



COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Finance Committee Meeting Minutes

April 27, 2022 at 11:00 AM

Board Room, County Water District of Billings Heights 1540 Popelka Dr.

CALL MEETING TO ORDER: President Ming Cabrera

WELCOME AND INTRODUCTIONS

BOARD MEMBERS PRESENT: IN PERSON Ming Cabrera, Laura Drager, Pam Ellis

STAFF PRESENT: Peyton Brookshire, Josh Simpson, Suzie McKethen, Jenn Burnside

First Interstate Bank Staff: Jodi Jordan, Vice President and Regional Treasury Manager; Jason Monroe, Commercial Payments Consultant; Sydne Visser, Treasury Solutions Officer, Randy J. Koliha, Vice President and Wealth Advisor

The purpose of the meeting was a “relationship review” with First Interstate Bank. Heidi Boeshans suggested that given the assets we have had at FIB, we should meet annually for a relationship review and recommendations from FIB specialists.

Ming Cabrera said his main concern was that the District had \$1,000,000 at the bank earning no interest. We also want to stop fraud.

Pam Ellis said the goal of the meeting was a relationship review and to get recommendations from FIB staff. She believes that the District has not paid adequate attention to the money. \$250,000 is the limit of FDIC insurance at any one institution and the District has had \$1,000,000 at FIB.

Jodi Jordan said for at least the last five years there has been no interest to be had in the markets. Is the priority of the Board to be secure, to earn more interest, or a mixture of both. Pam Ellis said the District is a government entity so we have strict guidelines set by statute. She is earning .25% interest from her credit union money market account; the District is earning .01% from FIB. She is earning more money in a year from half the investment than the District earned in 11 years in the Money Market account at FIB. Better interest has been available in the past 11 years; the District just did not pay attention.

Randy’s wheelhouse can probably earn the best return. Consider the liquidity that the District requires. Can you chunk off \$500,000 or \$250,000 and not access for awhile or does the money need to be readily available? Randy Koliha said FIB manages money for a lot of entities; the District is limited to the investments we can use. Would love to use corporate bonds or high yield bonds. They have a higher return but those bonds lose principal when the rates rise. Most school districts are investing in assets link Treasuries. The Federal Reserve meets again May 4th and are projected to raise the interbank lending rate another 50 basis points. The June meeting is also predicted to raise rates another 50 basis points. A managed account has liquidity. If you put money in, the money can be available within 2 business days. That has a minimum investment of \$450,000-\$500,000. The District would have a team assigned to the account with a Wealth Advisor, Portfolio Manager, and an Assistant that is designated to the account. The team does annual portfolio reviews. Will use Treasuries. The interest rates can fluctuate, but if you hold the Treasury to maturity, the principal and interest are guaranteed.

Recommend laddering Treasuries—maximum 2 years. There are only 2 basis points difference between a 2 years and 5 year Treasury. The bank consistently monitors the interest rate environment.

Ming Cabrera asked Peyton how much he needs in liquid assets. Peyton estimated in the \$250,000 range given the current projects. Ming also had a question about April 2020; did anybody have a meeting with the Heights Water Department and doing anything with these accounts. Response: In April of 2020 was when the checking accounts were changed from an interest-bearing account to a non-interest bearing account. The District was making about \$10 a month in interest and paying about \$100 a month in fees. Laura Drager shared information from Dianne Crees: we had fees that the bank was charging in excess of \$1000; some months they were as high as \$2000. By making the change, our fees dropped to about \$300 on our checking account.

Laura Drager asked Randy Koliha what the cost to the Water District would be for Wealth Management services. Randy said they have a published fee schedule. For a fixed income portfolio we would usually try to discount it by half. He would need to have that approved before he could quote a fee. Most of the time those fees are about 50 basis points. Right now their published fees are 2.2%; as the interest rates increase, the bank will purchase higher yielding investments. That is just the annual advisory fees. All trades are within the fees charged. Now investments should be kept really short term—do not go beyond a year or two.

