Cash Management

AASBO Certificate Program

April, 2013

Cash Management

- Effective cash management is more important today than ever before. This session will develop specifications for the selection of banking and other financial services, discuss the concepts of compensating balances, cash flow analysis, account analysis statements and investment guidelines. Session will focus on effective cash management practices and the utilization of banking products and services for an more efficient business operations.

Cash Management

- Developing a cash management program
- Short Term Investment Program
- Banking Services

Developing a Cash Management Program

- Improve cash management efficiency
- Improve your operational efficiency
- Increase your investment income
- Provide benefits for your employees

Cash Management Efficiency

- Objective
  - 100% of funds are invested 100% of the time at the highest rate of return with safety and liquidity as the main drivers.

Developing a Cash Management Program

- Maximize return on idle funds
- Invest excess funds daily
- 24 hours invested “ adds up quickly”
- Make your money work for your district

Improve Your Operational Efficiency

- Cash Receipts
- Procurement
- Disbursements
  - A/P
  - Payroll
- Administrative Services

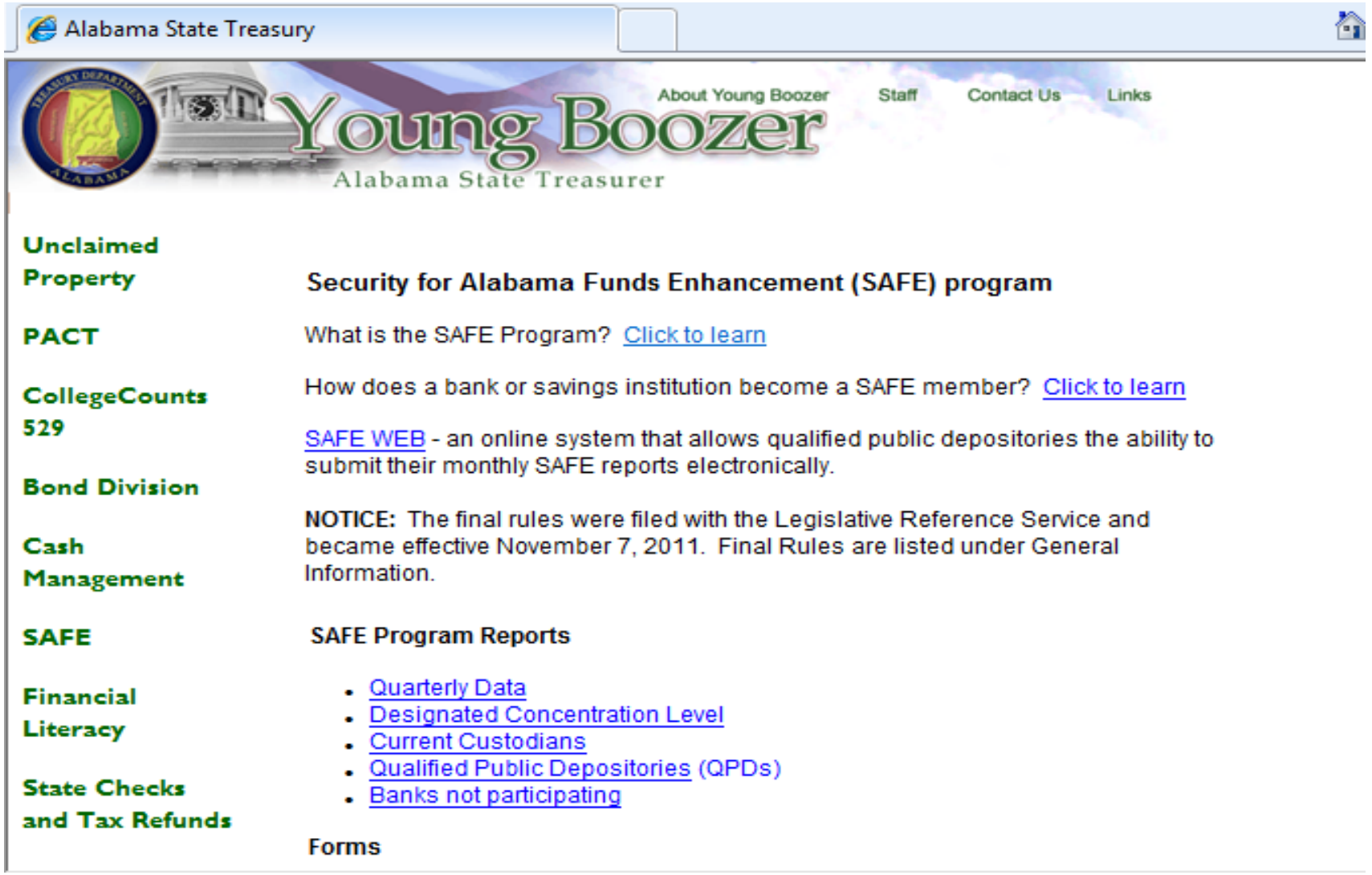
Developing a Cash Management Program

- Bid or negotiate your banking services
  - Identify banking institution that will provide the highest quality of service at the lowest cost to the board
- Develop an investment strategy
  - Understand your cash flows
  - Understand your investment choices
  - Develop an investment policy

Collateralization:

- All deposits of the Board must be secured by pledged collateral in an amount greater than the highest balance during any month, or deposited with a Qualified Public Depository of the Security for Alabama Funds Enhancement (SAFE) Program, according to Sections 41-14A-2 through 41-14A-6, 41-14A-8 and 41-14A-9, ***Code of Alabama 1975***, as amended.

About Young Boozer
Staff
Contact Us
Links
Young Boozer
Alabama State Treasurer
Unclaimed Property
PACT
CollegeCounts 529
Bond Division
Cash Management
SAFE
Financial Literacy
State Checks and Tax Refunds
Thank you for visiting the Alabama State Treasury online! This website is your portal to the functions of our office, and my staff and I hope you will find it useful.
