 OR 0.0822	\$164.40

Answer
\$164.40. This is the amount service charges are reduced for the month.

Hypothetical example

GFOA BP: Procurement of Banking Services

- Evaluate your entity's needs in comparison to costs and benefits
- Electronic services
 - ❖ Balance and transaction-reporting services
 - ❖ Stop payments
 - ❖ Payment capabilities
 - ❖ Deposit capabilities
 - ❖ Transmitted account analysis and statements
 - ❖ Digitized storage of paid checks and statements
 - ❖ Stale date check management
 - ❖ Access to safekeeping/custodial information
 - ❖ Access to investment performance reporting

GFOA BP: Procurement of Banking Services

- Accounts
 - ❖ Controlled disbursement account
 - ❖ Collection account
 - ❖ Zero-balance account
 - ❖ Interest-bearing account
 - ❖ Investment sweep account
- Security features
 - ❖ Positive pay
 - ❖ Reconciliation services
 - ❖ ACH blocking/filtering
 - ❖ Check to ACH conversion
 - ❖ Non-sufficient funds
 - ❖ Collateral requirements

SPOTLIGHT: ACH FRAUD

The 2017 AFP Payments Fraud Survey¹ indicates:

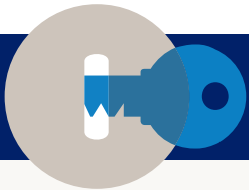
78% Of companies surveyed in 2017, experienced actual or attempted payment fraud

28% Were affected by ACH debit fraud

13% Experienced ACH credit fraud

Top reasons for ACH fraud:

- Untimely account reconciliation
- Untimely ACH returns
- No prevention tools



Key ACH fraud prevention services

Authorization Service

Establish authorized incoming ACH transactions

Blocks

Blocks unauthorized ACH received items (except bank settlement)

- Generic – blocks all debits and/or credits
- Specific – blocks specified transactions types

Positive Pay

View, pay or return unauthorized ACH transactions

Universal Payment Identification Code (UPIC)

A code assigned to a replace the bank account number during the processing of ACH credits

FRAUD PREVENTION SOLUTIONS



Powerful tools for preventing fraud...

Check Print & Mail services is fully integrated with Account Reconciliation and Positive Pay services, and check issue data is automatically delivered to our reconciliation area.

Positive Pay

Helps prevent potential fraud by quickly identifying questionable check payments and bringing them to your attention for a pay or return decision.

Payee Positive Pay

Helps detect false or altered payee names on checks presented to the bank.

Account Reconciliation

Automatically balances items posted to accounts and provides full detail on paid and outstanding items for better visibility to your cash positions.

... to help ensure your payment integrity.

GFOA BP: Procurement of Banking Services

- Treasury management services
 - ❖ Lockbox services
 - ❖ Credit card/Merchant services
 - ❖ Safekeeping or custodial arrangements (DVP) for investing
 - ❖ Procurement cards
 - ❖ Stored value (payroll) cards
 - ❖ Web links for internet payment services
- Other services
- Consider using RFI before RFP to help determine scope
- Work done prior to RFP is important
- Consult similar jurisdictions

RFP FOR BANKING SERVICES CHECKLIST

- Background information and Summary
- Timeline for the procurement process
- Minimum qualifications
- Scope of Banking Services
 - ❖ Core
 - ❖ Optional
- Bidding Instructions
- Proposal Evaluation
 - ❖ Determining Evaluation Criteria
 - ❖ Transparent Evaluation Process
 - ❖ Paying for banking services: apples to apples comparison
- Other Items to Include in the RFP
 - ❖ Entity information
 - ❖ Investment and other policies
 - ❖ Standard Contract Documents

IMPLEMENTING THE DECISION

- Establish a project plan
 - ❖ Work with the selected bank and your IT department to develop
 - ❖ Allow plenty of time
- Provide information to affected parties
- Flip the switch
 - ❖ Consider phasing in services over time
 - ❖ Transition between banks
 - ❖ Contingency plans in case something goes wrong
- Monitor transactions closely at first
 - ❖ Daily online access
 - ❖ Statement reconciliation
- Ensure fees are as proposed

