



State of Delaware Office of the State Treasurer

Banking Structure Review Project

Kick-Off Meeting

May 2, 2017



Agenda

- ◆ Introductions
- ◆ Opening Remarks
- ◆ Executive Summary
- ◆ Members & Roles
- ◆ Roadmap
- ◆ Key Success Factors
- ◆ Risks & Bottlenecks
- ◆ Group Session
- ◆ Logistics
- ◆ Closing Remarks



Introductions



Opening Remarks

Collaboration



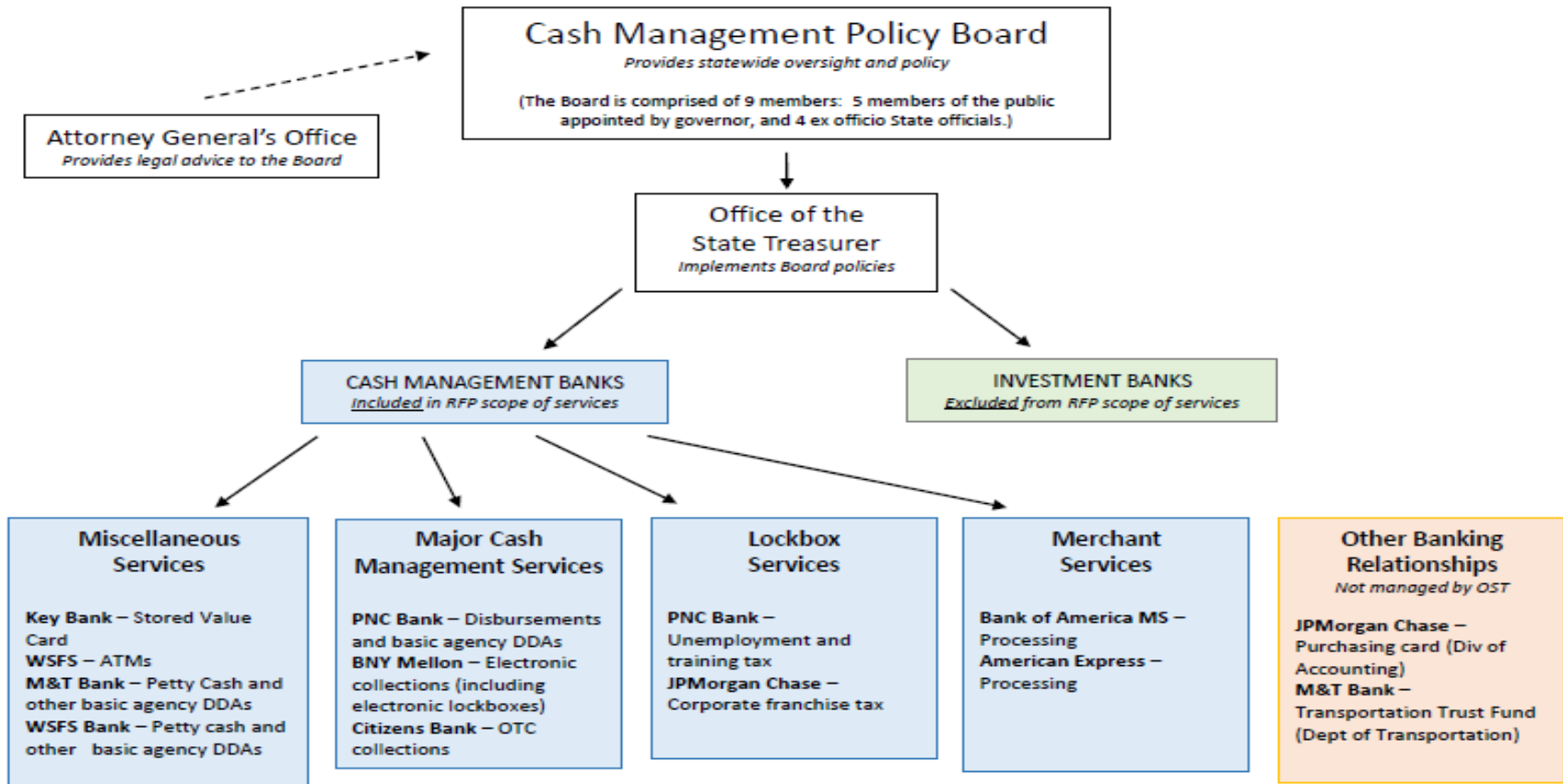
Executive Summary

Vision • Goals • Scope



Project Vision

STATE OF DELAWARE BANKING STRUCTURE





Project Goals

- ◆ Effective Governance & Strategy Formulation
- ◆ Excellent Administration & Performance Management
- ◆ Valuable Strategic Partnerships For Best Practices & Innovation
- ◆ Outstanding Integration of Providers/Product/ Services Mix
- ◆ Greater Utilization of Product & Services
- ◆ Proactive Forecasting and Evaluation of Risks





