

**MEMORANDUM**

**Date:** December 16, 2009

**To:** Members, Pooled Money Investment Board

**From:** Mark Hariri, Director  
Cash Management Division

**Subject:** Cost of Banking Services in Fiscal Year 2008-09; a Proposed New Service Charge, Electronic Presentments and the addition of a New Depository Bank

During fiscal year 2008–2009, the State Treasurer’s Office maintained demand accounts with seven depository banks. After conducting annual meetings with each of these depository banks, the following recommendations of the State Treasurer’s Office staff were approved by the Treasurer:

**Cost of Banking Services – FY 2008-09**

Bank compensation is based upon estimated workload, with adjustments in the succeeding year for any differences between actual and estimated workload. Per existing policy, the 2008–09 differences between estimated and actual workload will be included in balances in the 2009–10 Fiscal Year. The adjustments will be applied over the remaining months of the fiscal year, or over a shorter period as requested by each financial institution. The attached Table A shows the 2008–09, estimated and actual workload and the adjustments (addition or reduction) that will be made to the compensating balances in 2009–10.

**Service Charges**

For 2008–09, and effective January 1, 2009, a new service charge was added to compensate the depository banks for the cost of depositing revenue that is collected by various state agencies and departments via Credit and Debit Cards. This item was reported to the Board at the December 2008 meeting.

For the 2009-10 Fiscal Year, new fees will be added to compensate the banks for two new services that will be implemented beginning next calendar year. The proposed charges will be in lieu of the current fees paid by the state for depositing paper checks and relate to the cost of depositing checks electronically. Please see Table B below. The Treasurer’s Office successfully concluded a pilot program whereby agencies can deposit checks via desktop scanners or larger scanners for agencies with high volume. The Remote Site Deposit and Image Cash Letter Programs will provide the state numerous financial and operational benefits.

### **Electronic Presentments**

The Treasurer's Office, in cooperation with Bank of America and the Federal Reserve Bank is in the process of implementing a project that will enable the banks to present all state issued checks and warrants electronically as images. Under the existing process various financial institutions present over 500,000 paper items daily. Implementation of this program will produce numerous financial and operational benefits.

### **New Depository Bank**

On September 30, 2009, the Treasurer and JP Morgan Chase bank entered into an agreement authorizing Chase to serve as a state depository. Chase bank is the largest bank in the nation with over 8,500 branches; about 715 of them are located in California, and over \$1 trillion in deposits. The addition of Chase bank with its 715 branches in California will make it easier and more efficient for state agencies to deposit their checks. Additionally, Chase will also benefit the state by introducing strong competition amongst the depository banks the consequences of which are improved services and reduced banking costs.

**TABLE A**

<b>Cost of Banking Services For All Banks Fiscal Year 2008/2009</b>			
	<b>Workload</b>	<b>Approved Charges</b>	<b>Cost</b>
<b>Hard Dollars Cost for Banking Services Based on Estimated Workload</b>			<b>\$ 11,351,511</b>
<b>Hard Dollars Cost for Actual Workload</b>			
<i>Encoded Checks Deposited</i>			
"On Us" @ .04	14,893,341	0.04	\$ 595,734
"Other" @ .053	18,579,931	0.053	984,736
Non Encoded Checks @ .09	14,663,866	0.09	1,319,748
Warrants @ .01	132,115,492	0.01	1,321,155
Checks Paid @ .12	447	0.12	54
Dishonored Checks @ 2.75	327,844	2.75	901,571
<i>Currency Deposited</i>			
"Regular" @ 1.40	203,107	1.4	284,350
"Split Bag" @ .55	110,693	0.55	60,881
Coin @ \$11.00/1000	8,900,414	0.011	97,905
Currency @ \$1.05/1000	908,492,320	0.00105	953,917
<i>Other</i>			
Account Maintenance (ZBA's) @ \$15.00	2,643	15	39,645
Account Maintenance (Demand & LAIF) @ \$55.00	36	55	1,980
Daily Statements @ \$6.00	1,550	6	9,300
Monthly Billings			4,702,009
<b>Total Hard Dollars Cost for Actual Workload</b>			<b>\$ 11,272,984</b>
<b>Over/(Under) Compensation/Hard Dollars</b>			<b>\$ 78,527</b>

**TABLE B**

<b>Bank Fees Schedule</b>	
	<b>Cost per Item</b>
<b>Encoded Checks Deposited</b>	
"On Us" @ .04	0.04
"Other" @ .053	0.053
Non Encoded Checks @ .09	0.09
Warrants @ .01	0.01
Checks Paid @ .12	0.12
Dishonored Checks @ 2.75	2.75
<b>Deposits</b>	
"Split Bag" @ .55	0.55
"Regular" @ 1.40	1.4
Coin @ \$11.00/1000	0.011
Currency @ \$1.05/1000	0.00105
ACH Credits	0.01
Image Deposit - Cost per Item <sup>1</sup>	0.03
Remote Deposit validation, correction, <sup>2</sup> and transmission	0.05
Image Replacement Document <sup>3</sup>	0.05
Account Maintenance @ \$15.00	15
Daily Statements @ \$6.00	6
<p><sup>1)</sup> This fee is to compensate the banks for the deposit of revenue by agencies with high volume using high speed scanners.</p> <p><sup>2)</sup> This fee is to compensate the banks for the deposit of revenue by various state agencies from remote locations using desktop scanners.</p> <p><sup>3)</sup> This fee would apply to images that are considered unreadable and require the printing of a replacement check.</p>	