CASE STUDY: CITY OF KANSAS CITY, MO



CITY OF KANSAS CITY, MO

- 2018 RFP process for banking services
 - ❖ First RFP in about 10 years!
 - ❖ Stayed with incumbent banks – no changes
 - ❖ Only included banking services – did not mix purchasing card or merchant services
- RFP issued in 2007
 - ❖ Changed banks and undertook a total redesign of bank account and service structure to complement new ERP system
 - ❖ Segregated revenue into separate zero balance accounts for easier posting and reconciliation
 - ❖ Consolidated all disbursements to one account
 - ❖ Utilized daily BAI file to automate posting and reconciliation of 95% of all transactions
 - Only work exceptions
 - ❖ Implementation took over six months

CITY OF KANSAS CITY, MO

- Tips and Tricks
 - ❖ Larger governments should avoid consolidating major services into one RFP
 - ❖ Spend a lot of time determining what services you need before you go out for bid
 - The better info you provide, the better the responses you will receive
 - ❖ Keep required responses short – less reading for you!
 - Only ask for agreement with and exceptions to defined scope
 - ❖ Provide a spreadsheet template for fee portion of the response
 - Use one year of information from account analysis statements
 - ❖ Conduct interviews with top scorers
 - Require a demo of online banking and other tools as part of the interview
 - ❖ Spread the business out to multiple banks, if manageable for your government
 - ❖ Take your time with implementation and get it right – the first time

CASE STUDY: TOWN OF CARY, NC



TOWN OF CARY, NC

- Banking Contract Information
 - ❖ Piggy backed on County banking contract in early 2000's
 - ❖ Renewed contract in early 2019 for 3 year term, with 2, 3 year term extensions
 - ❖ Currently serving as consultant for large municipality that issued RFP for core banking services
- Banking Relationship
 - ❖ Continuous dialogue with relationship manager
 - ❖ Introduce new technology
 - ❖ Annually review fees; what services should be changed based on usage?
 - ❖ Discuss rates frequently

TOWN OF CARY, NC

- Observations on RFP Process
 - ❖ Be strategic in selecting team; consider using “outsiders” or consultant
 - ❖ Set a realistic timeline for implementation
 - ❖ Provide accurate usage statistics in RFP
 - ❖ Be very specific in expectations for RFP
 - ❖ Utilize a scorecard – be consistent
 - ❖ Bring in final 2-3 banks for interviews; make sure they demo their online system

MANAGING THE BANKING RELATIONSHIP



RELATIONSHIP MANAGEMENT

- Communication: The key to all healthy relationships!
- Ongoing evaluations
 - ❖ Service levels
 - ❖ Fees
 - ❖ Account structures
 - ❖ Bank review summary
 - ❖ Bank performance
- Periodic meetings
 - Business continuity



BUSINESS CONTINUITY – ARE YOU PREPARED?

