



Treasury Management Update

May 15, 2024

Presented by Aimee Trepiccione

PFM Group Consulting
LLC

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- Please unmute yourself to participate
- Minimize Background Noise – re-mute when you are done speaking

◆ CPE Credits Available for This Session

- Attend this session in its entirety
- Answer all poll questions provided
- Survey must be completed

◆ Please Complete the Survey for This Session

◆ Send specific questions for me to simmons@pfm.com



Agenda

MANAGING CASH BALANCES

BANKING INDUSTRY UPDATE

BANKING TECHNOLOGY & SERVICES



Managing Cash Balances



How Do Banks Invoice Fees - Account Analysis Statements

ANALYSIS STATEMENT
Member FEIC 0162667

GROUP SUMMARY ANALYSIS
BANK AND COST CENTER NUMBER 495 006040

DATE PREPARED 09-07-12

MONTH ENDING 08-31-12
ANNUAL SETTLEMENT 12-31-12
SETTLEMENT & ACCOUNT TYPE DEBIT 500
OFFICER NUMBER 6009
PAGE 1 OF 42
CUSTOMER SERVICE: 1.800.930.9000

INVESTMENT SUMMARY

INVESTMENT LEADER BALANCE	6,946,325.42
INVESTMENT COLLECTED BAL	6,946,660.87
LESS SERVICE REQUIREMENT	.00
AVAILABLE INVESTMENT BALANCE	6,946,660.86

BALANCE SUMMARY

AVG POSITIVE LEADER BALANCE	84,743,179.94
AVG LEADER BALANCE	84,743,179.94
AVG NEGATIVE COLL BALANCE	.00
AVG POSITIVE COLL BALANCE	81,402,437.07
AVG POSITIVE COLL BALANCE LESS RESERVES	.00
AVAIL BAL FOR HANDLING CREDIT	81,402,437.07
AVAILABLE BALANCE REQUIRED	121,419,854.77
NET AVAILABLE BALANCE	49,217,197.70
RES RESERVES ON NET AVAIL BAL	.00
DEFICIT COLLECTED BALANCE	49,217,199.70

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DATE	DESCRIPTION	AMOUNT
08-01	2,670,287.06	
08-02	794,178.05	
08-03	13,248.39	
08-04	815,645.84	
08-05	13,248.36	
08-06	279,632.09	
08-07	2,924,248.42	
08-08	128,468.87	
08-09	1,276,141.27	
08-10	134,993.50	
08-11	12,476.70	
08-12	1,177,413.34	
08-13	240,175.10	
08-14	302,477.42	
08-15	510,314.94	
08-16	42,387.09	
08-17	825,836.71	
08-18	342,446.14	
08-19	11,206,975.01	
08-20	.00	
08-21	5,325.18	
08-22	888,787.73	
08-23	149,608.71	
08-24	1,083.87	
08-25	1,043,606.37	
08-26	282,000.04	
08-27	548,114.09	
08-28	124,747.74	
08-29	417,748.19	
08-30	82.14	
08-31	6,791.94	
09-01	47,094.77	
09-02	941,935.48	
09-03	505,995.49	
09-04	1,305,948.59	
09-05	39.00	
09-06	81,270.32	
09-07	211,175.55	
09-08	474,414.15	
09-09	340.74	
09-10	874,198.48	
09-11	1,807.41	
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09-13	125,947.74	
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11-27	417,748.19	
11-28	82.14	
11-29	6,791.94	
11-30	47,094.77	
11-31	941,935.48	
12-01	505,995.49	
12-02	1,305,948.59	
12-03	39.00	
12-04	81,270.32	
12-05	211,175.55	
12-06	474,414.15	
12-07	340.74	
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12-09	1,807.41	
12-10	42,387.09	
12-11	125,947.74	
12-12	341,270.32	
12-13	161,270.32	
12-14	417,748.19	
12-15	82.14	
12-16	6,791.94	
12-17	47,094.77	
12-18	941,935.48	
12-19	505,995.49	
12-20	1,305,948.59	
12-21	39.00	
12-22	81,270.32	
12-23	211,175.55	
12-24	474,414.15	
12-25	340.74	
12-26	874,198.48	
12-27	1,807.41	
12-28	42,387.09	
12-29	125,947.74	
12-30	341,270.32	
12-31	161,270.32	

