

Cash Management

Washington State Treasurer's Office



Shad Pruitt, Deputy Treasurer – Operations

October 20, 2017

Washington's Treasurer's office:

- Is responsible for receiving, maintaining, disbursing, and transferring all public monies of the state unless required by law to be handled by other state agencies.
- Manages cash flow of all major state accounts with deposits, withdrawals and transfers totaling \$246 billion last year.
- Invests the state's operating cash in safe short-term instruments that preserve the ability to access funds.

Managing the Cash Flow for the State Requires the Office of the State Treasurer (OST) to:

- Provide the vision and implementation of statewide systems that ensure the unimpeded inflow of monies into the state and timely outflow of monies.
- Perform a variety of financial transactions that receive money collected by all state agencies and pool monies in a single bank account (concentrate).
- Act as a liaison between state agencies and financial institutions through master agreements that provide economies of scale that save the state money on banking services.

Background / History

- With few exceptions, before 1993:
 - Most agencies did not have contracts for purchased banking services;
 - Credit cards and other electronic payment methods were just beginning to be used by state agencies and economic feasibility was often not considered; and
 - Contracts for financial services were handled by the Office of State Procurement – a general service entity that bought office supplies and equipment, with no expertise of financial processes, risks and costs.

Legislative Remedies

- In 1993, the legislature passed the Cash Management Act (CMA) to:
 - Obtain efficient management of the state’s cash;
 - Combine state cash for investment purposes; and
 - Revise policies and procedures so the state could create cost effective cash management and banking contracts.
- In 2010, at OST’s request, the legislature improved the CMA to fully combine all state funds managed by the Treasurer for purposes of investment, deposit, and cash balances.

Strategy for Implementing Cash Management Act

- Establish master agreements for banking services
- Use economies of scale to drive down costs.
- Replace cumbersome interfund lending with fund accounting within a large cash pool.
 - Accounts in surplus earn interest while accounts in temporary cash deficit pay interest at same rates.

Fundamental Areas

Cash Management

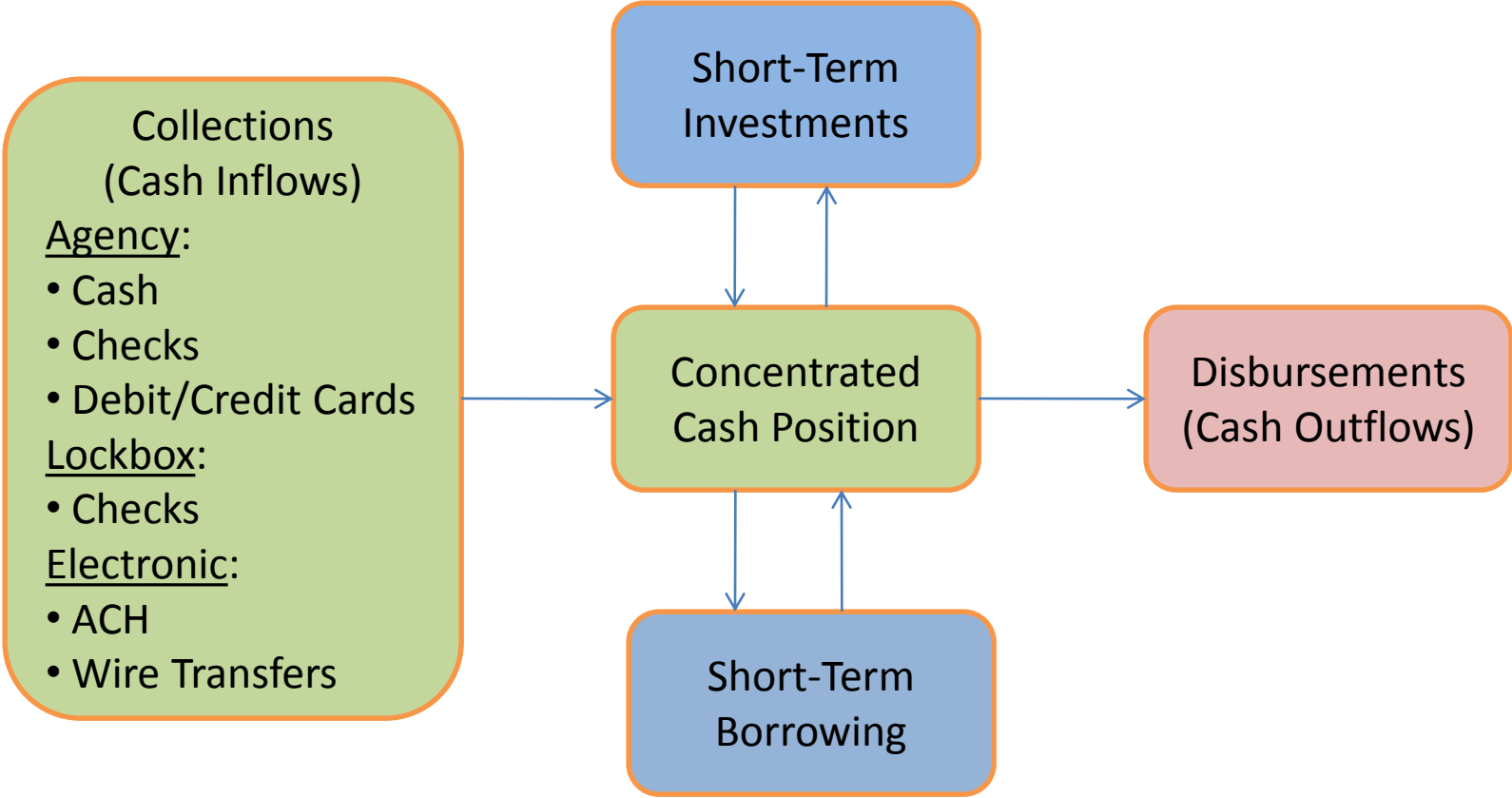
- Collection
- Disbursement
- Concentration
- Cash Flow Forecasting
- Investment
- Safety and Security of Public Funds

