



**MINUTES FROM MEETING OF BANKING SUBCOMMITTEE
OF THE CASH MANAGEMENT POLICY BOARD
AUGUST 22, 2017**

A meeting of the Banking Subcommittee (“Subcommittee”) of the Cash Management Policy Board (“Board”) was held on August 22, 2017 at 1:00 p.m. in the main conference room of the Office of the State Treasurer (“OST”), 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Subcommittee Members Represented or in Attendance:

Mr. John Flynn, Board Chair

Mr. Warren Engle, Subcommittee Chair

Ms. Lynda Messick, Subcommittee Co-Chair

The Honorable Kenneth Simpler, State Treasurer

Ms. Stephanie Scola, Director of Bond Finance, Department of Finance (on behalf of Secretary Rick Geisenberger)

Subcommittee Members Not Represented or in Attendance:

None

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice

Ms. Nora Gonzalez, Deputy State Treasurer, OST

Ms. Susan Steward, Policy Advisor, OST

CALLED TO ORDER

The meeting was called to order at 1:00 p.m.

APPROVAL OF MEETING MINUTES

A MOTION was made by Mr. Flynn and seconded by Ms. Messick to approve the minutes of the March 29, 2017 and May 10, 2017 Subcommittee meetings.

MOTION ADOPTED UNANIMOUSLY

BANKING STRUCTURE REVIEW PROJECT

Ms. Gonzalez presented the Subcommittee with an update on the banking structure review project. She stated that as part of the process, OST and PFM have met with roughly 15 departments and their internal divisions. PFM spent the month of July constructing a report for the State of Delaware on their findings and recommendations.

As PFM was finalizing their draft report, OST held meetings with the State’s current banking vendors. Ms. Gonzalez explained the goals of the meetings were to: (1) to discuss a transition plan after the

retirement of the banking manager, (2) gather data regarding historical volumes and costs for the State's banking products and services, and (3) learn about innovation within the financial services industry. Ms. Gonzalez reported that the meetings were very informative and provided ideas for the RFP that will be issued.

PFM delivered a draft report to OST at the end of July. As submitted, the report did not meet OST's expectations. It needed additional work to accurately explain Delaware's existing structure, its challenges and any prospective recommendations prior to presenting it to the banking task force and the Subcommittee. Ms. Gonzalez stated that OST has been working with PFM to revise the report and hopes to receive a revised version in early September. At that time, Ms. Gonzalez anticipates PFM presenting their findings.

VENDOR MANAGEMENT

Ms. Gonzalez updated the Subcommittee about the inclusion of vendor management as part of the banking structure review project. She requested that the discussion of this topic be delayed until new vendors are selected through the RFP process. Ms. Messick agreed that it would be good to defer this topic to next year given that the findings report was still being worked on.

Treasurer Simpler stated that the Governor's new Government Efficiency and Accountability Review ("GEAR") Board has a financial charter, which may encompass banking services. OST's vendor management project may benefit from GEAR's work or findings.

Ms. Scola commented that there should be some inclusion of cyber security risk as it pertains to vendor management. Ms. Scola noted that vendor network systems are often the leading method by which intrusion occurs within State systems.

COLLATERALIZATION OF STATE FUNDS

Mr. Staib provided an update on the collateralization project, which expanded to include the FDIC's handling of sweep arrangements, collateral foreclosure, and the special rules in foreclosure. OST met with representatives from the Federal Home Loan Bank (FHLB) of Pittsburgh to better understand FHLB letters of credit (LOC).

Mr. Staib stated that the LOCs are very useful collateralization tools and can offer same-day access to funds if the bank fails. Mr. Engle asked if LOCs are better than collateralizing with securities at the Federal Reserve. Mr. Staib stated that there are risks and rewards for each mitigation method that will be outlined in a comprehensive report.

Treasurer Simpler commented that this project started because of concerns with intra-day risk. Treasurer Simpler also noted that full collateralization is becoming considerably expensive for banks. A discussion ensued about the costs and relative benefits of LOCs.

Mr. Staib concluded by noting that the report, along with recommended changes to the guidelines, will be submitted to the Subcommittee prior to the implementation of a new banking architecture.

OUTSIDE BANK ACCOUNTS

Ms. Steward reported that efforts by OST and the Division of Accounting to clarify permissible uses of outside bank accounts have been incorporated in the State's Budget and Accounting Manual. Ms. Steward reported that, throughout fiscal year 2017, OST worked with State organizations to close and, where applicable, move accounts into the State's accounting system, and that OST continues to work with account holders.

Treasurer Simpler asked what the change in terms of dollars were as a result of these closures. Ms. Steward stated that OST has reduced the value of outside bank accounts by \$8.5 million.

Ms. Scola asked if a process for determining activity on these accounts had been developed. Treasurer Simpler stated that OST had developed a process. Ms. Steward confirmed that the process had been incorporated into the Budget and Accounting Manual.

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Treasurer Simpler commented there was no update and remains tabled.

MERCHANT SERVICES IMPLEMENTATION

Treasurer Simpler gave historical context, including concerns surrounding the current vendor, EPX, and the new vendor, Bank of America Merchant Services (BAMS). Treasurer Simpler noted that the conversion was delayed because of file testing and now is on hold until October 30, 2017. Treasurer Simpler stated that the contract extension with EPX allowed the State to continue merchant services during the conversion process.

Ms. Gonzalez reported that, as part of the banking structure project, PFM has looked at compliance related to merchant services, including Payment Card Industry (PCI). She stated most State merchant have already transitioned "gateway" services from EPX to Govolution.

Mr. Engle expressed concern on the timeline of conversion. Ms. Gonzalez agreed and stated there are important lessons to be learned from the RFP and contracting processes. She indicated that the transition from EPX to Govolution was a significant step in the process and noted that, if the testing of the files can be completed in November 2017, the conversion, according to BAMS, can be done within a month of deploying terminals.

NEW BUSINESS

Ms. Messick requested that Treasurer Simpler provide his thoughts on the potential impact to the State due to the recent LIBOR decision. Treasurer Simpler indicated that he had recently spoken with the Board's investment consultants on this topic. The impact has not been fully defined. Treasurer Simpler commented that he would be happy to provide feedback at a later meeting.

PUBLIC COMMENTS

No members of the public present for comment.

NEXT MEETING

The next meeting is scheduled for November 8, 2017.

ADJOURNMENT

A MOTION was made by Ms. Messick and seconded by Treasurer Simpler to adjourn the meeting at 2:09 p.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Warren Engle
Chair, Banking Subcommittee

Lynda Messick
Co-Chair, Banking Subcommittee