The State Treasury is responsible for multiple state financial interests, including unclaimed property, cash management, bonds, the Alabama Trust Fund and more.
As your State Treasurer, I am dedicated to the sound fiscal management of the responsibilities of this office. My work ethic is guided by a lifelong principle: do the right thing, do it the right way, and do it right away.
Young Boozer
State Treasurer
Treasury News
11/27/2012 - Treasurer Boozer Launches Statewide Scholarship Program
7/12/2012 - Supreme Court grants PACT Boards settlement rehearing request
5/29/2012 - Treasurer Boozer works with Legislature to improve Alabama's investment options
View All
Alabama State Treasurer
Young Boozer
facebook


Alabama State Treasury
Young Boozer
Alabama State Treasurer
About Young Boozer
Staff
Contact Us
Links
Unclaimed Property
PACT
CollegeCounts 529
Bond Division
Cash Management
SAFE
Financial Literacy
State Checks and Tax Refunds
Security for Alabama Funds Enhancement (SAFE) program
What is the SAFE Program? Click to learn
How does a bank or savings institution become a SAFE member? Click to learn
SAFE WEB - an online system that allows qualified public depositories the ability to submit their monthly SAFE reports electronically.
NOTICE: The final rules were filed with the Legislative Reference Service and became effective November 7, 2011. Final Rules are listed under General Information.
SAFE Program Reports
Quarterly Data
Designated Concentration Level
Current Custodians
Qualified Public Depositories (QPDs)
Banks not participating
Forms

SAFE Program

The Security for Alabama Funds Enhancement, or SAFE Program, is encompassed in Title 41, Chapter 14A, Code of Alabama 1975, as amended, to provide a uniform program for the security of public funds deposited with financial institutions in the State of Alabama that qualify to serve as depositories for public funds. The Program requires any bank or financial institution in the State of Alabama, accepting any deposits of public funds, to ensure those funds by pledging eligible collateral to the State Treasurer for the SAFE collateral pool. The law further provides for safeguarding of public deposits by requiring the entire pool and each participating financial institution to stand behind each deposit. Rules of the Program have been developed subject to the Administrative Procedures Act, whereby the public was given the opportunity to make comments prior to their adoption. The Rules provide the details of the Program.

