



Let's Get Digital: Understanding Today's Banking Options



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City of Newport Beach



City of Newport Beach	
	Dan Matusiewicz
	Finance Director/Treasurer
Location:	County of Orange
Land Area:	26 square miles
Population:	86,000
Budgeted General Fund Revenues:	\$230 million
ERP:	Tyler Munis



City of Newport Beach & PFM Partnership

City of Newport Beach	
June 2018	Received responses from an RFQ for Banking Consulting Services
September 2018	Contract signed between PFM & City
October 2018	Discovery meetings
December 2018	Proposals due for RFP for Comprehensive Banking Services
February 2019	Bank Finalist Presentations



Scope of Comprehensive Banking Services RFP

- ◆ General Banking
- ◆ Lockbox Processing Services
- ◆ Merchant Card Services
- ◆ Purchasing Card / E-Payables
- ◆ Corporate Trust Services
- ◆ Online Payment Portal



What Might One Expect to Achieve from a Corporate Banking RFP?

◆ Strategic Benefits

- Align with your overall strategic vision
- Holistic view of operating practices
- Accelerate shift to electronic solutions

◆ Financial Benefits

- Cost effective banking practices
- Safety and soundness of financial assets

◆ Operational Benefits

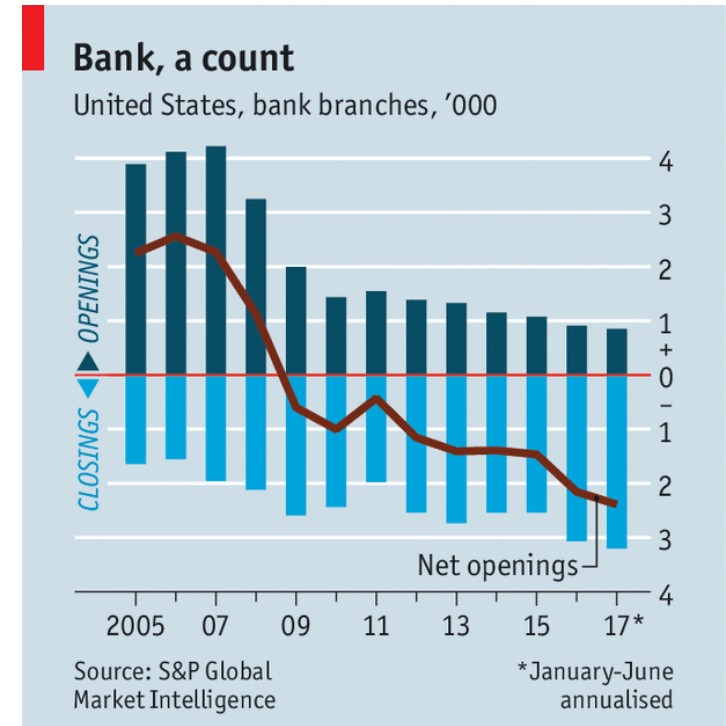
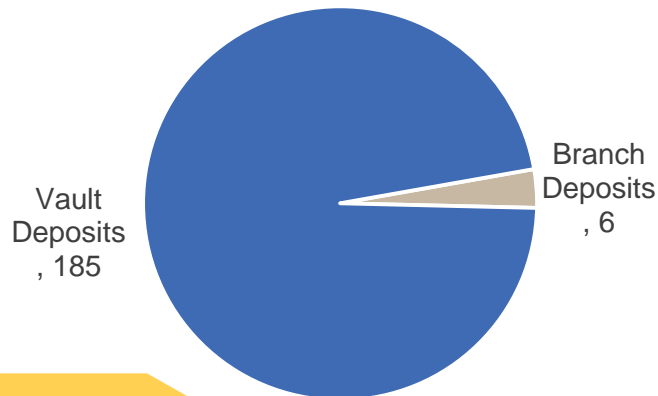
- Effectiveness and operational efficiency
- Consistent receipt and payment processing across departments
- Process improvement and automation opportunities with ERP



Changing Banking Landscape – Push Towards Electronic

- Costs for branch banking increasing.
Higher fees for:
 - Branch Deposits
 - Currency & Coin Deposits
 - Increase charges for non-bank customers to cash checks
- Less branch tellers, longer wait times

