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Institute of Municipal Government, the Investment of Idle Cash Balances and the Practice in Luzerne County, 1963

THE INVESTMENT
OF
IDLE CASH BALANCES
AND
THE PRACTICES IN
LUZERNE COUNTY

1963

INSTITUTE OF MUNICIPAL GOVERNMENT

WILKES COLLEGE

WILKES-BARRE, PENNSYLVANIA

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Wilkes-Barre, Pennsylvania

FOREWORD

State and local governments in the United States are hard pressed to raise the necessary revenues to fulfill an ever broadening and intensifying demand for more governmental services that result from an increasing population and the quickening pace of technological change.

As salaries, maintenance costs, and other expenditures rise, most municipalities are constantly searching for added sources of revenue. This search often overlooks an important partial solution to this problem confronting all municipalities--the proper utilization of normal items of income, such as taxes, license fees, permits, interest earnings, and other continuing sources of funds. Proper utilization of these funds affords the municipality an opportunity to increase its revenue without raising taxes and without increasing other non-tax charges upon the public.

If local officials were told where about 2% of the budget is being wasted they would hurry to correct it. If local officials were told where they could increase revenues without any additional taxes, they would hurry and take immediate steps to collect the revenue. This is exactly what can be done by putting to work a city's idle funds.

This report is concerned with investment possibilities, of a short term character, of cash balances from regular operations and from the sale of bonds. It will not deal with the special problems involved in the investment of retirement and pension funds. These latter

funds generally call for long term, higher yield investments as contrasted to the general short term lower yield investments into which "operating" funds are placed.

This survey of fiscal administration in Luzerne County conducted by several members of the Municipal Government Course in the spring of 1961 casts some light on the handling of idle cash balances in Luzerne County municipalities. A short questionnaire (Appendix A) was used for the gathering of information from the financial officers of 73 Luzerne County communities. Returns were available from 52 of the 73 municipalities. Information was not secured from the remaining 21 municipalities either because of lack of cooperation on the part of the local official or because of distance involved in a call back. (See Appendix B)

With the amount of data collected, a fairly representative conclusion can be reached concerning the administration of the taxes of the various municipalities. It is the hope of the Institute of Municipal Government that the local officials of Luzerne County will take full advantage of the short term investment opportunities to increase revenue.

Hugo V. Mailey, Director
Institute of Municipal Government

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To these individuals we offer our sincere thanks. The Institute, however, is still responsible for any errors or ommissions which may have appeared in this report.

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PART I

1. INTRODUCTION

The recent report of the U. S. Advisory Commission on Intergovernmental Relations answers the question, "Why Invest?" The report states:

"Cash balances of local funds which are in excess of operating needs can either be put to work drawing interest and thereby producing additional revenue for the...local government, or they may be allowed to lie idle. If the latter course is followed, a waste of public funds occurs, just as real as an unnecessary or over-priced procurement contract or an uncontrolled tax obligation. Although considerable improvements have been registered in recent years, the investment of otherwise idle balances constitutes a significant potential revenue source which still is sometimes overlooked completely and is frequently underutilized."

The city of Boulder, Colorado, with a population of 38,000 earned $31,598 last year from its investment program. Neenah, Wisconsin, population 18,000, earned $43,619 in 1960 from investing general fund moneys.

The Borough of Sharpsville, Pennsylvania, upon the recommendation of its manager, invested $6,000 in Series E bonds and $1,847.21 in 182-day Treasury Bills from its Street Improvemnt Sinking Fund.

From its Street Improvement Bond Fund the Council authorized the purchase of $20,000 of 91-day Treasury Bills. One purpose for which money in this fund is used is the financing of the cost of paving contracts. This cost is later assessed against property owners. As these assessments are paid, additional amounts could be invested in Treasury Bills of either 91 or 182-day term. From the borough's water fund, the council has invested $500 in 91-day Treasury Bills and $25,000 in 182-day Treasury Bills. Because money accumulates in this account prior to the payment of the semiannual rental, a relatively large sum of money from this fund is kept in short term securities.

2. SOURCES OF IDLE CASH

In most cities, a time lag often results between the receipt of cash and its expenditure. The timing of the distribution of tax levies and the receipt of various state aids and shared taxes does not normally coincide with expenditures. Moneys in excess of current needs - surplus cash not necessary to be maintained in active non-interest bank accounts - are often called "idle" or "inactive" funds. Moneys not needed for several weeks or several months are often called "temporary idle funds."