SAFE Program

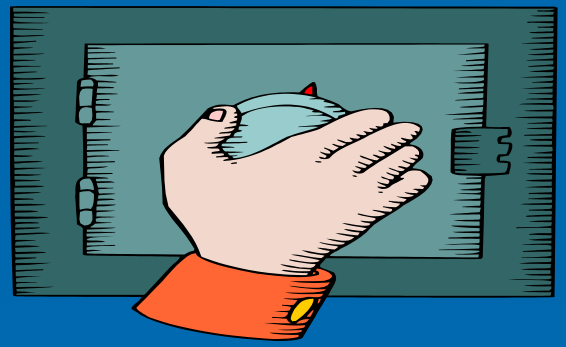
A Board of Directors is charged with the responsibility and authority to assess and manage the sufficiency of the collateral pool. The board meets at least quarterly and is comprised of 8 members who serve without compensation, except for reimbursement for travel associated with the meeting in accordance with state per diem rates. The Treasurer serves as a permanent, voting member and Chairman. The Superintendent of Banks serves as a permanent, non-voting member. The remaining six members are 4 representatives from the banking industry, one representative from the League of Municipalities, and one representative from the County Commission Association. The term of office of each appointed member is four years with any appointed member being eligible for reappointment and serving until a successor is selected.

SAFE Member Application Process. All public depositors are required by SAFE law to place their public deposit funds with one or more bank or savings institution that has met the requirements to become a member or "Qualified Public Depository" (QPD).

Cash Management Services

- Collection Services
- Disbursement Services
- Information Services
- Credit Services
- Fraud Protection
- Investment Services

Collection Services



- ACH Collections
- Zero Balance Accounts
- Night Depository Services
- Lock Boxes
- Remote Deposits

Disbursement Services

- Balance Reporting Services
- ACH Payments
- Electronic Payments
- Account Reconcilement Services
- Zero Balance Accounts
- Wire Transfer Services
- Overdraft Protection Services

Information Services

- Account Reconcilement
- Online Information Reporting
- Electronic Storage of Banking Records

Credit Services

- Lines of credit
- Leasing
- Short-Term Notes
- Long Term Financing

Investment Services

- Investment Advise

Choosing Your Bank

- Developing a banking relationship
  - Look for a multidimensional institution
  - Seek a bank that specializes in Public Funds relationship
  - State of Alabama SAFE Program

How much should you pay for Bank Services?

- Pay fees direct?
- Compensating balances to offset fees?
- Lower investment rate?

Choosing Your Bank

How much should you pay for Bank Services?

Understanding the Account Analysis Statement:

- AAS is monthly invoice provided by the bank that delineates the services provided and compensation required to pay for these services.
- It is not a monthly bank statement.
- If you are not receiving an AAS, request one from your bank.

Account analysis statements are issued periodically, usually monthly. Relevant information reported in the account analysis statement includes the following: the company's average daily balance , average daily balance on uncollected checks, Earnings Credit Rate (ECR) on collected balances, account activity charges, and account balances needed to pay for bank services (compensating balance). An analytical tool mostly used in pricing cash management services.

- **Average Ledger Balance:** The average balance maintained in a checking account. It is the sum of each day's ledger balance divided by the number of days in the statement period.
- **Average Float:** The sum of each day's ledger balance that consists of uncollected funds divided by the number of days in the statement period.
- **Average Collected Balance:** The average ledger balance less the average uncollected balances.
- **Reserve Requirement:** The percentage of account balance required to be kept on deposit at the Federal Reserve Bank.
- **Investable Balance:** The balance remaining after the reserve requirement is deducted from the average available balance.
- **Earnings Credit Rate:**. ERC- A daily calculation of interest paid on idle funds that reduce bank service charges. A calculated amount is then used to pay for banking fees. r. The rate paid is often pegged to the U.S. Treasury bill rate

