

September 10, 1984

INTRODUCED BY CITY MANAGER ROBERT W. HEALY

AN ORDER CONCERNING APPROPRIATIONS FOR THE FISCAL YEAR BEGINNING JULY 1, 1984

ORDERED: That in addition to sums previously appropriated by the City Council for the fiscal period 1984-85 the following sum is hereby appropriated in the General Fund of the City of Cambridge:

FUNCTION	DEPARTMENT OR PROGRAM	SALARIES & WAGES	OTHER ORDINARY MAINTENANCE	TRAVEL & TRAINING	EXTRAORDINARY EXPENDITURES	APPROPRIATIONS
General Government	Finance		\$110,000.00			\$110,000.00

BE IT FURTHER ORDERED: That the above appropriations in the General Fund to be financed by estimated revenues drawn from the following sources:

In City Council September 10, 1984.
Adopted by a yeas and nays vote:-
Yeas 9; Nays 0; Absent 0.
Attest:- Paul E. Healy, City Clerk.

FINANCING PLAN	REVENUE
Interest Earnings	\$110,000.00

A true copy;

ATTEST:-



City of Cambridge

MASSACHUSETTS

In City Council September 10, 1984

AGENDA ITEM NO. 11

RE: ORDER REQUESTING THE APPROPRIATION OF \$110,000. TO THE FINANCE DEPT. OTHER ORDINARY MAINTENANCE ACCOUNT

	YEA	NAY	ABSENT	PRESENT
Mr. Daniel J. Clinton	✓			
Mr. Thomas W. Danehy	✓			
Mr. Francis H. Duehay	✓			
Ms. Sandra Graham	✓			
Mr. David E. Sullivan	✓			
Mr. Walter J. Sullivan	✓			
Mr. Alfred Vellucci	✓			
Ms. Alice K. Wolf	✓			
Mayor Russell	✓			

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To the City Council (cont.)

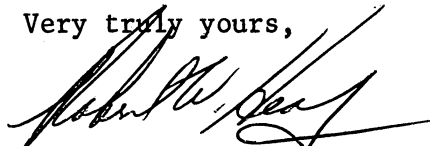
September 10, 1984

Revenue: As stated, this expense of \$110,000 will be covered by revenue generated through greater interest earnings from an investment of 1.4 million compensating balance. On an annualized basis, the City anticipates paying approximately \$146,000 for banking services. The present 1.4 million dollar compensating balance which earns no interest is expected to generate close to \$161,000 in interest earnings on an annualized basis. So, in addition to covering the cost of banking services, a direct fee basis will yield approximately \$15,000 interest earnings to the City on an annualized basis. This does not include any savings that the City can make by reducing costs by implementing more efficient banking practices.

SUMMARY: This proposed change to a "fee basis" is a further step in the City's ongoing effort to improve and therefore strengthen the cash management procedures, and also marks the first time in the City's history of it moving to a direct cost basis.

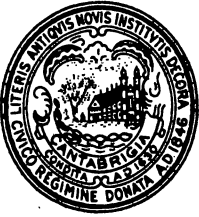
Passage of this appropriation is strongly recommended.

Very truly yours,



Robert W. Healy
City Manager

RWH/mbf



CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
Tel. 498-9011

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

September 10, 1984

To the Honorable, the City Council:

Recommendations: Appropriate \$110,000 to the Finance Department Other Ordinary Maintenance Account for expenditure for estimated monthly banking fees to be incurred by the City for the remainder of the fiscal year.

Revenue to cover this expense will be generated from additional interest earnings.

Background: The City currently pays for its banking services through a compensating balance system. This system requires the City to keep on deposit at all times at its principal bank 1.4 million dollars which does not earn interest. The income which the bank earns from having the 1.4 million dollars on deposit pays for the banking services the City uses. This 1.4 million dollar figure was derived at by analyzing the City's monthly transactions.

While the use of compensating balances is both legal and common and almost every municipality in Massachusetts pays for its banking fees in this manner, there are several problems.

First, under a compensating balance system it is difficult to effectively monitor what the City's actual costs are for banking services used, on a periodic basis. Whereas, a direct cost basis will ensure that the City will have an actual measurement of its banking activity. This measurement will be in the form of an itemized invoice. Secondly, a direct payment approach to banking services allows improvements in cash management and banking practices to have an immediate and direct impact on costs. The compensating balance approach responds more slowly to improvements in the City's cash management practices. Thirdly, compensating balances give a bonus to the bank in a particular month if the City does not use banking services equal to the amount realized to the bank from the 1.4 million compensating balance. In addition, when interest rates are high the bank realizes even more income while the City does not benefit from this situation. Lastly, in the future when the City issues a request for proposal for banking services, as it did two years ago, a direct fee basis will give the City a common criteria to judge all proposals since each bank will be asked to submit a fee schedule.

