



CITY OF PHILADELPHIA

Nancy E. Winkler
City Treasurer
CITY TREASURER'S OFFICE
Municipal Services Building, Room 6
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1681
(215) 686 – 2303 (Office)
(215) 686 – 3815 (Fax)
nancy.winkler@phila.gov

May 18, 2015

The Honorable Darrell Clarke
City Council President
City Hall, Room 490
Philadelphia, PA 19107

Dear Council President Clarke:

This letter is in response to a question raised at the April 8th, 2015 hearing before the Committee of the Whole on the Fiscal Year 2016 proposed budget for the Office of the City Treasurer. The question was recorded as follows:

From Councilman Goode:

1. In terms of the business we do with national banks, after we pay fees, how much money do we make/lose on an annual basis?

The context of this question was a series of points in which Councilman Goode indicated an interest in understanding the total fees incurred, as well as the net expense or gain after City earnings on its deposits. Accordingly this response provides background to the direct question. The numerous departments representing the City of Philadelphia (the City) along with many of the City's associated Agencies and Enterprise Funds require significant banking and cash management services. To provide for these services the Office of City Treasurer (CTO) works with various banking partners to ensure that the City is using appropriate banking services, with a high level of reliability and security and at the fairest cost for these often complex services.

The banking and cash management services above require the City's banking partners to have a broad range of capabilities and service offerings, as well as to provide the expertise and resources needed to successfully launch and support these offerings. The City's demands for services covers tasks such as customer payment collection services including lockbox services and phone/online services, vendor disbursement services, payroll & pension benefit disbursement services, depository services, and petty cash and small agency checking accounts. The City's needs are robust and require a high level of quality, and extensive data recordkeeping, management and reporting.

The terms of the banking services required are frequently very complex. The Water Department's offering of ZipPhone, for example, allows customers the option to pay their monthly water bill by phone, this process requires our banking partners to provide us with a service that allows the customers to call in to a toll-free number, then to gather the billing and payment information of the customer, collect the funds from the customer's bank account, deposit the funds into a City bank account and then provide the Water Revenue Bureau with a report in electronic form that can then be loaded into the Water billing system.

Additionally, there are approximately 100,000 paper checks sent out to vendors on an annual basis, along with a like number of electronic payments made through ACH or wire payments. This effort includes a service known as positive pay, which ensures that fraud is prevented from occurring against the City's General Disbursement bank account. This is accomplished by the City sending an electronic file containing vital information about the checks that are cut for payment to the bank on a weekly basis. This information is then loaded into the Bank's systems and when a check is presented for payment at the

Bank, the name of the person or company being paid on the check, the amount of the check and the check number are all compared electronically to prove that the check is certified to be paid. Likewise, for the City to send out electronic payments in the form of ACHs, the City must send a file with all of the vital information to the bank including private information of bank accounts of the people we are paying to ensure successful and timely payment. The same is true too for the City's Payroll and Pension payments, where in there are approximately 185,000 checks cut for payroll on an annual basis and about 40,000 pension checks cut on an annual basis. The only difference with the payroll and pension services versus those of the disbursement services is that we are paying employees of the City and the ACH payments become Direct Deposit payments and not just vendor payments. This process is important and requires our banking partner for Payroll and Pension services to be able to handle payment of funds via a high number of paper checks and a large number of electronic payments again on a timely and accurate basis. Lastly, the deposit services for the City are very crucial as well, seeing as there are about 320,000 checks collected and cashed per month for the revenues of the City and the Water Department, so our banking partners must provide the infrastructure to support this large volume and be able to provide reporting services back to the City on these checks cashed, as well as, all other electronic payments that the City receives.

To provide for these complex services and to ensure that the City was paying the fairest and lowest prices possible for the above mentioned services the CTO decided to competitively procure all banking services. The CTO worked with a consultant to identify and ensure that all of the appropriate banking services were being considered. In April 2013, a Request for Proposal (RFP) was completed to determine the best provider at the lowest cost to the City. The RFP was broken down into several service groups capturing all of the necessary services required by the CTO to provide the City with the appropriate banking services.