Sample Bank of Alabama Account Analysis Report

ABC School District
P.O. Box 156
City, Alabama

Statement Date
From: 06-01-2012
To: 06-30-2012

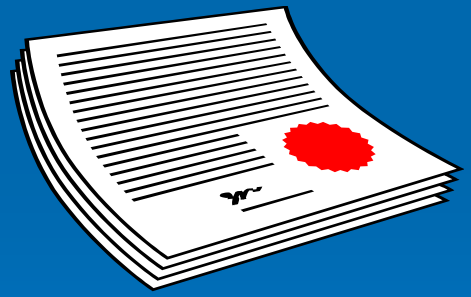
Account # 0060510625

Average Ledger Balance	$	2,256,514.67
Less Average Float		(773,398.31)
Average Collected Balance	$	1,483,116.36
Less Reserve Requirement		(148,311.64)
Balance Available For Investment	$	1,334,804.73

Analysis of Service Charges

Description	Volume	Unit Price	Total Price	Equivalent Collected Balance
# of Accounts	2	7.50	15.00	$ 2,975.21
Maintenance				
Checks Paid	569	0.15	85.35	16,928.93
Deposits	21	0.30	6.30	1,249.59
Deposit Items	12,905	0.05	645.25	127,983.47
Wire Transfer	1	15.00	15.00	2,975.21
Services				
ZBA Account	1	75.00	75.00	14,876.03
Maintenance				
ZBA Account	76	1.00	76.00	15,074.38
Transfers				
Investment Sweep	1	100.00	100.00	19,834.71
Total Service Charges	13,576	199.00	1,017.90	$201,897.53

Components of Banking RFP



Introduction

- **Introduction**
  - Objective
  - Selection Criteria
  - Length of Contract
  - General Terms and Conditions

- Scope of Banking Services
  - List of desired services
  - How services should operate
  - What you expect from bank

- Forms and Instructions
  - Clear and concise instructions
  - Standardized bid forms

- Evaluation of Proposals
  - Established criteria
  - Disqualify incomplete proposals
  - Highest quality service at competitive price

Preparing the Request for Proposal (RFP)

- Allow adequate time (6-9 months)

- Identify ways to improve procedures services
  - Local bank contact
  - Compare services used by other boards
  - Direct deposit payroll
  - Reconcilement Services
  - Purchasing Cards
  - Internet Banking
  - Remote Deposits

Use concentration/zero balance account structure

- Depository Accounts
  - General Fund
  - CNP Fund
  - Capital/Bond Account
  - Other
- Disbursement Accounts
  - Accounts Payable
  - Payroll

- Establish what independent rate will be used for investment purposes (Federal Fund, LIBOR or 90-day T-Bill)
  - In the United States, the **federal funds rate** is the interest rate at which private depository institutions (mostly banks) lend balances (federal funds) at the Federal Reserve to other depository institutions, usually overnight.
  - LIBOR stands for London Interbank Offered Rate. It's the rate of interest at which banks offer to lend money to one another in the wholesale money markets in London. It is a standard financial index used in U.S. capital markets and can be found in the Wall Street Journal. In general, its changes have been smaller than changes in the prime rate.

- Schedule a pre-proposal conference –
  - One to two weeks after RFP has been issued
  - Three to four weeks before proposals are due
- Establish minimum contract period
  - Two to three years with two-year option
- Have signed contract (master agreement)
- Allow 3-5 months to implement

I. DEPOSITORY ACCOUNTS

A. General Fund – This is a major account for the Board where the majority of receipts will be deposited. This account will also receive ACH deposits from Federal and State agencies.

B. Child Nutrition – This is the receiving fund for all school lunchroom activities of the ABC County Board of Education. Deposits will be mostly in cash, but this account will also receive some ACH deposits.