Cash balances of municipal funds which are in excess of operating needs can draw interest and thereby produce additional revenue for the municipality. If they are idle, a waste of public funds occurs,

equally as inefficient as an unnecessary or over-priced purchasing contract or an uncollected tax obligation.

Cash balances in excess of normal needs arise in a number of ways. Tax revenues are received on one or more "penalty dates" during the year and following their receipt, funds on hand will naturally exceed the amount needed for immediate expenditure. Bonds may be sold for financing capital construction and proceeds from their sale may not be needed until later in the construction cycle. From whatever source such funds arise, they should not be allowed to remain idle. They present an excellent source of extra revenue income.

3. VALUE OF INVESTMENT OF IDLE FUNDS

Undertaking an investment program results in additional work for the financial officer and additional responsibility for both the officer and the council. However, the earnings which may be realized warrant the effort.

A council may use the earnings from such a program to provide better services at no increase to its taxpayers, to delay an increase in the cost of local government, or to actually decrease net operating costs.

4. PROJECTION OF CASH FLOW

Essential to the proper utilization of idle cash balances is the determination of the amount to be invested. This step, however, must be preceded by an accurate projection of the municipality's cash flow in order that both the amounts to be invested and the proper maturity dates of these investments be selected.

In order to derive this information a careful analysis of the bank balances and of the pattern of cash flow in and out of the treasury must be made for a long period of time to indicate patterns and to identify the normal peaks and low points in balances. Total of receipts and disbursements must be broken down into their component parts for a period of three to five years, and a detailed analysis made of each account.

On the basis of this information, projections into the future are made. With this projected data at hand policies and procedural mechanics for cash analysis and control on daily, weekly, or other short-term periods within each month are established.

Once the finance officer has established a program of projecting the cash flow, it will be possible to predict with reasonable accuracy the probable cash balances of various funds and the probable cash total to be expected in the treasury. With practice, funds can be utilized with great efficiency for very short-term investment, but even the investment of funds in a low-interest bearing savings account constitutes a start. The first step is to begin investing idle funds, and this is the most important one. After this step is taken, the results will provide more than a sufficient incentive to continue.

One of the more difficult problems in conducting an investment program is to forecast the amount and period of time moneys will be available for investment. This requires knowledge of existing bank balances, estimates of forthcoming revenue, and forecasts of coming expenditures.

In determining the amount of inactive funds available for investment, attention should be given to the amount retained on demand deposit to "compensate" the public depository for the services provided the city. Cities should not expect to "pay" less than provate businesses with a similar volume of banking transactions. In addition to the normal account cost for commercial-type depositors, a city should also take into consideration any special services performed by the bank. In most instances, the determination of the proper demand account bank balance may be determined by informal negotiation.

Using the City of Hazleton as an example, the discount period for payment of property and personal taxes ends on April 30th. At this time, approximately 80% of the property and 65% of the personal taxes are collected. Beginning with the cash balance on May 1st, and projecting the receipts and disbursements for each month from May through November, a schedule is prepared to determine the amount of available balance at the end of each intervening respective month. The greatest available balance is usually found to be at the end of May and the need for revenues begins to increase each month, beginning with August 1st,

due to the fact that the expenditures far exceed the revenues for each month from August to November. With this schedule completed, it is not difficult to determine the amount available for investment and the desired maturity dates. For the year 1962, the City of Hazleton made the following investments on May 9, 1962:

Maturity Date	Cost	Maturity Value
August 9, 1962	$69,528.03	$70,000.00
September 13, 1962	69,345.42	70,000.00
October 15, 1962	29,640.00	30,000.00
Totals	$168,513.45	$170,000.00

In addition to the above treasury bills, certificates of deposit were made for the amounts of $75,000.00 and $25,000.00, due November 9, 1962, with interest at 3% (the reason for the split in the certificates of deposit was to prevent the withdrawal of the total amount of $100,000.00 at one time, if needed). The United States Treasury Bills will earn $1,486.55, and the certificates of deposit will earn $1,500.00, or a total of $2,986.55.