Laura Drager asked about the opportunity to put additional money into these funds. This account is set up to move money in and out—and it doesn't have to be a bank account at First Interstate. Pam Ellis noted that the city and county both have their money invested with the state of Montana (STIPS). The state deposits withdrawals in 24 hours. Randy said the bank promises two days but often can deposit money in one day, depending on the investments. Treasuries are very liquid. Randy said the goal would be to get the District better yields. If the District purchases individual bonds, they need to be held to maturity to guarantee return of principal and interest.

Ming Cabrera noted that one of the goals in settling the lawsuit with the City of Billings is that when the District is in litigation, they have difficulty selling bonds for capital improvement projects. Laura Drager noted that the District had a T-bill that matured on April 26 for \$750,000. Can she move that money into this account (Yes). How do the fees get allocated. We are looking for transparency in the fees. Randy said it is based on the Market Value of the account; the fees are calculated and are shown on the statement.

Laura Drager asked Jenn Burnside what her preference would be for how often the District saw a statement. Jenn said right now we get monthly statements from FIB. Pam noted that the Money Market statements are quarterly. Randy said the frequency of statements would depend upon the type of investment. Investments are usually a little longer term.

Ming Cabrera asked how competitive FIB is with other banks; Chase Manhattan would probably give us the world because they are new in town. Randy says FIB is set apart because they have multiple resources and staff to help the District meet their goal. A lot of the banks don't offer the full range of services. Wealth management fees are competitive. We do a lot of schools, churches, tribes. We understand government entities.

Laura Drager asked about the turn over rate within the department. Randy has been at FIB for twenty plus years, Jodi 25 years, Sydne 8 years but she loves her job and is staying,. Randy says we love doing relationship reviews because it is really brainstorming. The goal is what can we improve on, what can

we make better? What's happened in the past has happened, but now going forward, let's see what we can do. Fraud is huge so we need to protect the money. Holistically, we want to look at the whole account.

Pam Ellis said she was concerned about the checking account. The District has 3 accounts and we are paying fees for "positive pay" which is only protecting the District on one of the three accounts. Ming has seen fraud on 2 of his personal checking accounts in the last month. Synde said the bank is seeing a lot of fraud. Pam would like recommendations from FIB.

Synde said they initiated positive pay as quickly as possible. All the fraudulent checks were denied. The bank wanted to start with the main account, and when that does well, add other accounts. The other accounts have not been compromised but it truly is a matter of time.

Positive Pay is the fraud monitoring system. When a check is written, they upload the file into the positive pay program. If any check comes through that doesn't monitor what has been uploaded, the District will get a call asking if they want to pay. The District has full autonomy to pay or reject a check in 24 hours where no one is "at fault". Also monitors ACH (electronic transfers out of the account).

Ming Cabrera asked if it would be easier for the District to have more credit card charges than checks. If a charge on a credit charge is fraudulent, the bank has a lot more time. From an internal accounting standpoint, it may make a difference. Credit cards is a driving factor. The bank does have fraud protection on credit card charges. Another benefit for a credit card program is getting a rebate back. FIB does a vendor analysis for similar industries. The bank reviews the vendor names, address, phone #. They are able to process through a "merchant match" through Mastercard that rates the vendors. Once they accept, they call the vendor directly and ask if they are accepting cards with no fees. The once they have a list of vendors that will accept credit card payments with no fees, the bank can make a recommendation about whether it is beneficial to build a credit card program. We know how much spending can be charged and what the overall spending is. Inside this report, once the vendors say they are accepting cards but there is a fee. Then do they accept ACH. That takes another check out of the mail so we maneuver another type of payments into a virtual payment. Checks will always be around to some extent. Goal would be to reduce the number of checks. In a perfect world, we can probably give positive pay monitoring on the backside. We can provide positive pay on all your accounts, just in certain steps. At the end of the day, checks take man hours, there are a lot of things that go into it besides the fact that people are trying to fraudulently reproduce the checks.