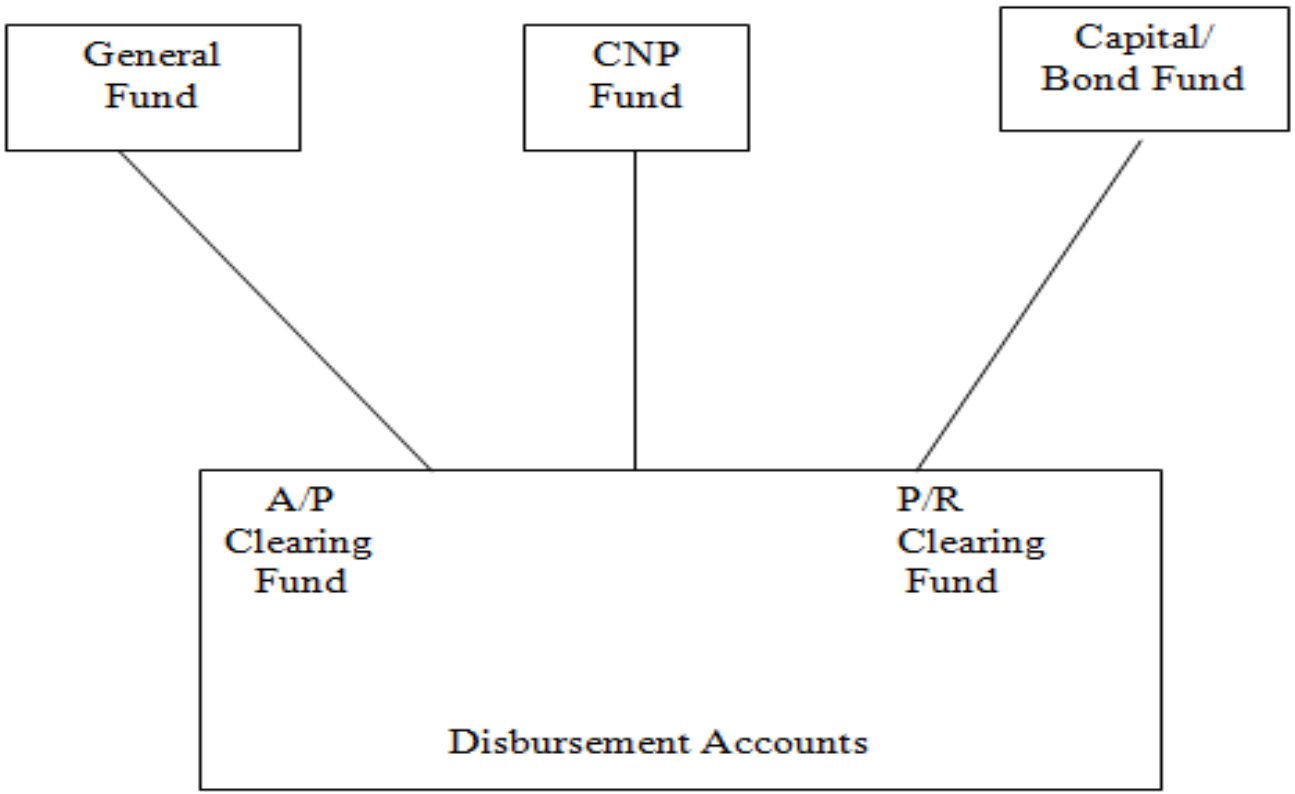
C. Capital Building Fund – This is the receiving account on accounts for bond proceeds. These receipts will be by ACH or checks and be few in numbers.

II. DISBURSEMENT ACCOUNTS

A. Accounts Payable Account – Transfers are made to this account from the depository accounts on a weekly basis to cover all checks written in accounts payable.

B. Payroll Account – Transfers are made to this account monthly or biweekly from the depository accounts to cover all payroll checks and direct deposits for payroll.

Account Structure



Investment Program For School Districts

Investment Guidelines

Types of Funds For Investment

- Funds used for the operating expenses of the school district (General Fund)
- Funds to provide for major expenses – Capital Outlay (Bond Funds, City Appropriations)
- Surplus funds set aside for emergencies or contingencies (Reserves)

OBJECTIVES

- **Safety**
- **Liquidity**
- **Income / Return**

  On Investment

Safety

- Credit Risk – Debtors will fail to make timely payment of principal / interest
- Market Risk – Interest rate may change causing a decline in yield

Liquidity

(The ability to convert the investment back to cash whenever the funds are needed)

- Maturity of investment
  - Having enough funds coming due soon
  - Short term investment –
    overnight investments, money market funds
  - Maturity pattern that always keeps some
  - assets that are close to maturity

Income or Return on Investment

- Investment Reward (Profit)
- The greater the reward the greater the risk
- Cannot justify high-risk investments

Types of Funds For Investment

- Funds used for the operating expenses of the school district (General Fund)
- Funds to provide for major expenses – Capital Outlay (Bond Funds, City Appropriations)
- Surplus funds set aside for emergencies or contingencies (Reserves)

Cash Flow Forecast
How To Invest

Cash Flow Forecast

Serves as an investment road map. You construct it by compiling historical information on receipts and disbursements.

