

# Trends in Municipal Banking + Putting Cash to Work



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# Agenda

I Municipal Banking Trends

II Putting a Value on Cash

III Q&A

# Part I: Municipal Banking Trends

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# Paradigm Shift

- 2008 overturned 4000+ years of banking history

- Now banks look upon some type of deposits as less desirable
  - Being felt by all types of entities, especially those with added expense related to insuring safety of deposits

(see WSJ, Oct 15, 2015 [Big Banks to America's Firms: We Don't Want Your Cash](#))

# Three Trends

in municipal banking



Regulations



Technology



Interest Rate

# Trends Impacting Banks

## Regulations

- BASEL III
- Dodd-Frank
  - Durbin Amendment

## Technology

- Internal
- Introduction of non-traditional financial service providers

## Interest Rates

- Loan Rates
- Continued historical predictions linger



# Banking 101

## How banks make money

- Fees
- Net Interest Spread on loans

## Bank Capital

- $\text{Assets} - \text{Liabilities} = \text{Bank Capital}$
- Bank capital comes from investors or retained earnings (profit) from prior year

# Bank Liabilities & Leverage

## + How banks make money - using its Liabilities

- Deposits - banks are caretakers - money belongs to other people

- has expenses associated with accepting deposits

- If they can't do anything with it, then not very appealing

## + Borrow - money still belongs to other people

- required to pay back with interest



# Purpose of Bank Capital

- + Banks make loans using Other People's Money (OPM)
  - If those loans are not paid back, then they need the ability to absorb the loss without going out of business
  - Bank Capital provides that cushion
- + Challenge - you maximize the return on capital (money paid out to investors) by using OPM to make money.
  - When ability to use OPM is diminished, so is your ability to increase your return



## Dodd-Frank

- Increase Capital Ratios
- Liquidity Coverage Ratios
  - Both limit the ability to use deposits and/or borrowed funds to make loans
- Additional debt requirements

## REGULATIONS



## BASEL III

Return on capital is reduced

Need to satisfy investors (as they help keep you solvent)

Banks start determining what type of deposits are valuable -  
what needs to go somewhere else

# Technology



## People Behaving Differently

- ✦ How has your banking activity changed (personally)?
  - How many checks do you write?
  - How much do you do on “smart” devices?
  - What apps are you familiar with or do you use?
- ✦ How are regulations impacting this arena?
  - Pressure to decrease checks floating through the system
  - Pressure to reduce the acceptance of cash
  - Anti-Money Laundering regulations

# T e c h n o l o g y



## Who Could be Your Provider

- Non-financial Companies entering the arena
  - Investment in FinTech skyrocketing
  - Banks investing in, buying up, but not doing a lot of their own “innovation”
- What is needed?
  - How to make payments to vendors electronically
    - Need/requirement for remittance information
  - How to make payments to people electronically

