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Government Banking - Negotiating Fees and
Establishing Account Structures

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Agenda

- Invitation to Negotiate (ITN) Versus Request For Proposals (RFP)
 - Qualified Public Depositories
 - Negotiating Bank Fees
 - GFOA RFP Checklist
 - Evaluation Criteria
 - Paying for Bank Fees
 - Calculating Earnings Credit Dollar Benefit
- Calculating Balance Required to Support \$1 Fees
 - Alternatively, To Invest or Not Invest
 - Bank Account Structures

ITN versus RFP

Invitation to Negotiate :

Used when the government determines that negotiations with one or more proposers may be necessary in order to receive the best value. Must include evaluation criteria and specifications by which the government will evaluate and rank proposals. Based on ranking and ITN specifications, the government will pick one or more proposers with whom to negotiate. At conclusion, the government picks one that will provide the "best value" – ie. highest overall value based on objective factors such as price and quality.

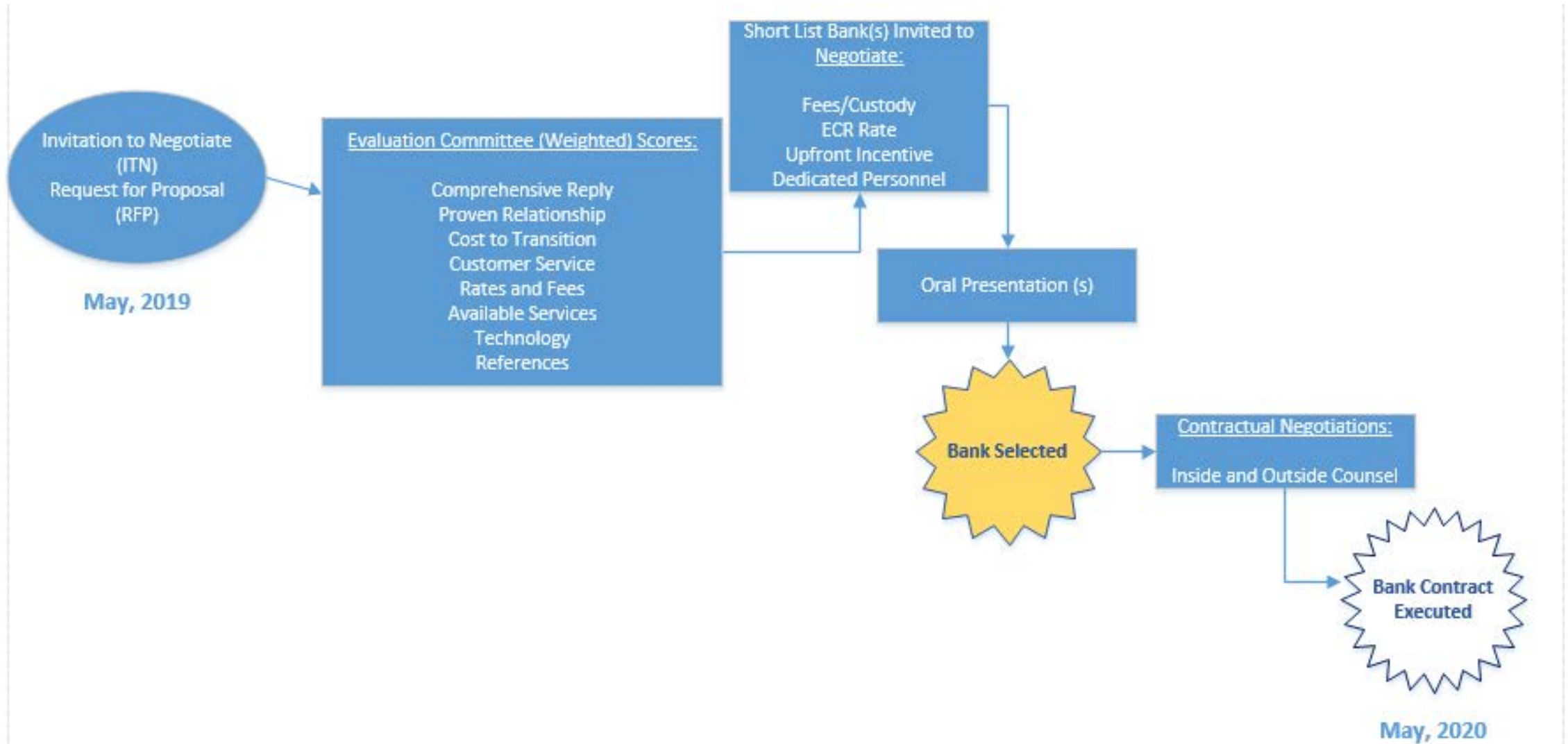
Request for Proposal:

Must include all relevant specifications and evaluation criteria (must include price, and may include other criteria such as technical expertise, financial capacity, etc.). Award is made to the proposer that is determined to be the most advantageous to the government considering all evaluation criteria.

Chapter 280, Florida Statutes – Florida Security For Public Deposits Act

- All Public deposits are to be deposited only in Qualified Public Depositories (QPD's), secured pursuant to this Act.
- Deposits are fully protected under the Act.
- QPD banks collateral requirements vary based upon capital levels, financial condition and length of time in business.
- Should a QPD bank fail, public depositors shall be satisfied first by utilizing any applicable deposit insurance.
- Next, the failed institution's pledged collateral will be drawn upon.
- The State's Chief Financial Officer shall assess any remaining losses against other QPD's in the program.

NEGOTIATING BANK FEES



GFOA RFP Checklist

Bidding instructions:

- **Timeline:** Issue date, timeframe for questions, due date, interviews, contract approval and implementation
- **Information required:** Qualified Public Depository (QPD) proof, bank locations, interest rates paid, funds availability schedules, copy of custodial agreement, disaster recovery plan, dispute resolution and customer services/feedback process, retention or transition incentives, account services and personnel, references, fees, historical rates, transition plan
- **Standard procurement requirements** Contract, including RFP and response, required completion of proposal forms, rights reserved (elimination of services, rejection of bids), exceptions, termination, indemnification
- **Evaluation criteria:** Financial strength, ability to meet service requirements, past experience, best availability of funds, wide range of services offered, ECR rate and interest rates paid, government experience, references, experience and knowledge of bank team, completeness of response, custodial services, incentives
- **Attachments included:**
 - Provided by government (Annual Financial Report, Custodial Agreement, government contract template)
 - Provided by bank (Banking Services Agreement, wire transfer agreement, other service agreements)

Source: GFOA Treasury and Investment Management Banking RFP Checklist

Reply Format for Responses

Reply Section	Title
1	Title of Reply
2	Letter of Transmittal
3	Table of Contents
4	Executive Summary
5	Scope of Work/Services
6	Proposer Background
7	Certification of Qualified Public Depository
8	Qualifications of Staff and Key Personnel with Organizational Chart
9	Client References
10	List of Providers
11	Timeline
12	Transition Methodology
13	Other Terms and Conditions
14	Reply Certification
15	Sample Agreements and Custodial Agreement
16	Earnings Credit
17	Social Responsibility
18	Map of Bank Locations
19	Other Proposed Services
20	Disaster Recovery Plan
21	Certification of Adequate Capital and Surplus Stock
22	Exceptions

GFOA RFP Checklist

Scope of Work/Services (Bundled or Unbundled):

- Wire transfer services
- ACH
- Availability of funds
- Monthly statement and account analysis
- Collection and deposit services
- Remote deposit services
- Collateralization requirements – Florida Statute 280 – Security for Public Deposits Act
- Lockbox
- Online banking services
- Internal controls
- Electronic document storage
- Vault services
- Payment card services
- Purchasing card services
- Stored value cards
- Overdrafts
- Controlled disbursement services
- Account reconciliation
- Positive pay
- Stop payments
- Safekeeping services