**City of Newport Beach
Deposit Activity**

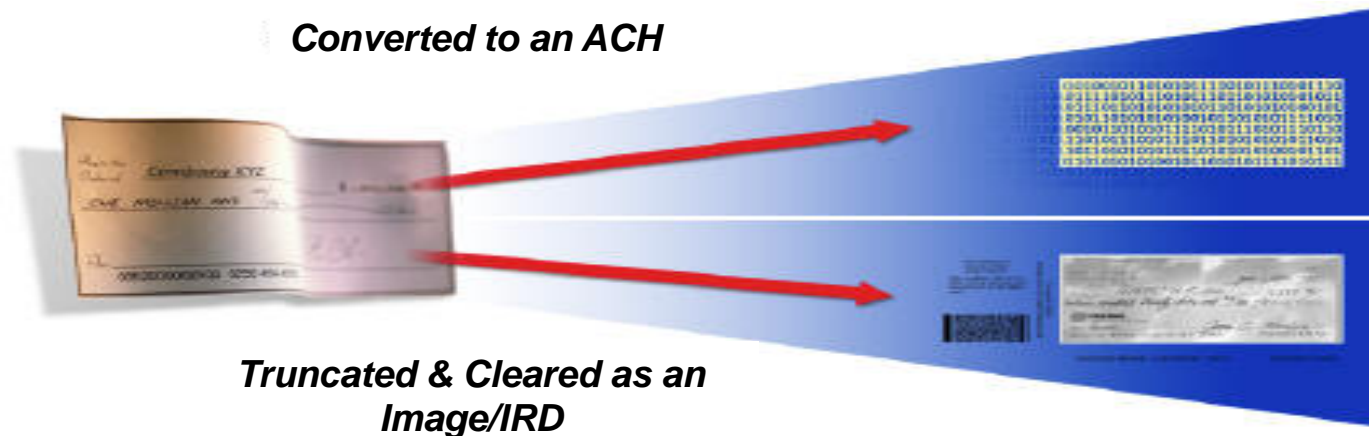


Economist.com



Remote Deposit Capture

- ◆ Check Clearing for the 21st Century Act
- ◆ “Substitute check” authorized
- ◆ Paper reproduction
- ◆ Legal equivalent of the original check



Source: remotedepositcapture.com



Remote Cash Safe

- ◆ Eliminates going to the bank
- ◆ Substitute multiple trips with reduced armored car pickups
- ◆ Improved cash flow
- ◆ Direct communication with your bank
- ◆ Counterfeit detection
- ◆ Cost is \$450 - \$600 per month / per safe, includes armored car pickup costs