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DATE	DESCRIPTION	AMOUNT
08-01	438,752.56	
08-02	546,141.00	
08-03	5,423.38	
08-04	341,481.29	
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08-07	3,647,448.00	
08-08	1,041.29	
08-09	84,678.19	
08-10	455,230.42	
08-11	113,671.93	
08-12	250.00	
08-13	786,441.41	
08-14	.00	
08-15	1,049,382.12	
08-16	169,122.88	
08-17	33.00	
08-18	141,190.32	
08-19	150,880.48	
08-20	891,751.94	
08-21	354.00	
08-22	774,747.00	
08-23	7,633,719.19	
08-24	447.30	
08-25	1,107,880.44	
08-26	.00	
08-27	490,212.88	
08-28	47,251.77	
08-29	141,190.32	
08-30	282,240.44	
08-31	410,947.74	
09-01	382,255.81	
09-02	78,000.00	
09-03	382,255.81	
09-04	94,198.48	
09-05	141,190.32	
09-06	226,238.14	
09-07	284,241.19	
09-08	125,947.74	
09-09	341,270.32	
09-10	161,270.32	
09-11	417,748.19	
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09-14	47,094.77	
09-15	941,935.48	
09-16	505,995.49	
09-17	1,305,948.59	
09-18	39.00	
09-19	81,270.32	
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09-24	1,807.41	
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09-28	161,270.32	
09-29	417,748.19	
09-30	82.14	
09-31	6,791.94	
10-01	47,094.77	
10-02	941,935.48	
10-03	505,995.49	
10-04	1,305,948.59	
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10-73	47,094.77	
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10-89	82.14	
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10-99	340.74	
11-00	874,198.48	
11-01	1,807.41	
11-02	42,387.09	
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11-17	340.74	
11-18	874,198.48	
11-19	1,807.41	
11-20	42,387.09	
11-21	125,947.74	
11-22	341,270	



Account Analysis Statements



- "Invoice" for banking services
 - Different than your monthly statement showing transaction activity
- Information included
 - Service descriptions, per item fee, volume used
 - Balance and compensation details
- Often available electronically
 - PDF
 - XLS/CSV
 - EDI 822
 - Interactive online modules



Sample Analysis Statement – Closer Look

<u>Service Description</u>	<u>Unit Price</u>	<u>Volume</u>	<u>Service Charges</u>
RECOUPMENT MONTHLY IB	0.12750	1,500.13	191.27
RECOUPMENT MONTHLY	0.12750	28,371.73	3,617.40
BALANCE & COMPENSATION INFORMATION			3,808.67
CONT DISB CREDITS POSTED	0.35000	36.00	12.60
DESKTOP DEPOSIT-DEPOSIT CREDITED	0.35000	75.00	26.25
ACCOUNT MAINTENANCE W/ CHK RETURN	4.80000	5.00	24.00
ZERO BALANCE MASTER ACCOUNT MAINT	9.45000	1.00	9.45
ACCT MAINTENANCE	4.80000	4.00	19.20
ACCT MAINTENANCE CHEXSTOR-PLUS	4.80000	1.00	4.80
ZERO BALANCE MONTHLY BASE	6.75000	7.00	47.25
DEBITS POSTED	0.04000	765.00	30.60
GENERAL ACCOUNT SERVICES			174.15

For illustrative purposes only



Earnings Credit Rates / Compensating Balances



- ◆ Earnings Credit Rates (ECRs) are credits offered by a bank to offset service charges.
 - Credits available for paying bank fees
 - Unused credits expire eventually
- ◆ Historically, the rate paid was often pegged to the U.S. Treasury bill rate.
- ◆ Transition to bank-managed rates.
 - ***Rate may not move with market rates***



Sample Analysis Statement

EARNINGS CREDIT SUMMARY

AVAIL BAL FOR EARNINGS CREDIT	\$	25,000,000.00
EARNINGS ON AVAILABLE BALANCES		18,047.95
LESS TOTAL SERVICES CHARGES		20,130.49
		<hr/>
DEFICIT		2,082.54
		<hr/>
		<hr/>



$$\frac{\$18,047.95}{\$25,000,000} \times \frac{365}{31}$$

$$= 0.85\%$$

For illustrative purposes only



What To Consider in Your Compensating Balances

- 1. *Deposit-based fees***
- 2. *Reserve Requirement***
- 3. *Expiration date of credits***