# Part II: Putting a Value on your Cash

# Three Key Elements We Reinforce



Safety

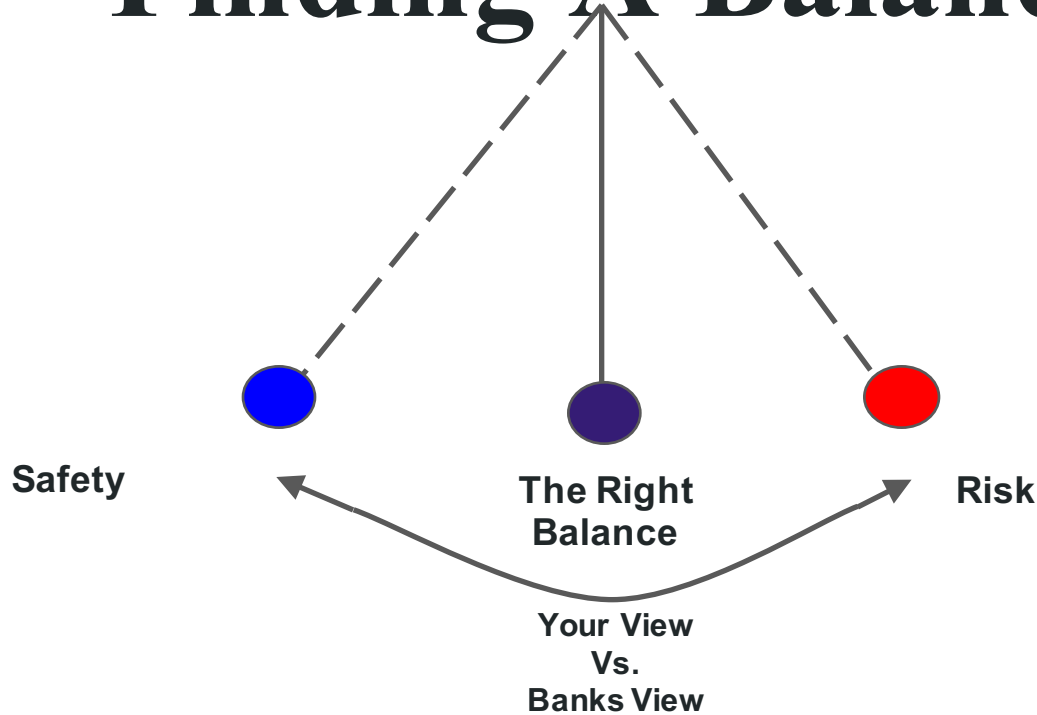
Liquidity

Yield

# How Safety Can Become Complacency

- Safety →
  - Federal
  - State
  - Local
  - Investment Policy
- Complacency →
  - Safety
  - Public Funds
  - Low Rate Environment

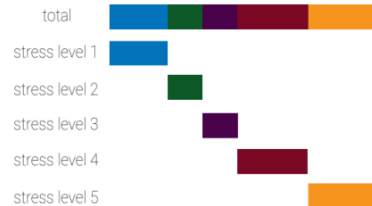
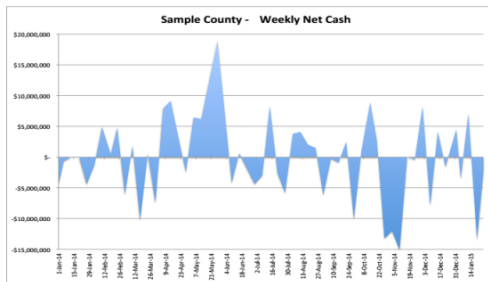
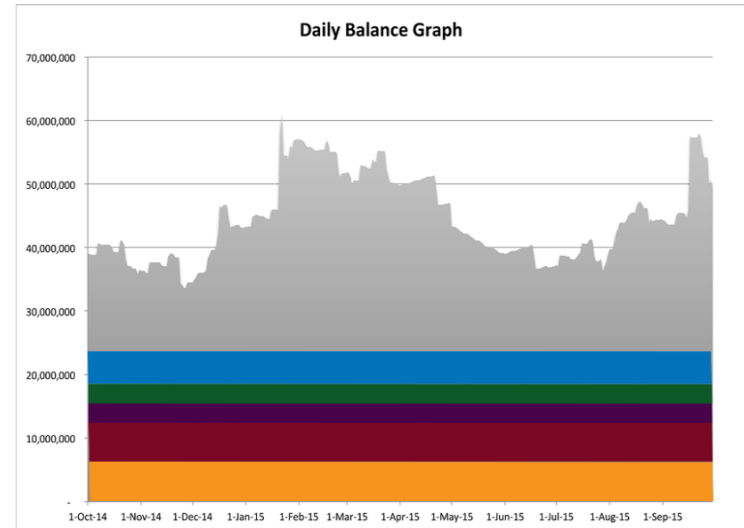
# Finding A Balance