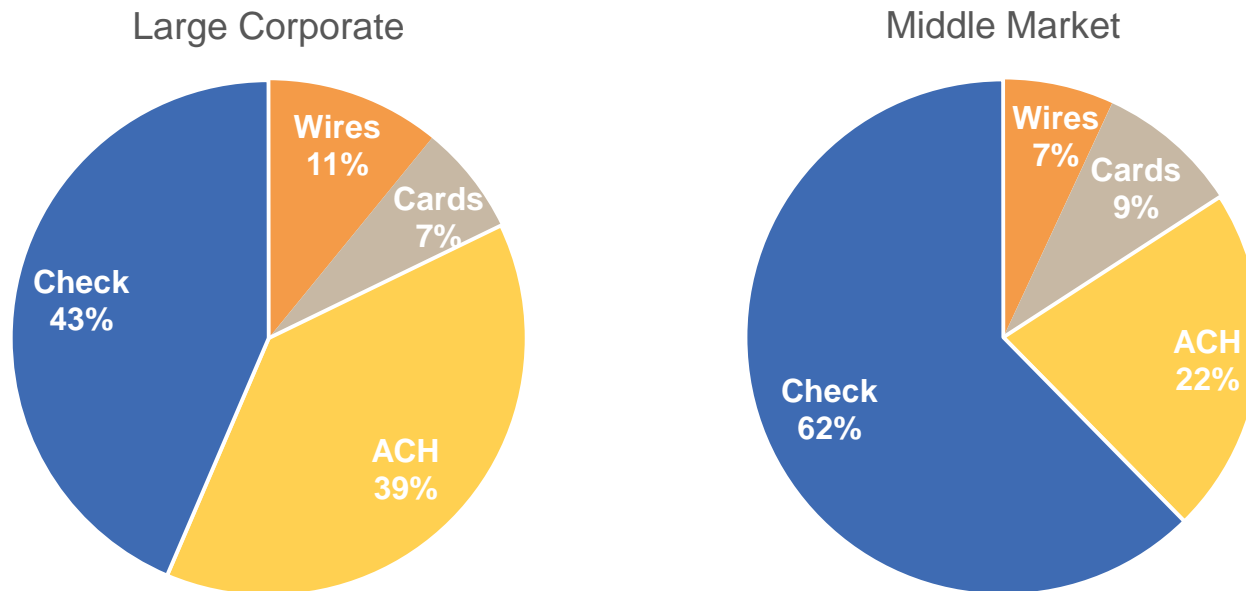




Paper Still Dominates, but Electronic Transactions on the Rise

- Checks continue to dominate the payment industry, however ACH transactions for large corporate institutions have increased from 32% to 39% over the last 5 years.

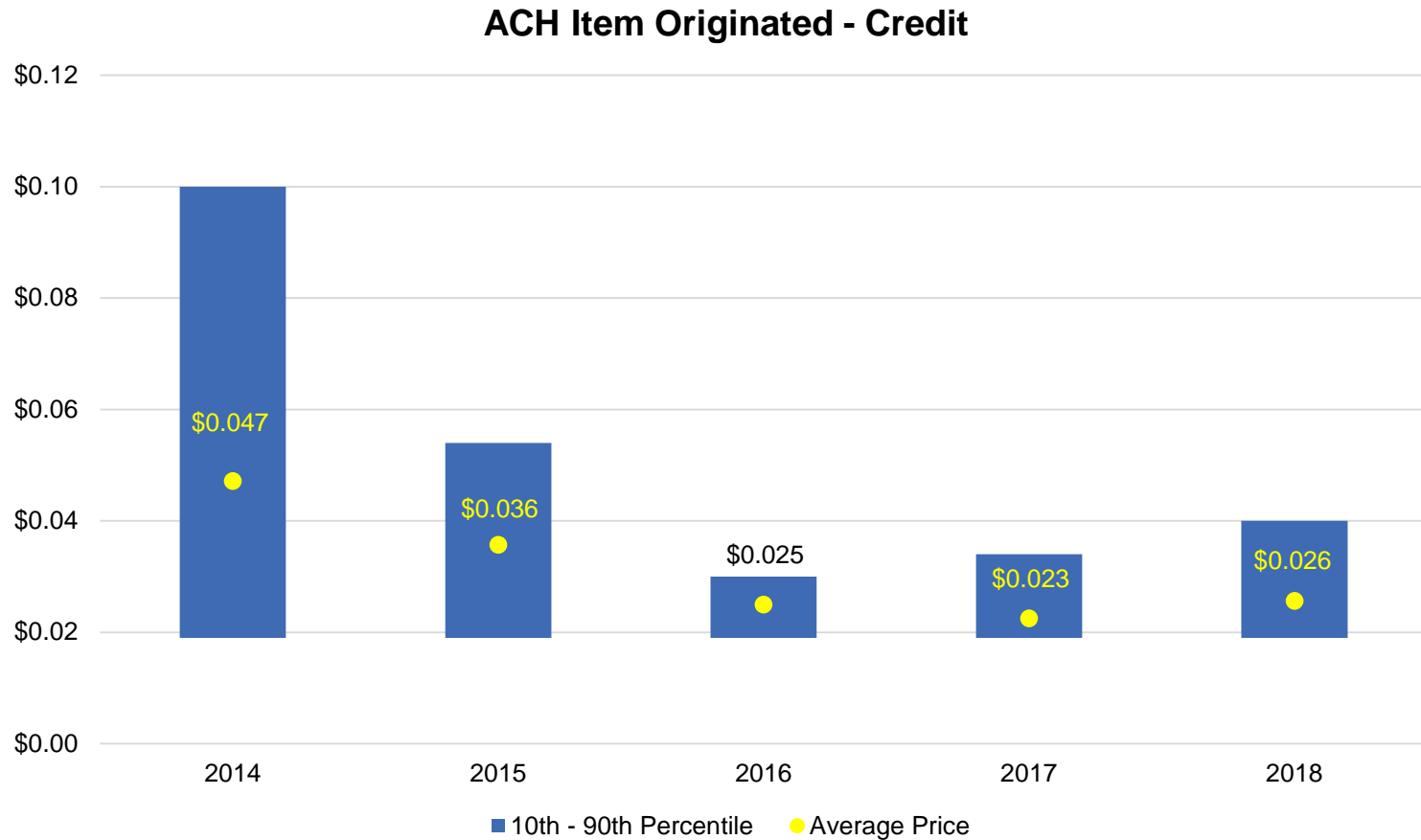
Percentage of Transactions Made by Corporations