What To Consider in Your Compensating Balances

1. *Deposit-based fees (f/k/a "FDIC" Fees)*

- Many banks will assess a fee based on the value of deposits
- Fees are not standard across banks
- Amount of fees can equal or exceed the earnings credit paid



FDIC Announcement

 <p>Federal Deposit Insurance Corporation 550 17th Street NW, Washington, D.C. 20429-9990</p>	<p>Financial Institution Letter FIL-33-2012 July 9, 2012</p>
<p>Caution Regarding Passing Deposit Insurance Assessment Fees on to Customers</p>	

"...the FDIC discourages institutions from specifically designating that a customer fee is for deposit insurance or from stating or implying that the FDIC is charging such a fee."



What Terms to Look for?

- ✓ Balance Based Charges
- ✓ Deposit Administration Fee
- ✓ Deposit Bank Assessment
- ✓ Deposit Coverage
- ✓ Recoupment Monthly



“

**Recoupment
Monthly**



Sample Analysis Statement

FDIC-like charges are typically included in line-item portion of monthly analysis statement

<u>Service Description</u>	<u>Unit Price</u>	<u>Volume</u>	<u>Service Charges</u>
RECOUPMENT MONTHLY IB	0.12750	1,500.13	191.27
RECOUPMENT MONTHLY	0.12750	28,371.73	3,617.40
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ACCT MAINTENANCE	4.80000	4.00	19.20
ACCT MAINTENANCE CHEXSTOR-PLUS	4.80000	1.00	4.80
ZERO BALANCE MONTHLY BASE	6.75000	7.00	47.25
DEBITS POSTED	0.04000	765.00	30.60
GENERAL ACCOUNT SERVICES			174.15

For illustrative purposes only



What To Consider in Your Compensating Balances

2. *Reserve Requirement*

- When in effect, the bank will reduce the balance you can earn a credit on by 10%
- Less common than Balance-Based Fee
- **Fed waived 10% reserve requirement in March 2020; however, not all banks followed suit**



Bank Charges Can Significantly Reduce the Benefit of the ECR

No Reserve Requirement or FDIC			Reserve Requirement and FDIC Assessed		
Earnings Credit on Compensating Balance			Earnings Credit on Compensating Balance		
Total Collected Balance		\$25,000,000	Total Collected Balance		\$25,000,000
Less Reserve Requirement	0%	\$0	Less Reserve Requirement	10%	\$2,500,000
Available Balance		\$25,000,000	Available Balance		\$22,500,000
Earnings Credit	0.25%	\$5,308	Earnings Credit	0.25%	\$4,777
	$\$25,000,000 * 0.25 * 31/365$			$\$22,500,000 * 0.25 * 31/365$	
Less FDIC Assessment	0%	\$0	Less FDIC Assessment	0.10%	\$2,123
	$\$0/(\$25,000,000 * (31/365))$			$\$2,123/(\$25,000,000 * (31/365))$	
Net Earnings Credit	0.25% on Collected Balance	\$5,308	Net Earnings Credit	0.125% on Collected Balance	\$2,654

For illustrative purposes only



What To Consider in Your Compensating Balances

3. *Earnings Credit Expiration Date*

- Many banks do not allow unused credits to be applied to future charges
- Some banks will allow credits to roll over quarterly, semi-annual, or annually
- Credits that expire unused are not paid out as interest
- Lost credits will erode the value of the ECR



Sample Analysis Statement

EARNINGS CREDIT SUMMARY

AVAIL BAL FOR EARNINGS CREDIT	\$ 25,000,000.00
EARNINGS ON AVAILABLE BALANCES	18,047.95
LESS TOTAL SERVICES CHARGES	20,130.49



$$\frac{\$18,047.95}{\$25,000,000} \times \frac{365}{31}$$

$$= 0.85\%$$

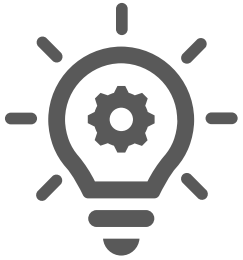
DEFICIT	2,082.54
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PERIOD TO DATE EXCESS	59,477.53
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For illustrative purposes only