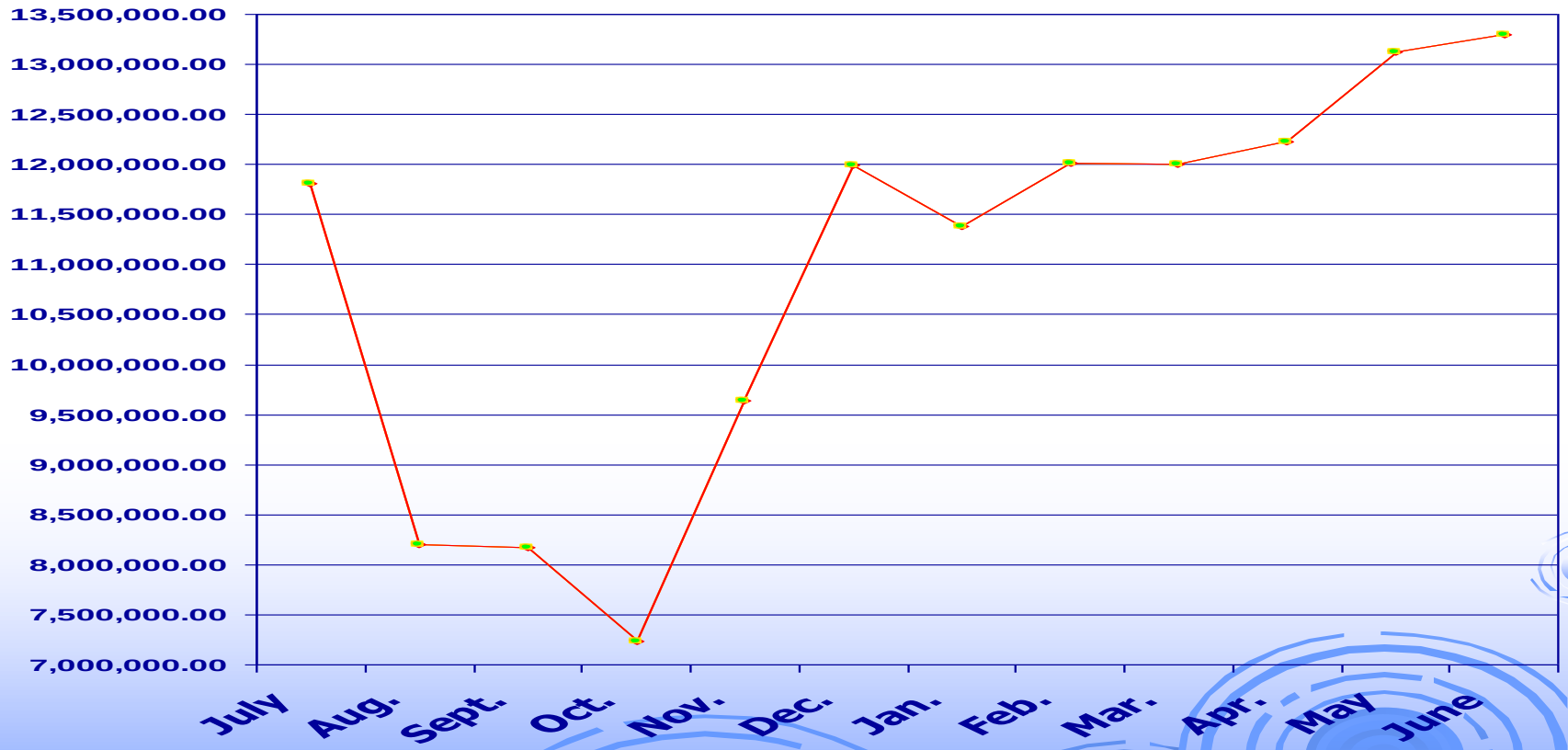
Usually based on data from three years.