Source: Phoenix-Hecht



Costs for Electronic Transactions Declining



Source: PFM Pricing Database. Blue bars represent the 10th to 90th percentile range of bank proposed pricing for competitive procurements up to \$250,000 in annual banking costs.



Same Day ACH

◆ Phase 3 - Effective March 16, 2018

- RDFIs will be mandated to make funds available from same day ACH credits (such as payroll Direct Deposits) to their depositors by 5:00 PM at the RDFI's local time
- Transaction must be less than \$25,000

Transmission	Deadline	Settlement
Morning	10:30 AM ET	1:00 PM ET
Afternoon	2:45 AM ET	5:00 PM ET

◆ Future Changes

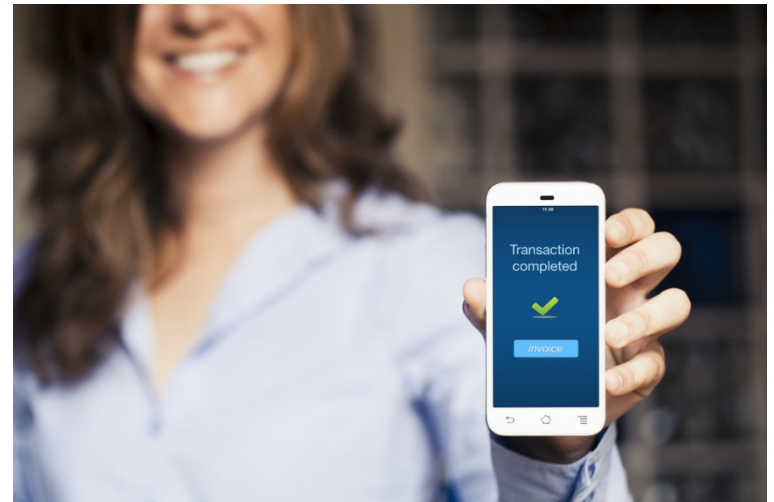
- Effective March 20, 2020: Per-transaction dollar limit for Same Day ACH transactions increase to \$100,000
- Effective March 19, 2021: Window for FIs to submit transactions will be extended by 2 hours to 4:45 PM ET, with settlement occurring at 6:00 PM

Source: <https://www.nacha.org/rules/same-day-ach-moving-payments-faster-phase-3>



Digital Disbursements Using E-mails or Mobile Phone #'s

- ◆ Replace business-to-consumer check payments with electronic payment
- ◆ Business-to-person electronic payment using payee's email or mobile 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
 - Reduced need to account for outstanding checks





RTP: Real Time Payments

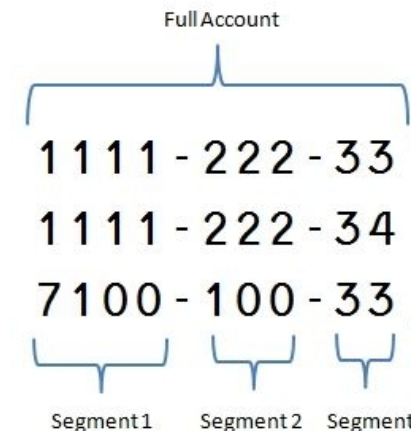
- ◆ First new core payments infrastructure in the U.S. in 40+ years
 - Immediate and irrevocable funds availability, 24/7
 - “Push” payments only; no ability to initiate a debit
 - Intended for B2B as well as B2C payments
 - Includes 2-way messaging functionality (i.e. request a payment and receive a response)
 - Transaction must be less than \$25,000
- ◆ FedNow under development to Compete with RTP
 - Promoting wider availability through Federal Reserve’s existing relationships with 10,000+ FIs
 - \$25,000 transaction limit also applies