Balance Compensation Evolves

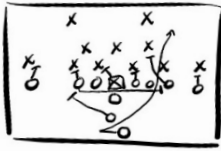


- Many banks offer alternatives that include hard dollar interest
- Each bank may offer a slightly different structure:
 - Interest on “excess” balances
 - Interest on balances above a “peg” amount
 - Interest on all DDA balances
- Like with compensating balances, rates are often bank-managed
 - ***Often subject to the same reserve requirement and deposit-based fees as traditional compensating balances***



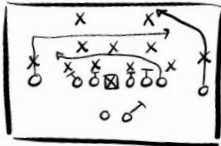
What can you do?

1 | *Analyze your banking relationships regularly; monthly is best*



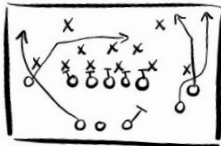
- Make sure to look at the rates offered and monthly charges
- Determine the "Net" Earnings Credit Rate your bank is paying
- Ensure that you are not earning more credits than you can use

2 | *Maintain frequent communication with your banker(s)*



- Monitor changes in rates and discuss your objectives regularly

3 | *Understand your options for short-term balances*



- Be nimble and prepared to capture increased earnings through alternative options both within and outside the bank



Polling Question #1

How frequently should you consider reviewing your account analysis statement?

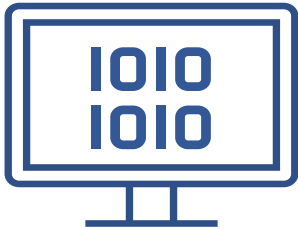
- (a) Annually
- (b) Quarterly
- (c) Monthly
- (d) Not familiar with account analysis statement



Banking Industry Update



Beyond Traditional Banks



- Treasury services have evolved
 - Credit card acceptance
 - Online payments
 - New forms of payment
 - Faster pay for employee wages
 - Focus on generating efficiency
 - Fraud/Risk Management
- Competition from fintechs is driving banks to decide:
 - *Compete? / Acquire? / Divest?*



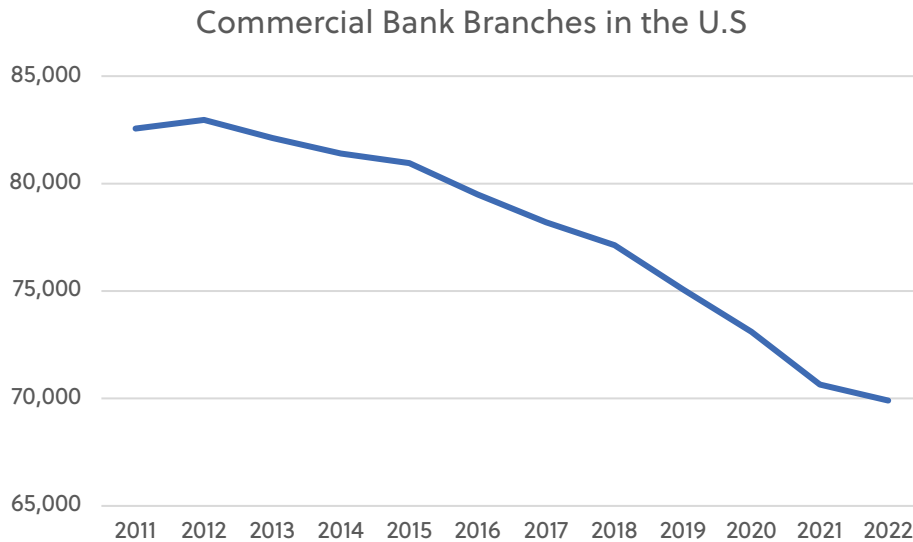
Bank Consolidations & Acquisitions



- Driven in part by pressure to compete with technology investment of larger banks & fintechs
 - *February 2019*: BB&T + SunTrust (now **Truist**)
 - *November 2020*: **PNC** + BBVA
 - *December 2020*: **Huntington** + TCF
 - *February 2021*: **M&T** + People's United
 - *September 2021*: **U.S. Bank** + MUFG Union Bank
 - *December 2021*: **BMO Harris** + Bank of the West
 - *June 2022*: **First Citizens** + CIT
 - *May 2023*: **J.P.Morgan Chase** + First Republic
- Many banks are also partnering with and/or acquiring some fintech solutions to expand offerings



Changing Banking Landscape



■ Banks are closing physical branches as more personal finance activity moves online.