Cash Flow Analysis

	Receipts	Disbursements	Available
Jan.	**$10 million**	**$ 4 million**	**$ 6 million**
Feb.	**$10 million**	**$ 5 million**	**$ 5 million**
Mar.	**$ 6 million**	**$ 8 million**	**($ 2 million)**
Apr.	**$ 2 million**	**$ 5 million**	**($ 3 million)**
May	**$ 3 million**	**$ 6 million**	**($ 3 million)**
June	**$ 4 million**	**$ 7 million**	**($ 3 million)**

Cash Flow Analysis

Cash Flow Chart



Types of Investments For School Districts

Treasuries – *Informal name for securities issued by U.S. Department of Treasury*

Treasury Bills (T-Bills)

- Short-term obligations–one year or less
- Issued on discount basis
- Issued in 3-month, 6-month, one-year maturities
- Serves as benchmark for yields of other short-term, fixed income investments

Treasury Notes

- Medium term obligations
- Maturities one to ten years
- Fixed face amount
- Specified maturity
- Specified coupon interest rate

Treasury Bonds

- Long-term obligations
- Maturities greater than 10 years
- Fixed face amount
- Coupon rate of interest

Federal Agency Securities

Agencies created by the federal government to support the credit needs of specific institutes or groups.

- Some are guaranteed by U.S. Treasury
- Some are supported only by the credit worthiness of the issuing agency (Federally sponsored)

Certificates of Deposit

- Time deposit with bank
- Specified term
- Must be secured
- Rate – fixed or variable

Repurchase Agreements (Repos)

- Board purchases securities from bank at specified interest rate and sells them back
- Open repo is used most often by governmental agencies
- Basis for daily rate (effective federal fund minus basis points)
- Collateralized by U.S. Government Securities
- GASB statement 31 disclosure requirements

Guidelines of Investing

- Always buy every investment as though you will hold it until maturity
- Avoid investing all of your funds at once, especially if the environment is calling for an upward rate movement
- Stagger your purchases (dollar cost averaging)
- Never buy an investment expecting to sell it early
- Create and follow a cash flow forecast
- When in doubt DON'T

Three Pitfalls of Investing–

Trust…Greed…Ignorance

Trust

- Always stay with investments with which you are familiar
- Always try to get at least two bids whenever making a transaction
- Be alert to sudden changes in your broker's advice or recommendation

Greed

- Do not start searching for unrealistic yields
- Treasury securities should serve as benchmark

Ignorance

- Do not buy what you do not understand
- Do not buy any investment that yields less than its corresponding treasury
- Government guaranteed does not mean risk free
- When in doubt ask or research

Investment Policy

WHY

- Formal written policy is vital for prudent investment management
- Gives clear guidance
- Communicates where the Board has chosen to go with their investment portfolio

Areas you need to address in your investment policy

- What accounts are covered in your policy
- Who makes permissible investments and what investments are included
- What are your investment objectives
- What are your Board's prudence and ethical standards

- From whom will you purchase investment securities
- What are the safekeeping requirements
- What are your diversification requirements
- Have you established internal controls
- What sort of ongoing evaluations and reporting will be required

Sources:

Jeffry Flynn,
The Art of Investing School District Funds,
published by ASBO International.

Rhett Harrell, Editor,
"Government Financial Management Report",
Sheshunoff Information Services, Inc.

Edmund A. Mennis and Leonard M. Matz,
State and Local Government Investment Guide Series,
Sheshunoff Information Services, Inc., 1996.

Sources:

Rhett Harrell, *Banking Relations*, published by Government Financial Officers Association, 1986.

"Government Financial Management Report," Vol.4, No. 12, Sheshunoff Information Services, 1998.

"Cash Management and Investment Report," Vol. 1, No. 6, Sheshunoff Information Services, 1998.

Leonard M. Matz and J. Kimball Hobbs, *State and Local Government Cash Management Service*, Sheshunoff Information Services, 1996.