Laura Drager asked if on the monthly statement is there a way of identifying the merchant type so that it easier for our staff. If we increase the use of credit cards, as they pay the bill it increases the time because they have to allocate each charge on that bill to a separate expense. Jenn said the software allows to apply a rule so that the charge is automatically identified.

To reconcile the statements by industry—if we have direct departments that are making purchases at different times, those cards can be dedicated to those departments on the embossment of the card. Each one of the departments would be making dedicated payments. If we are making through one large AP area, but the District is recoding afterwards. FIB has enhanced accounting software that would allow the clerk to pick a code via a drop down menu. FIB has done it both ways depending upon how the District is set up. The once we get the report. Certain departments will carry more opportunity for cards. If there is an invoice or a PO, the credit card payments are not automatic; the District still needs to review. The District is already using ICORP, it is just using it in a different way.

Pam Ellis asked Stefani Frees, the District auditor if there was any purpose in having three separate checking accounts. Her response was no, there is no purpose. FIB said old school accounting was you always kept your payroll separate. The District only writes 1 or 2 checks out of payroll. Everything else is tax payments. You are sending your payroll funds to another checking. The bank recommendation would be to close at least one of the checking accounts. Pam Ellis recommended closing 2 of the 3 checking accounts including the one that was hacked.

Laura Drager asked for staff input. Jenn's response said that for right now it is easier for her to have 3 accounts because right now she is just getting her feet wet. Right now she is still learning her job and she does not want to change anything until she knows her job.

Laura Drager said she would not like to make any major moves until we have Black Mountain Software and until we receive the audit. Laura Drager had to leave for a meeting with legislators.

Jenn has spoken to the bank about securing the other 2 accounts but she wanted to get familiar with the process first with the account that was hacked. The plan was to have all 3 accounts on positive pay. Checks are not the only thing we have to worry about when we see fraud. ACH is a huge piece too. So when we have seen fraud on one account with clients, it is just a matter of time until other accounts are hit. Positive pay for one account is \$20 per month; covering all 3 accounts is \$50 per month. Peyton said he agrees that the once Jenn is comfortable, it would be smart to reduce to one account. Three accounts is "old school" and Dianne retired. Jenn said that 6 months from now we can revisit these issues. FIB is happy to come out again in 6 months. \$250,000 is the maximum amount that is FDIC insured at any institution for all accounts.

Pam Ellis mentioned that the feedback she heard from the bank was how many checks we are writing; each check we write or deposit is a fee charged by the bank. The District charges 3% if they pay their bill by credit card; we accept their checks without a fee though we pay a fee to deposit the checks. Are we losing money on that process?

Suzie made a big push to get people on the ACH collection piece. It's cleaner, it's faster and the Districts gets the money when they are supposed to get the money. Jenn said there is a snafu. Suzie said one person billed by BDS was billed every month but the ACH paid was deducted every other month.

Pam Ellis asked how BCS and Black Mountain fit together. BDS is just our credit card service. FIB charges 10 cents for every check not written on an FIB account; if it is an FIB check, the charge is 7 cents. We had 1100 transit checks and more than 400 deposited checks in March. The total fees charged were \$235. The minimum fee for paying by credit card is \$2. Jenn noted that if we had a credit card processing company that did not charge the \$2, we would have more people who paid by credit card. The District maybe able to negotiate the fee. Many businesses do not charge the credit fee to customers. The District would have the option to assume the fee but build the costs into our rate structure. What's the happy medium? Pam Ellis noted that Beartooth Electric allows payment by credit card and does not charge fees; Verizon discounts \$20 a month on the bill if someone pays with a Verizon Credit card or ACH. The electrical utility Laura worked for estimated their costs for processing each check at \$1.94 (based on Pam's memory). She doesn't want ACH because she doesn't want her bank information accessible through the software. FIB recommended the District get in touch with their Merchant Services Representative, Mike Peterson. He may have some creative ways to help.

