

CITY OF LOS ANGELES

CALIFORNIA



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May 6, 2010

Honorable Budget and Finance Committee
c/o Office of the City Clerk
200 North Spring Street, Room 395
Los Angeles, CA 90012

**SUBJECT: REPORT BACK ON QUESTIONS RAISED IN FOURTH FINANCIAL
STATUS REPORT**

Honorable Members:

The Office of the Treasurer was requested to report back on actual and projected 2009-2010 bank service fee expenditures, detailed by department and the potential savings of credit card fees for the Office of Finance.

Background on Bank Service Fees

The City has traditionally used a combination of earnings credits and a budget appropriation to pay bank services fees. Earnings credits are given by maintaining balances at the bank that earn a monthly rate tied to a market index. For example, \$100 million held in bank balances earning 0.5 percent would yield \$41,667 to offset bank services fees incurred for the same month (30-day month). Maintaining compensating balances to offset bank services fees is not considered a best practice in treasury management as the investment of idle cash through the purchase of securities is one of the tenets of working capital management. Furthermore, earnings credits are soft dollar credits that have no other cash value if excess earnings are generated.

As part of the Mid-Year Financial Status Report for Fiscal Year 2009, Treasury discussed and proposed an additional budget appropriation to implement the best practices by paying for the bank services fees via budget appropriations, enabling the Treasury to invest idle cash through the purchase of securities (CF No. 08-0600-S54).

To date, Treasury has received \$4.6 million in appropriations to pay bank fees in FY 2009-2010 (\$4.5 million from the Unappropriated Balance (UB) and \$100,000 from prior year appropriations). Treasury anticipates spending the full allocation in Fiscal Year 2009-2010 and requested in the most recent FSR a transfer of the remaining \$2.5 million from the UB.

Furthermore, Treasury has received \$625,553 in reimbursements for bank fees from the Department of Transportation (DOT) and Los Angeles World Airports (LAWA) and requests to transfer these monies, currently in Accounts 4551 and 4610, to the Bank Fees Account 4040 to pay for future bank fees.

Actual and Projected Bank Services Fees

Each major bank (Bank of America, Wachovia Bank and Wells Fargo Bank) provides the City with a detailed account analysis (i.e. billing analysis) of all commercial banking services that the City uses, detailed by individual bank account, types of services used and the volume of each service used. The bank services fees are categorized according to the Standard for Reporting and Analyzing Bank Fees and Compensation as defined and published by the Association for Financial Professionals.

The table below itemizes out the bank services fees by category for the Fiscal Year 2010. The total amount by category is a combination of the Year-to-Date Actual fees through March 2010 and a projection of the fees for April 2010 through June 2010. A monthly detail by category is included in Attachment A.

FY 2009-2010 Bank Fee Analysis

	YTD Actual	Year-to-end Projection	TOTAL
Compensation & Balance (FDIC)	\$ 64,969	\$ 12,500	\$ 77,469
General Account Services	\$ 133,719	\$ 22,150	\$ 155,869
Lockbox	\$ 693,980	\$ 360,000	\$ 1,053,980
Deposits	\$ 816,020	\$ 287,000	\$ 1,103,020
Disbursements	\$ 142,009	\$ 55,100	\$ 197,109
ACH	\$ 91,781	\$ 22,250	\$ 114,031
EDI	\$ 84,746	\$ 27,750	\$ 112,496
Wire	\$ 23,080	\$ 7,350	\$ 30,430
Reporting	\$ 392,507	\$ 158,500	\$ 551,007
Merchant Card Charges	\$ 4,447,308	\$ 1,252,500	\$ 5,699,808
Other	\$ (18,522)	\$ -	\$ (18,522)
BofA Waiver of Interest Charges for O/D	\$ (2,256)	\$ -	\$ (2,256)
Total Bank Charges	\$ 6,869,340	\$ 2,205,100	\$ 9,074,440
Earnings Allowance			\$ (1,522,699)
Reimbursement from Dept's			\$ (1,320,937)
Net Projected Bank Fees			\$ 6,230,804

Bank Services Fees by Department

The transition from Bank of America to Wachovia and Wells Fargo Bank as the main banking services provider enables Treasury to analyze and allocate bank services fees for each separate department and pass-through the expenses to each department. Under the Bank of America structure this was not possible. This new bank services fee information by department can also be utilized to analyze the effectiveness of specific services.

The table below details bank services fees by department for the Fiscal Year 2010. The total amount per department is a combination of the year-to-date actual fees through March 2010 and a projection of the fees for April 2010 through June 2010. This table includes those departments whose bank services fees are greater than 1.00% of the total annual bank services fees for the City. A detailed itemization by month for all departments is included in Attachment B.

