

MEMORANDUM

Date: December 14, 2011

To: Members, Pooled Money Investment Board

From: Mark Hariri, Director
Cash Management Division

Subject: Cost of Banking Services in Fiscal Year 2010-11;
Electronic Presentments

During fiscal year 2010–2011, the State Treasurer’s Office maintained demand accounts with eight depository banks. Following discussions 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 2010-11

The cost of banking services provided by all banks during 2010-11 Fiscal Year was \$8,824,776. This represents a saving of \$924,320 in comparison with the prior fiscal year’s cost of \$9,749,096, and \$2,448,208 in savings in comparison with fiscal year’s 2008-09 cost of \$11,272,984. 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 2010–11 difference of \$93,098 between estimated workload cost of \$8,917,873 and actual workload cost of \$8,824,776 will be included in balances in the 2011–12 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 2010–11, estimated and actual workload and the adjustments (addition or reduction) that will be made to the compensating balances in 2011–12.

Service Charges

For the 2011-12 Fiscal Year, no new fees will be added to compensate the banks for the services that they provide to the state. However, lower fees have been negotiated as a result of automation and the implementation of electronic deposit of checks, while others have been completely eliminated. Please see Table B below for a complete listing of the currently approved fees and charges.

Image Cash Letter

In addition to the Remote Site Deposit Program, whereby agencies can deposit checks via desktop scanners or larger scanners for agencies with high volume, and which was implemented last year with a number of agencies, an Image Cash Letter Program (ICL) is also underway and the first major department will fully implement by February 2012. Under the Image Cash Letter Program participating agencies convert the paper processing of checks to an electronic check image system, which allows for exchanging electronic cash letters with multiple clearing banks. The major revenue collecting agencies, using existing imaging infrastructure would capture images of checks received at their offices, and transmit them to each depository bank for same day processing.

The Image Cash Letter Program offers the participating agencies and the state the following benefits:

- Lower fee per deposited item
- Streamlined deposit preparation.
- Expedited funds availability.
- Reduced time and risks involved with transporting paper checks to the bank.
- Electronically transmit an Image Cash Letter to the bank for clearing, eliminating the cost and time associated with sorting and shipping the checks.
- Image cash Letters can be exchanged with multiple banking partners.
- Check returns can be identified more quickly and qualified items automatically re-deposited resulting in reduced collection risk and greater funds availability.
- Image Cash Letter files can be transmitted multiple times, 24 hours a day, 7 days a week.
- Provides access to images of transactions that agency staff can research by transaction or by item

The Department of Child Support Services is scheduled to fully implement the ICL program by February 2012. The Board of Equalization is planning to implement by July 2012. Other major revenue collecting agencies such as the Department of Motor Vehicles, the Employment Development Department and the Franchise Tax Board are planning to implement, notwithstanding any new conflicting priorities, by the end of 2012 as well.

TABLE A

Cost of Banking Services			
For All Banks			
Fiscal Year 2010/2011			
		Approved	
	Workload	Charges	Cost
Hard Dollars Cost for Banking Services Based			
on Estimated Workload			\$ 8,917,873
Hard Dollars Cost for Actual Workload			
<i>Encoded Checks Deposited</i>			
"On Us" @ .04	14,807,791	0.04	592,312
"Other" @ .053	14,676,179	0.053	777,837
Remote Site @ .08	296,690	0.08	23,735
Remote Site Conversions @ .02	-	0.02	-
Non Encoded Checks @ .09	11,913,284	0.09	1,072,196
Warrants @ .01	125,295,249	0.01	1,252,952
Checks Paid @ .12	556	0.12	67
Dishonored Checks @ 2.75	142,663	5.5	784,647
<i>Currency Deposited</i>			
"Regular" @ 1.40	178,637	1.40	250,092
"Split Bag" @ .55	139,774	0.55	76,876
Coin @ \$11.00/1000	9,095,179	0.011	100,047
Currency @ \$1.05/1000	934,954,469	0.00105	981,702
<i>Other</i>			
Account Maintenance (ZBA's) @ \$15.00	2,958	15.00	44,370
Account Maintenance (Demand & LAIF) @ \$55.00	36	55.00	1,980
Daily Statements @ \$6.00	1,828	6.00	10,968
Monthly Billings			2,854,995
Total Hard Dollars Cost for Actual Workload			\$ 8,824,776
Over/(Under) Compensation/Hard Dollars			\$ 93,098

TABLE B

Bank Billing Fee Schedule*	
	Cost per Item
Encoded Checks Deposited	
"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 @ 5.50 ¹	5.50
Deposits	
"Split Bag" @ .55	0.55
"Regular" @ 1.40	1.40
"Electronic" @ 1.00	1.00
Coin @ \$11.00/1000	0.011
Currency @ \$1.05/1000	0.00105
ACH Credits	0.01
Image Cash Letter (ICL):	
Image Cash Letter Deposit, or	0.03
Image Replacement Document	0.05
Remote Site Deposit (RSD):	
Remote Site Deposit Image and Validation, Correction, and Transmission ²	0.08
Image Replacement Document and Validation, Correction, and Transmissi	0.10
Reconciliation Services (Direct Billed)	
Workstation Maintenance (Monthly)	225.00
Demand Account Maintenance ⁴ (Monthly)	55.00
Zero Balance Account (Set-up, one-time fee)	30.00
Zero Balance Account Maintenance (Monthly)	15.00
Daily Statements	6.00
Current-day Accounts Reported	15.00
Current-day Transactions Viewed ⁵	0.25
Stop Payment Order 6 Months (Single and First Item in Range Stop)	10.00
EFT Services (Direct Billed, Non-EFT Contract)	
Incoming Wires	8.50
Incoming Book Transfers (All Types)	5.50
Incoming Request Fed Wires	18.00
Outgoing Book Transfers (All Types)	5.50
Outgoing Voice Initiated Wires	18.00
Outgoing On-Line Repetitive Wires	7.50
LAIF Incoming Wires	8.50
LAIF Outgoing Wires	25.00

*This schedule does not include fees and charges incurred under the Miscellaneous Sort Contract and the Electronic Funds Transfer contract. Both of these contracts are secured through a competitive bid process.

¹ Items deemed "dishonored" are presumed to be presented twice for payment (\$2.75 for each presentment).

² The .08 is comprised of two factors - Remote Site Deposit (.03), and Validation, Correction, and Transmission (.05)

³ The .10 cost is comprised of two factors - Validation, Correction, and Transmission (.05) and Image Replacement Document (.05), when required.

⁴ Limit of one per month for the demand account (excludes LAIF account) - except in the case of Bank of America, which also has the Unemployment Insurance account.

⁵ Limit to current-day reporting only. The State may be charged no more than once per day to view transactions.