Project Scope

Engagement of resources and experience to evaluate

- ◆ Structural Analysis
- ◆ Procurement Process and Potential Implementation
- ◆ Vendor Risk Management Program





Project Members & Roles

OST • CMPB • Banking Task Force • PFM



Banking Task Force Role

*Support Development of the Mission Statement
and Strategic Goals for Delaware's Banking Structure*

- ◆ Promote Review
- ◆ Support Data and Interview Requests
- ◆ Acquire Holistic View
- ◆ Validate Findings
- ◆ Learn About Best Practices/Trends
- ◆ Review PFM's Report
- ◆ Confirm Implementation Validity



PFM Asset Management

Purpose Statement: Build • Power • Move • Educate

At PFMAM, asset managers, financial advisors and consultants partner with clients to **transform their world**. Our clients have **individual needs**, and **our tailored advice** reflects this. We have the flexibility to support the largest endeavors any client could contemplate with teams that maintain the camaraderie, the collaboration, and the creativity that define working with PFM.

+ **Expertise
Insight**

Ingenuity

+ **Commitment
Curiosity**

Sustainability

+ **Diversity
Grit**

Resourcefulness

Your vision, our expertise, together in flight



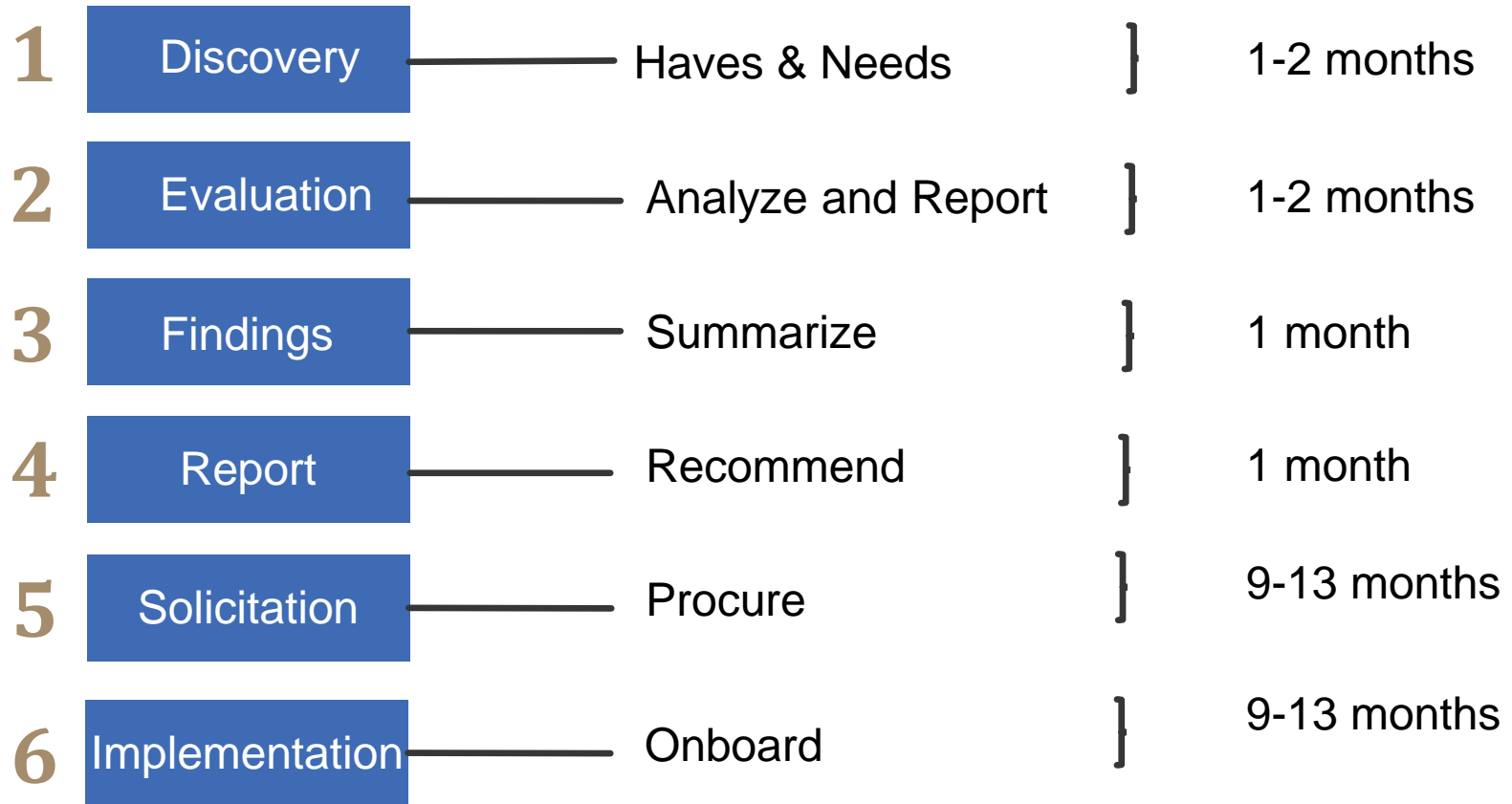
Roadmap

Phases • Deliverables



Phases

18 months to success





Discovery

Review multiple aspects of each state organization to gain understanding

- ◆ Operational efficiency
- ◆ Unused or underutilized services
- ◆ Value for fees paid
- ◆ Fraud prevention and control
- ◆ Future banking needs
- ◆ Service delivery approach of each banking partner
- ◆ Use of banking network
- ◆ Data integration and efficiency



Evaluation

Analyze and report based on what is discovered

Office of the State Treasurer

- Procedures
- Structure
- Collection and Disbursement Processes
- Cash Movement
- Contracts
- Vendor Management
- Risk Management

State Agencies & Departments

- Collection & Disbursement Processes
- Accounting & Reporting Requirements
- Unique Needs
- Challenges
- Data Security

Banking Environment

- New Technology
- New Service Offerings
- Pricing
- Regulatory Changes



Findings

Contrast what the state does with industry trends and best practices to find value