In terms of the relationship reviews, FIB will be doing them every year going forward to make sure everything is going well. The District needs to be relevant in an efficient and cost effective way. FIB recommended the District look into building the credit card fees into the rate structure. Businesses like carpet companies, etc. build the credit card fees into their prices rather than add an additional charge for fees on the card. Suzie does not think it would be right to charge everyone for the credit fee when only a small percentage of customers use credit cards. Labor to process the checks maybe more expensive than the 3% credit card fee. One of the recommendations in favor of Black Mountain is that it saves a lot of staff time. That makes purchase of Black Mountain software worthwhile despite the cost. The ratepayers are currently paying \$300 a month on check processing fees, not including the labor to process each individual check. A number of Districts in Montana are using Water Sense for their billing software. It may or may not be better; Big Sky Water and Sewer District uses Water Sense and have reported that their customers really like it. It may be worth talking to Big Sky to see what the advantages and disadvantages maybe. We pay \$10,000 a year now to Black Mountain for the billing software components we are using. FIB suggested maybe having a cap so that smaller bills are not charged a credit card fee to get more customers paying by credit card. If you reduce the number of customers writing checks by 35%, that is where the District may reach a break even point. Maybe there is a unique way FIB. People stopped paying by credit card when the District started charging the fee. There are many different ways to accept money. The GenXers don't even know cursive. The District will need to be fluent in how we accept payments. FIB said that they believe if the District actually looked at the data, that would find that it is more than a 3% cost to process the checks than the 3% charged additional on credit cards. FIB recommended negotiating the credit card fee. Beartooth Electric decided it was more cost effective to not charge a credit card fee; their billing company said most utilities are choosing not to charge credit card fees. Jenn and Pam agreed they would both pay on credit card if there was no additional charge. Jenn said if we don't charge for credit cards, people would have more options about how to pay. Some will continue to write checks; some will pay by credit card, some will select ACH. FIB estimated that from the number of checks we are processing, it would be more beneficial for the District not to charge a 3% processing fee. Would need to dive into the data. Where is the break even point? He would assume that eating the fees would be more cost effective. Work with Mike to see if we can reduce the credit charge fees. If the District is able to negotiate the fees we are charged on a credit card to 1% and the card pays 1% in return, it balances out to 0%.

FIB has offered a myriad of products. FIB can break it down and then the District picks the services we want. FIB wants to come back and go over their report. Ming Cabrera said the Board wants to be able to work with the staff and FIB without accusations flying around. Pam Ellis noted that Heidi Boeshans said she could not see that the District has had a relationship analysis for a decade. The District needs a relationship analysis on a regular basis and with the kind of money we have had at FIB, it should have offered (and maybe it was). FIB said they were not given the opportunity to talk with the Board. It was taken back to the board. So this is a nice change for FIB. Ming Cabrera said he really appreciate the feedback from FIB. Jenn said it is supposed to be brought to the staff and the staff take it to the Board. Pam Ellis noted that that is not correct. The Board is responsible for fiscal management. FIB is not the first group that told the Board they were allowed to speak to the Board directly and who felt that was inappropriate. Pam personally feels that is inappropriate. It's a joint decision making, but at the end of the day, the Board decides the fiscal direction of the District. FIB noted it is also good for the education of the Board; a lot of Boards do not understand. Day to day we have to respect Jennifer, Josh and Peyton in their day to day operation. FIB wants to look out for what is best and how they can assist.

Ming Cabrera said it may make a difference who is on the board. If it is an involved board, he believes it is better for everybody if the board interacts directly rather than sitting back. At the end, the Board needs to take a look at the fiscal management. So it can be done without fighting and screaming at each other. Pam Ellis likened to playing telephone as a kid. No matter how honestly people pass on the information, it is never accurate by the time it gets to the last person. It is not effective to have all information passed on second hand. Look at the questions that were raised today.