

To: Finance Committee
From: Mark Stevens
Date: January 23, 2023
RE: BMO Harris Money Market Account

The decision to move the city's banking to BMO Harris was made in late 2021 with an estimate of fees in 2022's budget that we surpassed, and I had to adjust to more for 2023. Admittedly, I personally despise paying bank fees! What is hard to handle is that the earnings credit that offsets fees is minute (0.60%). December's average daily balance was more than \$2.7M, yet we still had net charges of \$475 (\$1420 earnings minus \$1894 fees). It frustrates me to see such a positive cash balance earning nothing. I attempt to move sizable cash balances to the WI LGIP savings account, but this process costs wire charges and takes a couple of days for transactions to be completed.

The city, as is typical with public entities, has a requirement to collateralize public deposit through the pledging of appropriate securities or other instruments by the bank, and we do this at a reduced interest earnings. Staying within this constraint, I have worked with BMO Harris bankers to request the capability to establish a money market account at the bank with what is called ZBA (zero balance account) relationship with our checking account. At the end of each business day, the checking account balance would be lowered to \$50,000 (my suggested balance instead of \$0) and transferred into the collateralized money market account, currently paying 3.75% APY. Money is then transferred to the checking account as needed to pay presented checks, net of new deposits. This will allow us to earn money at a higher interest rate, although our fees will rise because the checking account balance will have less ability to offset the expenses.

Example of December:

Actual expense: \$1894

Earnings credit: \$1420

Net expense: \$475

If MMA w/ ZBA had been in place:

Actual expenses: \$1925

Interest earnings: \$8712

Net benefit: \$6,787

December is a high-cash balance month. But average balances exist throughout the year that are barely earning anything. Sample of average balances:

March	\$2,020,000	\$6,226
June	\$2,906,000	\$8,956
September	\$1,580,000	\$4,870

It's not news to anyone that interest rates have risen. A year ago, I didn't like the thought of earning little interest, but the WI LGIP rate was also only paying 0.60%. It's now at 4.05%, so I would continue to move larger sums of cash to the State program. For most days of the year, though, this approach will allow us to see more interest earnings on funds that are sitting in the general check book.