Purchasing Cards

◆ Expense Reporting Modules

- Reporting customized to your chart of accounts
- Approval process by statement, expense or report level
- Receipt imaging
- *Mobile Applications or mobile friendly websites*





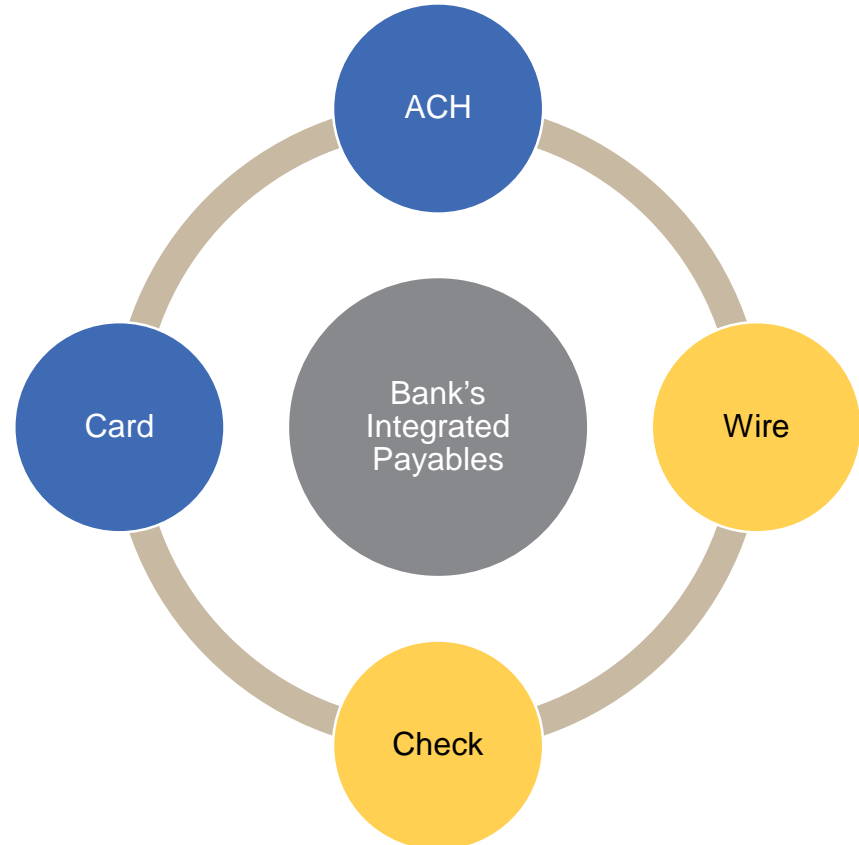
Purchasing Cards – City at a Glance

- ◆ Cards: 175 Cards
- ◆ Annual spend: \$1.2 million
- ◆ Transactions: 6,276
- ◆ Average Ticket: \$186
- ◆ Uses: Day-to-day supplies, employee travel, miscellaneous expense
- ◆ Virtual Cards: \$1.4 million / 280 transactions