- ◆ Identify our value proposition
- ◆ Identify areas in need of improvement by major and minor upgrades
- ◆ Compare current systems/procedures with best practices
- ◆ Identify areas where the adoption of new technologies or additional services could be beneficial
- ◆ Estimated “value add” through system enhancements and improved efficiencies
- ◆ Identify unnecessary services that can be eliminated
- ◆ Pricing/Costs
 - Determine where earnings on cash or sweep balances could be improved
 - Calculate current “market” price for services
 - Calculation of potential cost savings through RFP



Report

Transform the findings into building blocks for improvement

- PFM will seek input from the Task Force before the Report is finalized.
- PFM's role is to determine if the current banking structure is optimal given the State's current and future needs.
- To the extent improvement areas can be identified, PFM will present a detailed assessment and recommendations about how the system can be enhanced.

Earnings Credit Rates

Observation

- Interest on bank deposits can be paid in two forms: (i) hard-dollars or (ii) earnings credits called "soft dollars". The interest rate can vary considerably based on which method is used.
- When a depositor receives "soft dollars", the bank does not credit the account with interest income. Instead, it provides an "earnings credit" that can be used to pay for banking services. In this situation, the deposit is called a "compensating balance" and the rate used to determine how many "soft dollars" are available to pay for bank fees is called an earnings credit rate ("ECR"). The ECR is set by the bank and can be negotiated. During this period of low interest rates, we have seen many banks offer above-market ECRs in the 0.30% to 0.60% range.
- Bank of America is offering the University an ECR of 0.30%. Balances "earning" a credit are subject to FDIC assessments. The applicable FDIC Assessment is 0.13%. As a result, the net rate for compensating balances is 0.17%.
- Under the Transaction Account Guarantee Program, compensating balances do not need to be collateralized because they qualify for unlimited FDIC insurance through December 31, 2012.