Bank Services Charges by Department 2009-2010

Department	YTD Actual	Year-to-end Projection	TOTAL	
94 Transportation	\$ 1,594,359	\$ 445,820	\$ 2,040,179	22.48%
4 Airport	\$ 1,234,526	\$ 300,434	\$ 1,534,960	16.92%
39 Finance	\$ 922,301	\$ 389,419	\$ 1,311,720	14.46%
8 Building & Safety	\$ 780,158	\$ 195,602	\$ 975,761	10.75%
98 DWP	\$ 596,599	\$ 355,661	\$ 952,261	10.49%
88 Rec & Parks	\$ 355,300	\$ 105,190	\$ 460,491	5.07%
43 Housing	\$ 186,387	\$ 53,864	\$ 240,251	2.65%
48 Convention Center	\$ 182,922	\$ 36,651	\$ 219,573	2.42%
72 Public Works	\$ 148,210	\$ 33,484	\$ 181,694	2.00%
6 Animal Services	\$ 98,222	\$ 32,089	\$ 130,310	1.44%
General & Disbursements	\$ 409,953	\$ 141,028	\$ 550,981	6.07%
Other dept's less than 1.00%	\$ 360,403	\$ 115,856	\$ 476,259	5.25%
TOTAL BANK CHARGES	\$ 6,869,340	\$ 2,205,100	\$ 9,074,440	100.00%

Earnings Allowance	\$ (1,522,699)
Reimbursement from Dept's	\$ (1,320,937)
Net Projected Bank Fees	\$ 6,230,804

Credit Card Fee Reduction – Office of Finance

The Treasurer assisted the Office of Finance (OOF) with the implementation of a convenience fee for tax payments made by credit cards. This cost saving solution was implemented in time for the business tax collections starting January 2010. As part of the cost saving solution, the taxpayer pays a fee for the convenience of paying by credit card, in addition to the separate tax amount due to the City.

The convenience fee solution for tax payments applies to all collections channels: over the counter, mail, web, phone and lockbox. This program does not apply to other types of payments, such as permits, licenses and parking tickets as the convenience fee can only be assessed on payments received through the internet or over the phone. Payments received at the point-of-sale cannot be assessed a convenience fee.

Prior to implementation of this program, Treasury paid the credit card fees for tax payments made by credit card. The average blended rate of the credit card fees as assessed by Visa, MasterCard and American Express is slightly less than two percent. The Office of Finance calculated an annual cost savings in excess of \$2.0 million based on approximately \$125 million in tax collections by credit cards during calendar year 2009. However, subsequent review of the OOF calculation has revealed a double counting of the tax collections by credit cards and thus, an overstatement of the estimated cost savings.

The revised projected cost savings should be approximately \$1.2 million, based on approximately \$61 million in tax collections by credit cards. This is confirmed by the \$1.35 million in credit card invoices that the Treasurer has received for the OOF for the same time period.

To date, we can confirm the positive impact of the convenience fee implementation. The increase in monthly credit card fees for this tax collection season did not occur, resulting in savings of approximately \$600,000. This initial savings, combined with savings projected for the remainder of the fiscal year, is estimated to be \$900,000 for FY 2010 and a savings of \$1.25 million for a full fiscal year.

Conclusion

The bank fees savings as estimated by Office of Finance were overstated. Treasury is expecting a surplus bank fees for the current fiscal year:


Projected Bank Fees	\$ 9,074,440
Earnings Allowance	(\$1,522,699)
Reimbursement from Dept's (received)	<u>(\$1,320,937)</u>
Adjusted Bank Fees	\$ 6,230,804
Submitted Budget	<u>\$ 7,000,000</u>
Current Budget Surplus	<u>\$ 769,196</u>

The above line item Reimbursement from Departments reflects actual receipts to date. Treasury is expecting additional reimbursements from departments this fiscal year of approximately \$512,000. These additional reimbursements will bring the budget surplus for bank fees to \$1,281,020, of which approximately \$900,000 can be attributed to the implementation of the convenience fee.

The City's accounting methodology does not permit the department to directly reimburse the Bank Service Fees appropriations account; instead receipts are booked to a separate revenue account. This causes a continuous re-appropriation from revenue to appropriation accounts to enable Treasury to pay the bank fee invoices. Therefore, Treasury requests to transfer the remaining \$2.5 million from the UB to pay bank fees through June 2010.

If you have any additional questions regarding this report, please contact me, at (213) 978-1718, or Crista Binder, Assistant Treasurer, at (213) 978-1709.

Respectfully,


JOYA C. DE FOOR, CTP
City Treasurer

Attachments

JCD:CB:SJ

c: Maria Gutierrez, Financial Specialist III, CAO
Crista Binder, CTP, Assistant Treasurer
Stefan Jaskulak, CTP, Director of Cash Management Services
Committee on Revenue Efficiency
Budget FY 2009-2010 File
Chron File