Integrated Payables

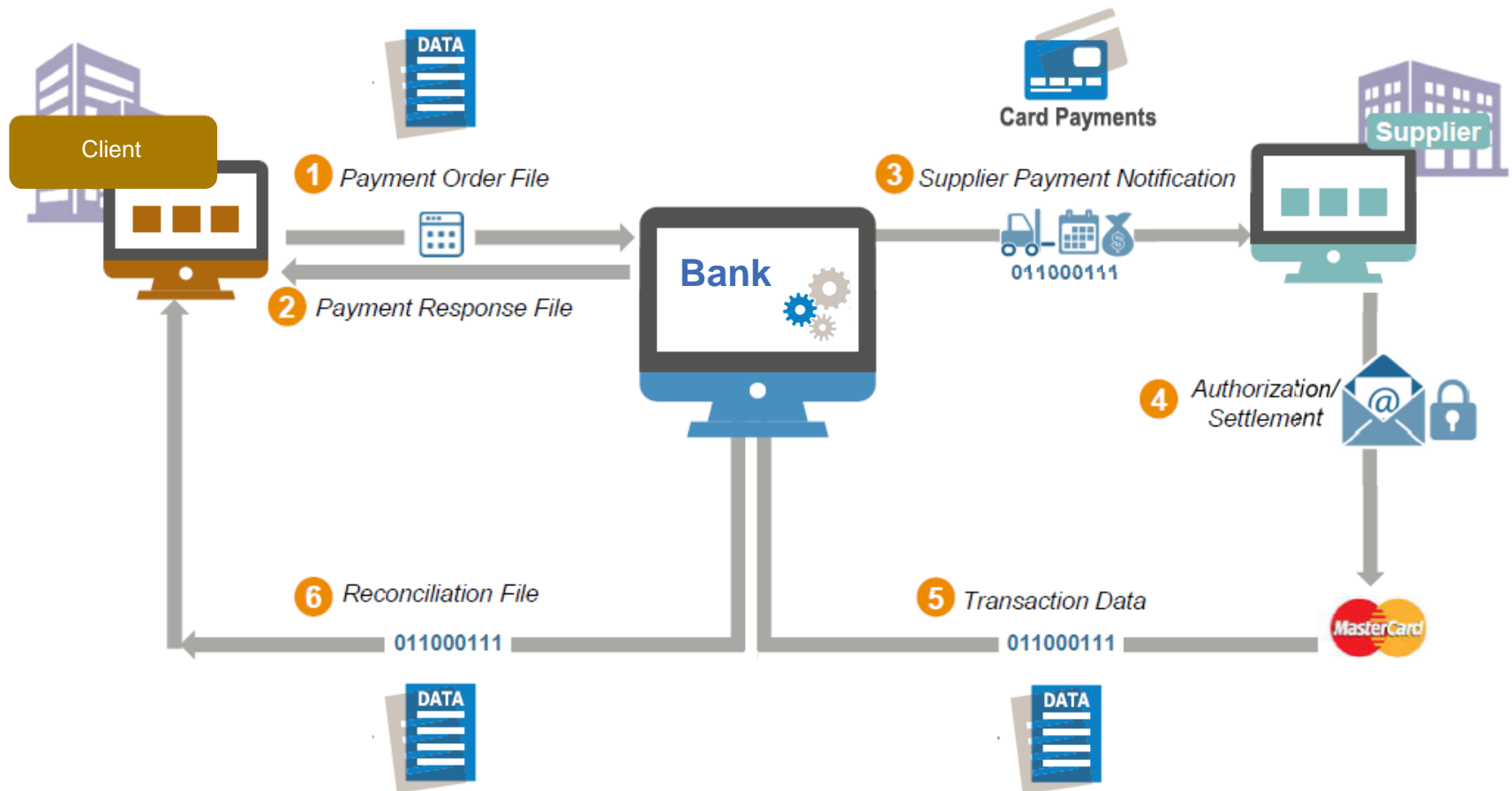
- ◆ A bank's Integrated Payables Platform may allow you to pay vendors electronically
 - ACH
 - Purchasing Cards
- ◆ 32.6% of Large Corporate Institutions reported using Integrated Payables, while only 11.3% of Middle Market Institutions reporting using Integrated Payables*
- ◆ Program Differences
 - Ghost cards vs. Single Use Cards
 - Vendor outreach initiatives
 - Vendor acceptance
 - Integration with your ERP system



* Source: Phoenix-Hecht



Integrated Payables





Impersonator Fraud

- ◆ Urgent item needing to be processed
- ◆ Immediate transfer of funds (wire)
- ◆ Generated from an e-mail account appearing to be legitimate
- ◆ Ability to confirm with originator limited (out-of-office, vacation)