- Fewer branch tellers, longer wait times
- Disincentivizing physical interactions
- Investing in systems to support transactions

■ In recent RFPs, we have seen **increased pricing** for:

- Branch Deposits
- Currency & Coin Deposits
- Increase charges for non-bank customers to cash checks



Relationship Management



- Pressure on relationship managers to support a growing portfolio of clients
 - Squeaky wheel gets the grease
- Maintaining a good relationship requires work
- Some best practices
 - Frequent meetings with your bank (Quarterly check-ins; Annual relationship reviews)
 - Make sure to review analysis statement
 - Incorporate staff for training opportunities



Know Your Bankers

Relationship Manager

Oversees entire relationship including treasury services and credit relationship



Customer Service Rep/Team

Resolve day-to-day issues

Treasury Officer

Technical expert on treasury services
(payments, collections, reporting)



Relationship Reviews



- ◆ Important to include Relationship Manager and Treasury Officer
 - May also include experts on payables, merchant processing, and other areas as relevant
- ◆ Topics:
 - Relationship Performance
 - Account Analysis
 - » Fees, Balance Compensation, Current Services
 - » Interchange review for credit card
 - New Services & Updates
 - Training



Fraud Controls



- ◆ Fraudsters used COVID-19 as an opportunity to exploit weaknesses
- ◆ New / tighter controls may be needed
- ◆ Threat: “Business Email Compromise” (Impersonator Fraud)
 - Urgent item needing to be processed
 - Immediate transfer of funds (wire)
 - Generated from an e-mail account appearing to be legitimate
 - Knowledge of organization hierarchy
 - Ability to confirm with originator limited (out-of-office, vacation)



Fraud Controls

Send

To... John Staff Accountant

Cc...

Bcc...

Subject: Urgent Wire Needs to Be Sent

From doej@abc_.com
Sent: Friday, March 13, 2015 6:04 PM
To: John Staff Accountant
Subject: Urgent Wire Needs to Be Sent

John,

Before leaving yesterday, I forgot to set up this wire for XYZ Electric. Please make sure you send it out first thing tomorrow morning. The wire instructions are listed below.

Thank-you. See you on Thursday, when I am back in the office.

Jane Doe Chief Financial Officer
ABC Corporation

For illustrative purposes only



What to do about fraud?



- ***External email notification banner/messages***
- ***Always question unsolicited emails***
- ***Beware of language that seems odd***
 - Uncommon phrases (“kindly”)
- ***Independently verify request***
 - Do not reply to message or use contact info included
- ***Review controls***
- ***Continuing education***
 - Fraud training as part of annual training requirement for employees



Polling Question #2

How frequently should your organization consider conducting training to educate employees on how to identify and prevent potential fraud attacks?

- (a) Annually
- (b) Quarterly
- (c) Monthly
- (d) Never



Account Validation Services



- ◆ Banks offer access to databases to validate account status ***and ownership*** in real-time
 - Database will return Y/N response
 - Validation can protect against fraudulent debits and payments
 - Useful for suspicious ad hoc requests and as part of standard A/P and payroll process
- ◆ **Can be useful to comply with NACHA rule on WEB Debit validation**



Banking Technology & Services



Remote Check Scanning



- High-volume scanners commonly replace physical deposit of checks
 - Reduced reliance on transport
 - Faster collection
- **Many banks offer mobile deposit option**
 - May be cost-effective option for low-volume outlets



Remote Cash Safe



- On-site vault that accepts bills for deposit
 - Substitute multiple trips with reduced armored car pickups
 - Direct communication with your bank for same day credit
 - Counterfeit detection
- Cost is roughly equivalent to daily pickup cost
- Stringent requirements around vault placement



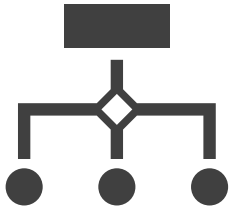
Mobile Banking



- ◆ New mobile features and applications have provided access to essential banking functions such as:
 - Balance reporting
 - Check deposit
 - Initiation of a repetitive wire
 - Secondary approval of wire transfers
 - Decisioning of Positive Pay items
 - Resetting of a user's password
 - "Soft" token for MFA