Suggestion / Recommendation

- As a short-term cash equivalent, compensating balances are an attractive option for paying for banking services given their above-market rates. The University may want to consider paying more of its banking services with earnings credits. This would require the University to compare the rates the University's invests in.
- In the option

Evaluation of Banking Fees Currently Paid

Methodology of Assessing the Reasonableness of Banking Fees

Approach 1 – Phoenix-Hecht Blue Book of Bank Prices

- Although overall pricing seems competitive, we reviewed Bank of America's fees on a line-by-line basis to identify areas where pricing might be above market.
- Based upon this analysis, we believe there are significant fee savings (approximately \$26,500 to \$41,500) concentrated in General ACH Services / EDI Services, specifically in the area of originated consumer and corporate ACHs. Because of the commodity like nature of these services, we have been successful in negotiating lower pricing for these services.
- Our analysis also suggests that there is \$6,900 to \$11,100 in savings in the category of Wire & Other Funds Transfer Services. The per unit costs the University is paying for incoming and outgoing wire transfers are modestly higher than current industry averages.

| | Total Cost | Total Analyzed Costs | Total Analyzed Costs (%) | Phoenix-Hecht List Price | Phoenix-Hecht Average Expected Cost | Phoenix-Hecht Potential Cost | Phoenix-Hecht \$/Unit Potential |
|---------------------------------------|-------------------|----------------------|--------------------------|--------------------------|-------------------------------------|------------------------------|---------------------------------|
| General Account Services | \$ 5,061 | \$ 3,629 | 71.4% | \$ 87,217 | \$ 26,751 | \$ 14,618 | 7,507 |
| Lockbox Services | \$ 63,246 | \$ 20,200 | 31.9% | \$ 80,004 | \$ 75,633 | \$ 52,623 | 45,408 |
| Depository Services | \$ 45,501 | \$ 37,466 | 83.0% | \$ 63,751 | \$ 67,523 | \$ 40,050 | 35,620 |
| Paper Disbursement Services | \$ 37,153 | \$ 20,459 | 55.1% | \$ 51,940 | \$ 51,454 | \$ 35,230 | 30,294 |
| Paper Disbursement Recoon Services | \$ 9,439 | \$ 6,032 | 64.1% | \$ 18,039 | \$ 13,749 | \$ 8,777 | 7,042 |
| General ACH Services / EDI Services | \$ 61,207 | \$ 67,731 | 110.7% | \$ 136,770 | \$ 76,172 | \$ 41,148 | 26,194 |
| Wire & Other Funds Transfer Services | \$ 32,202 | \$ 26,382 | 81.9% | \$ 36,887 | \$ 27,812 | \$ 19,475 | 15,223 |
| Information Services | \$ 25,284 | \$ 33,054 | 130.7% | \$ 66,465 | \$ 54,024 | \$ 32,540 | 13,820 |
| Total Costs | \$ 389,199 | \$ 227,662 | 58.5% | \$ 697,980 | \$ 387,117 | \$ 249,963 | 181,496 |
| Potential Savings / (Increase) | | | | | | \$ (169,258) | \$ (22,041) |

The services highlighted in gold represent areas where PFM believes significant fee savings are possible from current pricing.



Solicitation

Seek qualified business partners to support achievement of goals

- ◆ **Initial RFP:** Use information from Discovery Meetings to prepare initial RFP draft
- ◆ **Finalize RFP:** Collaborate with Task Force to finalize document
- ◆ **RFP Management:** Assist in circulating RFP to potential vendors
- ◆ **Evaluation:** PFM will review and evaluate proposal responses and serve as a technical resource to the Evaluation Committee
- ◆ **Selection:** PFM will participate and advocate for the interests of the State Agencies and Individual Users
- ◆ **Negotiation:** Negotiate pricing and terms and conditions with selected vendors