The screenshot shows an email client window. On the left is a 'Send' button. The header fields are: 'To...' with 'John Staff Accountant', 'Cc...' and 'Bcc...' with empty fields, and 'Subject:' with 'Urgent Wire Needs to Be Sent'. The email body contains the following text:

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



ACH Fraud Services

◆ ACH Debit Block

- Blocks all ACH debit activity
- Automatically returns all attempted ACH debits

◆ ACH Control

- Bank provided with list of authorized recurring debits
- Unauthorized debits are blocked & automatically returned

◆ ACH Positive Pay

- Allows individual ACH to be rejected



DETAILS

- Currently, WEB debit entries are required to use a “commercially responsible fraudulent transaction detection system,” which screen for fraud.
- New laws will make “account validation” part of this requirement.
 - This entails validating that the correct account number and routing number are entered whenever an account is added or modified.

TECHNICAL

- This is a modification of the NACHA Operating Rules.
 - Specifically modifying Article Two, Subsection 2.5.17.4.
- In basic terms, the detection system must at the very least validate the account before debiting it.

IMPACT

- This is now effective March 19, 2021 instead of January 2020.
- This can cause a possible re-tooling of ACH Originators' fraud detection systems.



Mobile Banking

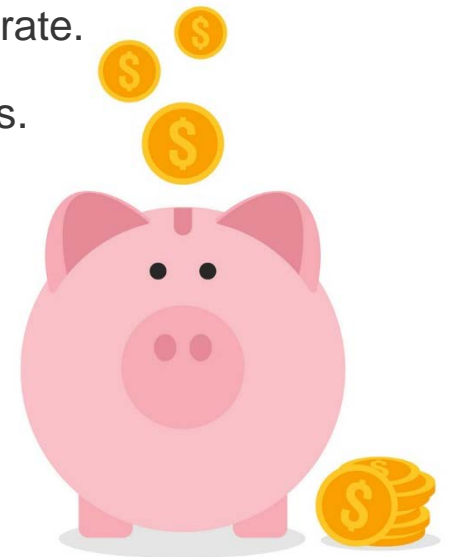
- New mobile features and applications have provided access to essential banking functions such as:
 - Initiation of a repetitive wire
 - Secondary approval of wire transfers
 - Decisioning of Positive Pay items
 - Resetting of a user's password
 - Balance reporting
 - Replacement of physical token





Earnings Credit Rates vs. Investment Sweeps

- ◆ Earnings Credit Rates (ECRs) are credits offered by a bank to offset service charges.
 - Credits can typically are only good for paying bank fees and
 - Unused credits expire eventually
- ◆ A DDA balance used to offset fees is a Compensating Balance
 - Also known as “soft dollars”
- ◆ Historically, the rate paid was often pegged to the U.S. Treasury bill rate.
- ◆ During the financial crisis, banks moved from pegs to managed rates.
- ◆ Most governments pay by a combination of fees and balances





How Do I Keep Up With the Constant Changes?

- Regular meetings with your bankers are key – even when things are going smoothly
 - Make time to engage with your relationship team at least annually
 - Potential Agenda Items:
 - Potential new services/enhancements
 - Training on systems for staff
 - Review of Analysis Charges
 - Interest rate review – don't be surprised by a rate decrease after its too late



About the Speakers



Dan Matusiewicz

Finance Director / Treasurer, City of Newport Beach

Dan has more than 25 years of experience in municipal finance & accounting. Before accepting a position at the City of Newport Beach, Dan started his career in public accounting, auditing local governments throughout California. He is currently the Finance Director/Treasurer of the City of Newport Beach overseeing a \$300 million annual budget and a \$250 million investment portfolio. He is a graduate of the Leavey Business School at Santa Clara University and holds a Bachelor's of Science degree in Accounting. He is Certified California Municipal Treasurer (CCMT), a Certified Fixed Income Professional (CFIP) and the past President of the California Municipal Treasurer's Association (CMTA).

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David Calvert, CFA

Director

David Calvert has been with PFM for over 19 years, specializing in providing treasury consulting services for clients across the country. As a leader of PFM's Treasury Consulting practice, David helps clients identify their banking needs and assists in the time-consuming process of competitively procuring banking services. These engagements typically result in his clients receiving significant cost savings, new and improved services, and greater customer service from their banking partner.

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