# The Value of Your Cash

Master Cash Flow												
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Account	Balance	Change	Balance	Change	Balance	Change	Balance	Change	Balance	Change	Balance	Change
<b>Operating</b>												
Accounts Receivable	\$ 5,814,590	\$ 5,895,360	\$ 6,375,537	\$ 6,229,099	\$ 5,717,613	\$ 5,398,567	\$ 5,050,452	\$ 4,909,860	\$ 6,934,739	\$ 25,009,429	\$ 6,673,588	\$ 286,990,096
Accounts Payable	\$ 2,420,250	\$ 2,420,250	\$ 2,420,250	\$ 2,420,250	\$ 2,420,250	\$ 2,420,250	\$ 2,420,250	\$ 2,420,250	\$ 2,420,250	\$ 2,420,250	\$ 2,420,250	\$ 2,420,250
Inventory	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Prepaid Expenses	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Other	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
<b>Investing</b>												
Capital Expenditures	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Acquisitions	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Dispositions	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Other	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
<b>Financing</b>												
Debt Issuance	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Debt Repayment	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Equity Issuance	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Equity Repurchase	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Other	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
<b>Total</b>	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000



# Capturing Yield

**Money Market (MMA)**

**Earning Credit Rate (ECR)**

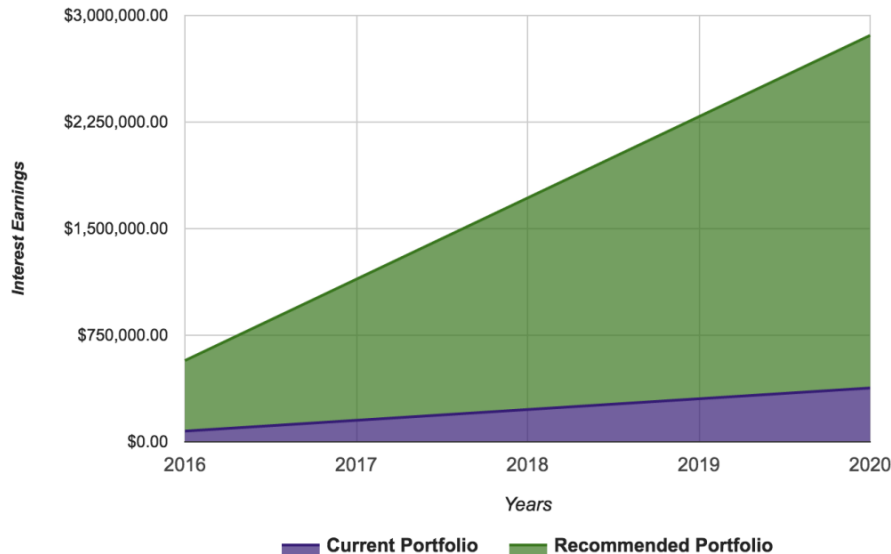
**Certificate of Deposit Account Repository Services (CDAR's)**

**State Pools**

**Bank Deposit Investment Account (BDIA)**

# Case Study: Sample County

Interest Earnings: Current Portfolio Vs. Recommended Portfolio



Sample County Initial Portfolio (As of June 30, 2014)			
Bank/Institution	Amount	Rate	12 Month Earnings
Tioga Bank	-	0.30%	-
Oneida Savings	-	0.30%	-
First Niagara	38,788,148	0.10%	38,788.15
Chase	21,231,500	0.08%	16,985.20
M&N BDIA	-	0.94%	-
Operating Bank	40,056,828	0.05%	20,028.41
<b>Total</b>	<b>100,076,476</b>	<b>0.08%</b>	<b>75,801.76</b>

Sample County Recommended Portfolio (As of December 31, 2015)			
Bank/Institution	Amount	Rate	12 Month Earnings
Tioga Bank	5,009,377	0.30%	15,028.13
Oneida Savings	10,000,000	0.20%	20,000.00
First Niagara	5,000,000	0.15%	7,500.00
Chase	-	0.03%	-
Manning & Napier	55,000,000	0.94%	517,000.00
Operating Bank	25,000,000	0.05%	12,500.00
<b>Total</b>	<b>100,076,476</b>	<b>0.57%</b>	<b>572,028.13</b>

# Part III: Q&A

# Contact Information

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