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Cost Reply Form

Service	Proposed price	Volume	Total \$
RETURN ITEM OF EQUAL INVT MONTHLY BASE	0.00000	10	0.00
RETURN ITEM REDEPOSITED	0.00000	33	0.00
CEO RETN ITEM SUBSCRIPTION OPT DETL	0.00000	30	0.00
CEO RETN ITEM SUBSCRIPTION PER ACCT	0.00000	16	0.00
CEO RETN ITEM SUBSCRIPTION PER ITEM	0.00000	271	0.00
			0.00
Wires Origination and Reporting			0.00
CEO WIRE XFR DETAIL US ACCT MO BASE	0.00000	26	0.00
WIRE MONTHLY DDA BASE - VOICE	0.00000	20	0.00
WIRE SECURITY PIN MONTHLY BASE	0.00000	6	0.00
WIRE TEMPLATE STORAGE MONTHLY BASE	0.00000	6	0.00
WIRE BOOK TRANSFER - CEO	0.00000	37	0.00
WIRE OUT DOMESTIC - CEO	0.00000	31	0.00
WIRE INVESTIGATION	0.00000	2	0.00
CEO WIRE XFR DETAIL US ACCT ITEM	0.00000	505	0.00
			0.00
Zero Balance Account (ZBA)			0.00
ZERO BALANCE MASTER ACCOUNT MAINT	0.00000	3	0.00
ZERO BALANCE MONTHLY BASE	0.00000	7	0.00
			0.00
Total Proposed Monthly Cost			0.00
Balances Required to Support \$1.00 of Services:			
	$(365/30) / (1 - \text{Reserve Requirement}) =$		
	2.20%		
Total Balances Required to Support Services:			#VALUE!

Evaluation Criteria

General (30%)– Format and completeness of response, references, financial strength, financial controls, earnings credit rate

Scope of Services (50%)– General account services, depository services, online services, payment related services, safekeeping, account analysis, merchant services

Cost (20%)



Negotiating Points

- One Time Incentive
- Custody
- Dedicated Customer Service Personnel
- Earnings Credit Rate and Floor



DEFINITIONS

Earnings Credit Rate (ECR) *Negotiable* – Rate that banks pay on compensating balances to offset banking fees; typically offered at a spread over or under the upper bound of Federal Funds rate, with a minimum floor. Alternative investment rates typically higher.

Compensating Balances– Balances necessary to be held in noninterest bearing accounts.

Available Collected Balance– Ledger balance less any float.

Float *Negotiable* – The period of time between a check's deposit to an account and an issuing bank's recognition of that deposit.

Reserve Requirement *Negotiable* – The minimum percentage of customer deposits that a bank should hold as a reserve. Reserve Requirements for banks are subject to change and subsequently changes may affect earnings credit calculations.

FDIC Insurance Charge *Negotiable* – Charges banks pass on to customers to help pay for FDIC insurance. These charges are subject to change and may impact earnings credit calculations.

PAYING FOR BANK FEES



Fee-based method:

Treasurers maintain low account balances, fully aware that they will not earn much by way of an earnings allowance.

When to use this strategy? The intent is to forgo any potential earnings allowance and instead pay the banking fees incurred. If earnings credit rates are low, Treasurers usually can find investments elsewhere with higher returns than the bank-offered ECR.

Balance-based method:

Treasurers maintain certain balances in their accounts to earn enough earnings allowance, which then offsets qualifying bank service fees.

When to use this strategy? If the ECR is not too low compared to other investment options; the balance compensation method covers the service fees incurred; when the government may stand to gain some benefit from the bank by maintaining high account balances. Some benefits may include reduced fees, including merchant, as well as higher earnings rates on time deposits.

May control balances to determine method used

CALCULATING EARNINGS CREDIT DOLLAR BENEFIT:

(On non-interest bearing accounts)

Ledger Balance: 100,000

Float: 30,000

Reserve Requirement (RR): Monthly Average Collected Balance * 10% = 7,000

ECR: .5%

FDIC Charge: .11 per thousand \$ on Monthly Average Collected Balance

$(\text{Monthly Average Collected Balance} - \text{Reserve Requirement, if any}) * (\text{ECR}) * \# \text{ calendar days in month} / \text{actual \# of days in the year}$
Ledger balance less float

$$((100,000 - 30,000) - 7,000) * .005 * 30 / 365 = 25.89$$

-11.00 FDIC Charge

14.89 Earnings Credit dollar benefit to offset fees

Real effective annual rate of the quoted .5% ECR = $14.89 / 100,000 * (365 / 30) = 18\%$

CALCULATING EARNINGS CREDIT DOLLAR BENEFIT:

(Palm Beach County)