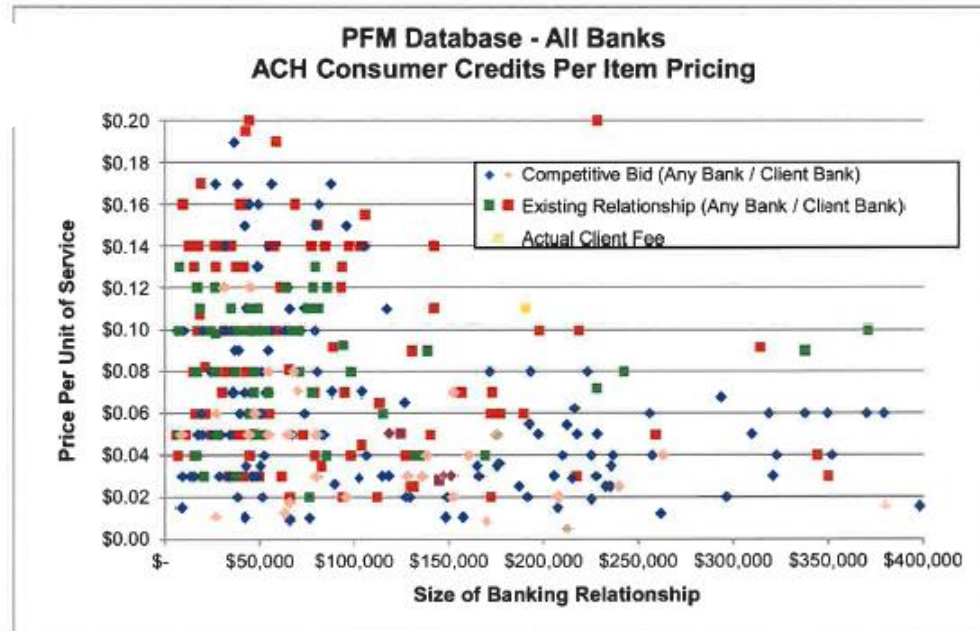


Solicitation

Seek qualified business partners to support achievement of goals

PFMAM Database of Bank Pricing

- General market pricing
- Bank specific pricing
- Regional pricing
- Product pricing, including new services
- Pricing by account size
- Negotiated prices





Implementation

Onboard qualified business partners to support achievement of goals

For this Phase, the Office of the State Treasurer will:

- ◆ Provide a thorough strategy for transition and implementation of services
- ◆ Document all implementation work plan(s)
- ◆ Ensure each participant has appropriate “ownership”
- ◆ Monitor the transition progress
- ◆ Ensure constant, effective communication
- ◆ Continually evaluate priorities and resource allocation

Should PFM be retained for this Phase, the team will provide technical advise



Key Success Factors

Benefits from Project Success



Benefits Realized by Other Clients

Balance Sheet Benefits

- Implementation of best practices
- Improved earnings on cash balances
- Reduced deposit float

Administrative Benefits

- Implementation of best practices
- Identification of inefficiencies, costly processes and control problems in the treasury operation
- Integration with General Ledger systems
- Faster implementation of new bank services and technologies

End User Benefits

- Implementation of new banking technologies
- Enhanced accounts payable processing
- Conversion from paper to electronic methods payments
- Better service to constituents without the need to add staff



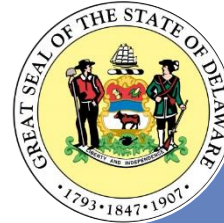
Risks & Bottlenecks

Risks • Mitigation



Risks & Mitigation

- ◆ Lack of alignment between the Project and strategic goals
- ◆ Unrealistic Project expectations
- ◆ Absence of Executive support
- ◆ Insufficient Project team skills
- ◆ Inadequate resource availability



Banking Task Force



Office of the State Treasurer



PFM Asset Management



Group Session



Logistics



Discovery Meetings (May 22 – 24, 2017)

- ◆ Overview of banking relationship(s)
- ◆ Sources & uses of funds
- ◆ Collection locations & acceptable payment options
- ◆ Transportation of deposits
- ◆ Currency and coin requirements
- ◆ Accounting system interface
- ◆ Reporting and reconciliation
- ◆ New services or enhancements
- ◆ Service issues

Through this work, PFM will learn about the operation of each Agency and gain an understanding of how banking services are used to meet the organizations' mission. We will also work hard to understand why banking arrangements are set up the way they are.



Tentative May 22 – 24 Meeting Schedule

| May 22, 2017 | PFM Team 1 | PFM Team 2 |
|-----------------------|---|-----------------------------------|
| 1:30 p.m. – 3:15 p.m. | Office of State Treasurer | |
| 3:30 – 5:00 p.m. | Division of Corporations | Department of Transportation |
| May 23, 2017 | Dover | |
| 9:00 – 9:50 a.m. | Dept. of Agriculture | Division of Parks and Recreation |
| 10:00 – 10:50 a.m. | Dept. of Correction | |
| 11:00 – 12:00 p.m. | Dept. of Services for Children, Youth, and their Families | DNREC |
| 1:15 p.m. – 3:00 p.m. | Division of Accounting | |
| 3:15 p.m. – 4:30 p.m. | Dept. of Technology & Information | |
| 4:30 p.m. – 5:00 p.m. | Office of State Treasurer | |
| May 24, 2017 | Wilmington | |
| 9:00 – 11:00 a.m. | Division of Revenue | |
| 12:45 – 2:00 p.m. | Courts, Admin. Office | Dept. of Health & Social Services |
| 2:30 – 3:45 p.m. | Dept. of Labor | Public Education |



Closing Remarks



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