In addition to banking services the City was already procuring the RFP requested information and proposals for other services that introduce efficiencies including a prepaid payment card for payroll and other recurring set amount payments. The prepaid payment card, is a program that would allow the City to make electronic payment loaded onto a prepaid card, much like an debit card, for recurring payments for things such as payroll due to employees, foster parent payments, etc.

While the RFP was open to all banking service providers, the following providers were those that responded to the RFP: Bank of America, BNY Mellon, Citibank, PNC, Republic Bank, TD Bank, US Bank, and Wells Fargo. Anecdotally, some of the smaller regional Philadelphia area banks did not provide a response to the RFP, but noted that they did not have adequate infrastructure or systems to provide services at the level specified in the RFP. Lastly, once the contracting is completed for this RFP all banking services fees will be capped at the contracted rates for the term of the contract, allowing the City to better plan for banking fees and avoids the any near term rise in bank pricing.

During fiscal 2014 the City primarily utilized the services of Wells Fargo N.A., PNC Bank, and Bank of America. The following is a breakdown of fees assessed to the City for Banking Services and fees actually paid to the City's various banking partners during fiscal 2014:

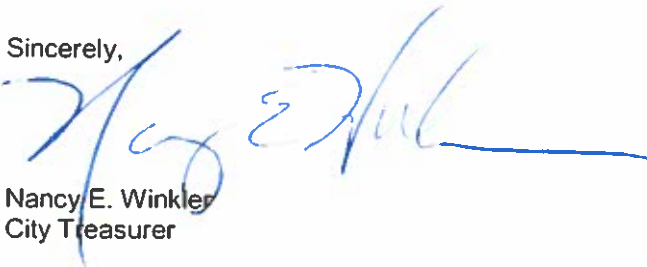
	Total Fees:	Fees Paid in with Cash:	Services Provided
Wells Fargo:	\$ 1,111,000.00	\$ -	Primary General Banking, Payroll Disbursement, General Vendor Disbursement, Lockboxes & Electronic Payment Collection
PNC Bank:	\$ 368,600.00	\$ -	General Banking, Electronic Payment Collection (ie:ZipPhone/ZipCheck)
Bank of America:	\$ 60,500.00	\$ 48,500.00	Pension Payroll Disbursement

The City has a very long standing practice of not budgeting to pay out of pocket for bank fees, rather has opted to use "Earnings Credits" provided by our banking partners to offset the fees charged instead. Earnings Credits are much like interest earned on a personal bank account balance or an investment. The difference with these interest earnings is that they are not "hard" dollars, in that the earnings can only be used to offset fees charged by the bank to the City and do not add more money to the City's bank accounts. The CTO monitors bank fees and adjusts the deposited balances at the bank periodically so the City does not have to pay out of pocket for bank fees and to ensure that the City is not building up a bigger than needed balance of Earnings Credits that are not "hard" dollars. Earnings Credits rates are typically higher than interest rates that can be earned on bank deposits and short-term CDs or money market funds. No minimum balances are required which provides important and needed liquidity and flexibility to City funds.

The CTO continually monitors bank fees and services from our banking partners to ensure we are taking full advantage of their offerings at the lowest prices available to the City. As we continue to push forward with efforts to move into less paper based transactions we anticipate greater savings on bank fees, however with that push we will be demanding more from our partner's extensive technology platforms and backbones, as well as, their expert resources to provide for smooth launches and a high level of continued support for the City.

It is additionally noted that the funds invested with all investment managers have not presented a loss of proceeds or original investment amounts and have all earned positive income accretive to the proceeds originally invested.

Sincerely,



Nancy E. Winkler
City Treasurer

cc: Everett Gillison, Chief of Staff
Rob Dubow, Director of Finance
Rebecca Rhynhart, Budget Director
Cintya Ramos, Deputy Budget Director
Christopher Schwartz, Deputy Treasurer