Primary Goals

Cash Management

- Speed Up Inflows (Collections)
 - Uncollected Funds Can't Be Invested or Spent
- Control Outflows (Disbursements)
 - Timing
- Minimize Net Cost of Process (Concentration)
- Optimize Cash Resources
 - Minimize Holdings of Non-Earning Cash Balances
- Provide Liquidity
 - Meet Current / Future Financial Obligations of the State

Cash Inflows & Outflows



Cash Management Contracts Administered by OST

Lockbox Services

- Master Agreement with 3rd Party (Bank) to receive and process payments
- Expedites collection of paper-based payments
- Improves cash flow by reducing processing time between mail delivery and depositing of payments
- Available to any agencies accepting large numbers of paper checks (economies of scale)
- Competitively Bid Every 4 to 7 Years

Lockbox Services

- Advantages:
 - Mail Float Reduced: Use Unique Postal Code
 - Processing Float Reduced
 - Efficient Processing
 - Economies of Scale
 - Lower Per-Unit Processing
 - High Levels of Security / Segregation of Duties
 - Uninterrupted Service

Cash Management Contracts Administered by OST

Master Depository Services

- Agreements with various banks statewide to provide services to state agencies (e.g. remote locations)
- Available to state agencies authorized by Office of Financial Management (OFM) to have bank account outside the Treasury
- Banks are all FDIC and PDPC qualified
- Fees kept static for contract period
- Monies swept into state's main account

Cash Management Contracts Administered by OST

Merchant Bankcard Services

- Master Agreement with Bank for Processing Merchant Card Transactions
 - VISA / MasterCard / Discover
 - PIN Debit
- Separate Agreement with American Express
- Most Expensive Option for Collecting Funds.
- Sometimes Difficult To Pass Fees on to Customers
- Competitively Bid Every 4 to 7 Years

Cash Management Contracts Administered by the OST

State Concentration Account

- Main bank account for Treasury/Treasury Trust
- Includes all banking services needed for the collection and disbursement of state money
 - Cash: Currency & Coin
 - Paper: Checks / Warrants
 - Electronic: ACH / Wire / Image Deposit
- Key Features:
 - Daylight Overdraft
 - Collateralization of balances (i.e., Security)
- Competitively Bid Every 4 to 7 Years

Concentration Account

- FY 2017 Statistics:
 - 13 million transactions processed by Bank
 - Cost (Gross): \$324,000 (2.4 cents per transaction)
 - Cost (Net): \$0
 - Earnings on balances offset fees (no idle cash)
 - Warrants: 1.5 million issued -- \$3.5 billion
 - ACH / Wires: 8 million
 - 60% By Volume / 98% By Dollar Amount
 - Checks deposited: 1.4 million

Public Deposit Protection Commission

- Comprised of the Governor, Lieutenant Governor and chaired by the State Treasurer — ensures the security and safety of public funds on deposit in qualified public depositories.
- Administers state laws and rules that protect public money if a financial institution becomes insolvent.
- Approves which banks can hold state and local government deposits.
- Monitors collateral pledged by banks to secure public deposits in excess of FDIC insurance coverage.

Public Deposit Protection Commission

- Approves which credit unions may accept public deposits up to the maximum amount insured by the NCUA.
- Currently, 65 banks and 15 credit unions located in Washington are authorized to hold public deposits.
- As of August 31, 2017, the amount on deposit was \$5.8 billion (banks) and \$2.9 million (credit unions)

Questions?