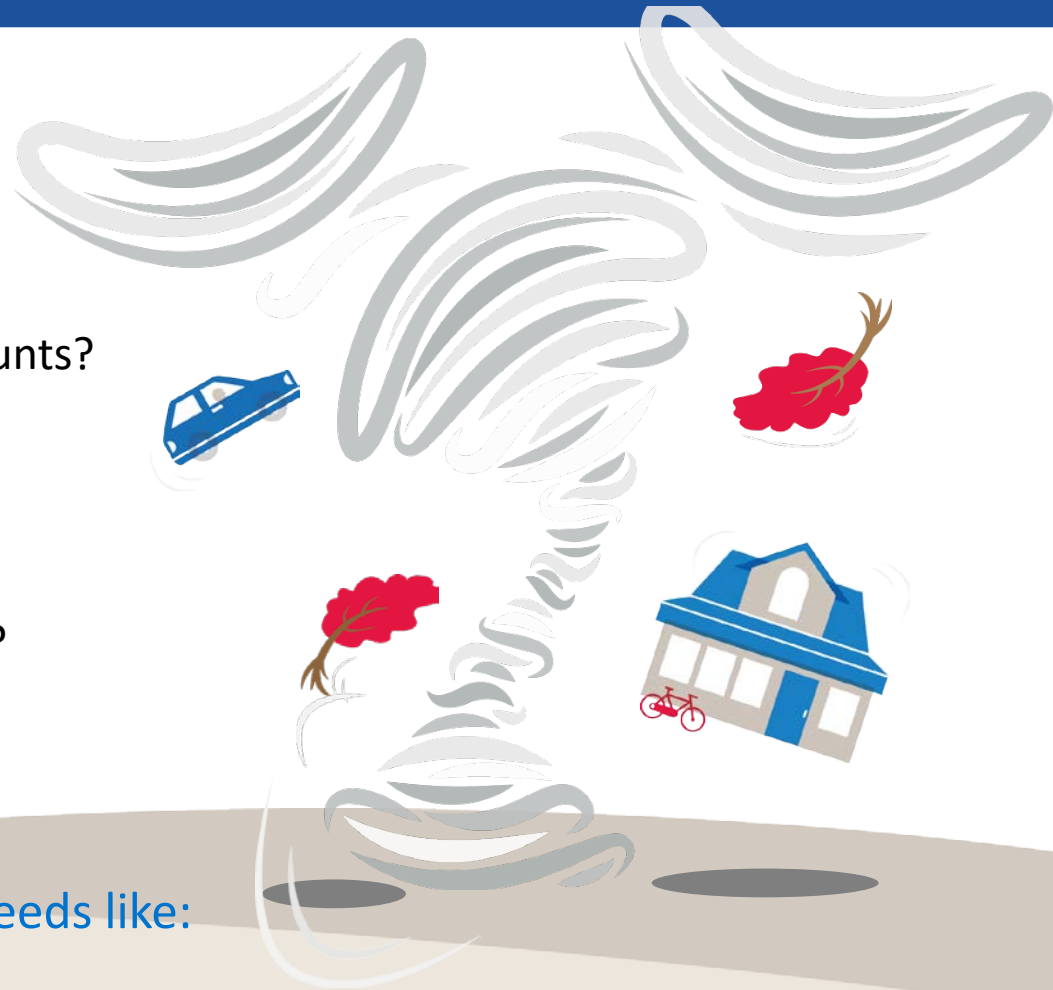
Stay connected when disaster strikes

Consider the following:

- How will you pay your employees? How will you pay employees who do not have checking accounts?
- Do you need a line of credit in case you're unable to make deposits to cover your disbursements?
- How will you process ACH and wire transfers to pay your vendors?
- How will your employees pay for emergency needs?
- How will you access your online reports?

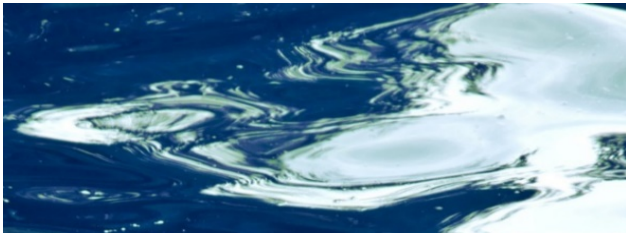
Your banking provider can help you address needs like:

- Payables – make urgent payments
- Receivables – track collections
- Liquidity – monitor your cash position (balance and detail activity) remotely



HELP SUPPORTING YOUR CONTINGENCY PLAN

Your coverage team can help you prepare for an emergency



Contingency planning



Payroll (not applicable in Brazil)

Replicate the last payroll file to disburse funds on time

Use ACH, wire or prepaid cards for employees without bank accounts

Prepaid cards (U.S.)

Emergency access cards

New programs generally set up within two to three days

Wire transfers

Initiate wires via telephone and PIN (not available in all jurisdictions)

Review and approve payments via mobile

ACH

Several backup procedures may be customized

File delivery examples: HTTPs, email (email not available in all jurisdictions)

Receivables

Lockbox reports can be faxed to your business continuity site

Use a mobile solution to view receivables

Corporate credit cards

Emergency card issuance, generally with next-day delivery

Card cancellation and replacements with 24/7/365 support

Online reporting

Critical reports can be faxed to your business continuity site

Use a mobile application to track cash management activities

Cash

Establish deposit work order sheet during implementation to expedite cash orders



DISCUSSION QUESTION

- Changing banks after a long period of time – how does a government best manage that process?



DISCUSSION QUESTION

- Why should governments spend so much time on an RFP process?
Shouldn't banks be begging to do business with us?



DISCUSSION QUESTION

- What are some examples of how Treasury offices best manage the selection and ongoing management of banks?



DISCUSSION QUESTION

- What do we need to talk about regarding fees but are afraid to ask?