Ledger Balance: 100,000

Float: 30,000

Reserve Requirement (RR): Monthly Average Collected Balance * 0% = 0

ECR: .5%

FDIC Charge: 0 per thousand \$ on Monthly Average Collected Balance

$(\text{Monthly Average Collected Balance} - \text{Reserve Requirement, if any}) * (\text{ECR}) * \# \text{ calendar days in month} / \text{actual \# of days in the year}$
Ledger balance less float

$$((100,000 - 30,000) - 0) * .005 * 30/365 = 28.77$$

- 0 FDIC Charge

28.77 Earnings Credit dollar benefit to offset fees

Real effective annual rate of the quoted .5% ECR = $28.77/100,000 * (365/30) = 35\%$

CALCULATING BALANCE REQUIRED TO SUPPORT \$1 FEES

365/# DAYS IN MONTH/(1 -RR)/ECR

365/30/.005

\$2,433



\$2,433 BALANCE REQUIRED TO SUPPORT \$1 FEES

Therefore, if monthly fees average \$100,000, then \$243,300,000 in compensating bank balances must be maintained each month to offset total fees.





ALTERNATIVELY, TO INVEST OR NOT INVEST?

Which makes the most sense economically?

The answer is dependent upon alternative rates of return on investment options versus the earnings credit rate received at the bank.

ALTERNATIVELY, TO INVEST OR NOT INVEST?

ECR: .50%
Real Effective Annual Rate: .35%

MMKT: .10%
1-Yr. CD: .10%
CP .10%
2-Yr. T .23%



CONSIDERATIONS:

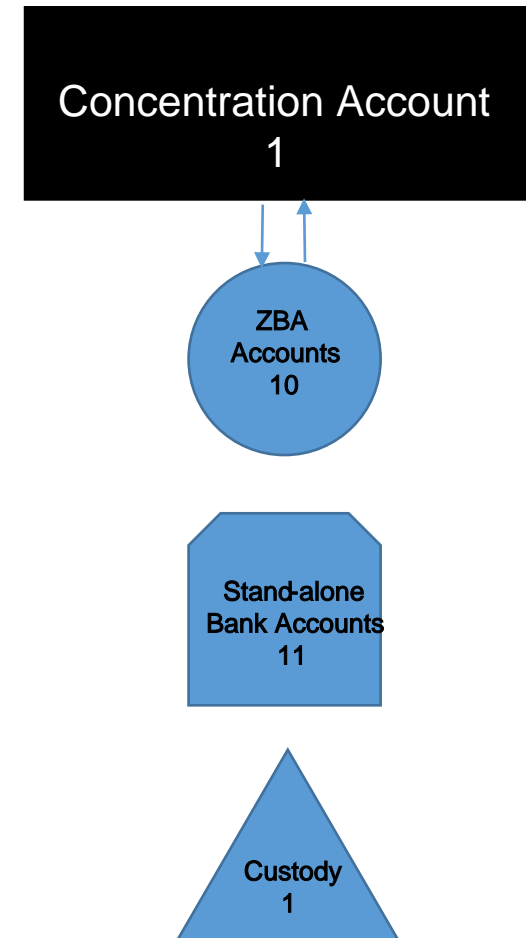
Why might the banks NOT demand public funds?

- Collateral costs – Florida Statute 280 and Qualified Public Depository Requirements
 - Collateral requirements vary by bank according to financial solvency
- Costly (competitive bidding)
- Loan demand low keeping need for deposits low
- Federal Reserve cap on bank growth/assetsize
- Unusually high bank balances (liquidity) resulting from:
 - Unprecedented high savings rates
 - Paycheck Protection Program (PPP) loans
 - Government transfer payments from the American Rescue Plan (ARP)

Bank Account Structure – Interest and Non-interest Bearing Accounts

- **Concentration Account**– funds are retained in main account until available or are considered “collected balances”
 - Incoming and outgoing wires/ACH
 - Funding of zero-balance (ZBA) accounts
 - Deposits
 - Lockbox
 - Merchant services deposits and chargebacks
- **ZBA Account**– reimbursed at the end of the day; always zero-balance at the beginning of the day. Examples may include:
 - Payroll
 - Controlled disbursement – check payments
 - Investment – interest, buys/sales
 - Remote capture – centralized automated scanning of deposits
 - Payment Manager– funding for automated payments
- **Stand-alone Bank Account** - special programs or other specific needs
 - Not encouraged due to high cost, lack of fraud controls, additional monitoring needs
- **Safekeeping/Custodial Account**– hold entities investment securities

Palm Beach County Board of County Commissioners Bank Account Structure



QUESTIONS?