Virtual & Sub-Accounts



- ◆ Some banks offer enhanced capabilities for helping with reconciliation that include:
 - Subaccounts within a DDA that segregate transactions within reporting
 - Virtual accounts: unique payment instructions generated for different payers/purposes
 - » Allow for payment via ACH and Wire
- ◆ Can be useful for quickly identifying incoming EFT



Outsourced Check Printing



- ◆ Bank receives check issue file; then prints and mails checks on your behalf
- ◆ Includes positive pay and account reconciliation services
- ◆ Advantages
 - Lower cost for supplies
 - Postage savings on bulk mailing
 - Focus on core competencies
 - Disaster recovery



Polling Question #3

Approximately what percentage of your payments are done by check (# of payments)?

- (a) Less than 25%
- (b) Between 25% and 50%
- (c) Between 50% and 75%
- (d) More than 75%



Same Day ACH



- ◆ Same Day ACH transactions
 - Settle in batches throughout the day
 - Funds available to their depositors by 3:00 PM (PT)
 - Your own deadlines determined by your bank
- ◆ \$1,000,000 Transaction limit
- ◆ Beware of Accidental Use
 - Educate staff on appropriate use cases
 - Understand opt-in and opt-out status



Faster Payments



- ◆ Real Time Payments/RTP (The Clearing House)
 - Immediate and irrevocable funds availability, 24/7
 - “Push” payments only; messaging functionality enables requests for payment & response
- ◆ FedNow (Federal Reserve)
 - Intended to expand instant payments beyond largest banks (alternative to Clearing House RTP)
- ◆ Zelle
- ◆ Venmo
- ◆ Visa Direct
- ◆ Mastercard Send



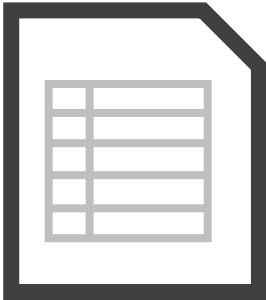
Tokenized Payments/Zelle



- **Business-to-person (B2P)** electronic payment using payee's email or cell phone number
- Consumers who register with Zelle network can receive electronic payments
- Benefits
 - **Reduce need to store bank account data**
 - Less expensive to issue vs. check
 - Faster payments to payee



Integrated Payables



- Single file to communicate all payment types to banking partner including:
 - Check
 - ACH
 - Wire
 - Virtual Card
 - Zelle
- AI is providing opportunities for “smart contracts” to be built into the payment details, elevating the settlement, posting and reconciliation process.
- Options for who maintains beneficiary account data



Electronic Bill Payment & Presentment



- ◆ Service that banks use to electronically or digitally present your bill, i.e. tax bill, utility bill, insurance bill, to facilitate a faster and/or electronic payment of that bill
 - Improves collection and billing efficiency
 - Automates the Accounts Receivables process
 - Typically offers multiple choices for convenient ways to pay:
 - ACH, eCheck, Tokenized Payments (Zelle, Venmo, etc.)
 - Credit Card, IVR (phone), Kiosk.
- ◆ May feature secure email delivery, stored payment data and autopay
- ◆ Some EBPP solutions offer a convenience fee model as allowed by association rules and state, federal legislation



About the Speaker



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Aimee joined PFM as part of the firm's [asset acquisition of Melio & Company](#), a premier healthcare advisory firm. At PFM, Aimee leads a specialized healthcare team within PFM's treasury consulting practice.

Aimee has over 25 years of experience covering the healthcare industry. While at Melio & Company, Aimee engaged with hospitals and health systems across the country to optimize vendor relationships, generate and assess ideas regarding structural enhancements and target best practices in revenue cycle and payables management.

Prior to Melio & Company, she also worked in the Healthcare Segment for J.P. Morgan Chase, where she was primarily responsible for leading efforts to support J.P. Morgan's provider and payer clients in strategy development, revenue cycle improvement and working capital optimization. She has worked with a large range of health systems and academic medical centers.

Aimee received a B.S. In Business Administration from Saint Mary's University of Minnesota.



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