5. BASIC INVESTMENT CONSIDERATIONS

Attention must be given to a few basic considerations, such as legal requirements, available facilities, the role of a commercial bank as advisor, primary investment fundamentals, and the types of investments available. Within the general limitations of the codes for Penn-

sylvania local government, the finance officer must also review the ordinances of his own municipality as well as the manner in which they may be interpreted and applied.

Care should be exercised in examining available facilities to determine the extent of investments. Normally the municipal finance officer can handle the infrequent transactions by requesting the local bank to provide investment information and counsel, since he usually works closely with the bank officers and is easily able to translate municipal needs into understandable terms for bank transactions.

The role which the commercial banks play in the investment program cannot be overemphasized. They should be consulted regarding the amount of cash which a municipality should maintain in active bank balances; i. e., in a non-interest bearing account, to handle transaction volumes. They should be asked to present their policy and views with regard to compensating balances for municipal deposits. On this basis they can arrive at an agreeable ratio between the active and inactive municipal accounts which is fair to the bank as well as to the taxpayers.

Except where special factors related only to a municipality must be considered, it is suggested that the balance of the cost of handling the municipal account should be figured on the same basis as the commercial accounts costs are valued.

When the time arrives for the municipality to purchase or sell

securities, the bank again assumes an important role.

The savings to a municipality are many when it uses banking knowledge:

First, the municipality receives the benefit of better buying. The bank places many orders on the market and often knows exactly whom to call to obtain the best price on a particular issue.

Second, when securities are bought, they are delivered to the bank via a regular armored car service and are covered under the bank's blanket insurance policy.

Third, when custody is maintained by the bank, actual verification of denomination, date, serial number, and other facts on each piece of paper is not required of the municipal officials.

Fourth, the securities are in the bank vault fully insured and protected. For all of this, most banks ask only that sufficient "compensating balances" be maintained in active deposits.

Considerable published material is available on the investment of public funds. The best source of technical assistance and advice to the great majority of city officials will be the officers of the local bank or banks. Numerous reports show that city officials have found their local banks extremely cooperative and helpful, not only in handling their investments but also in providing the necessary consultation. The objective of a city's investment program is to relieve property taxes and

to conduct city financial affairs in a businesslike manner, a purpose respected by those in banking circles concerned with the welfare of their community. Without the help of commercial banks a sound investment program is virtually impossible.

6. TYPES OF INVESTMENTS

There are four types of investment possibilities available to a municipality. They are: (a) time deposits in a commercial bank; (b) interest-bearing accounts with federal savings and loan associations; (c) the purchase of federal government securities; and (d) municipal securities issued by the state and its political subdivisions. A brief explanation follows.

A. Savings Account

As an investment type, the savings account has the advantage of money available upon demand or with little delay. The accounts are insured up to $10,000 by the Federal Deposit Insurance Corporation. However, a commercial bank can take an unlimited amount (any amount above the $10,000 FDIC limit) and pledge its assets with the trustee for the amount over and above the $10,000 FDIC limit. The interest that the deposit earns will automatically be reinvested in the account, and, therefore, the funds remain there in the account with no reinvestment problems. The principal disadvantage of the savings account is that its

interest rate is usually low. Savings accounts may be maintained in commercial banks, savings fund societies, and general savings and loan associations.

School districts, on the other hand, are definitely excluded from the rather strict requirements of Regulation Q as to the payment of interest because school districts are engaged principally in educational pursuits. Therefore, school districts may have regular savings accounts subject to regular savings account regulations. These, locally, pay interest at 3 1/2% and are not required at this time to give notice for withdrawls.

Municipal funds, meaning deposits of school districts, cities, boroughs, townships, counties or states, may be deposited in a bank on a demand basis or on a time basis.

Demand deposits refer to all deposits, payment of which can legally be required on demand, or within any period less than 30 days after demand. Under Regulation Q, no bank, directly or indirectly, by any service whatsoever, may pay any interest on any demand deposit. Demand deposits are more active accounts because they must make available sufficient funds to assure prompt payment of all obligations when they become due.

Time deposits are generally known as inactive interest-bearing accounts similar to a savings account and are available to any munici-

pality desiring to maintain small amounts of interest-bearing money where it might be utilized over a short time, or upon short notice, would do well to place as much as possible in time deposits.

Time deposits include:

a. Time Certificates of Deposits shall mean any instrument which evidences deposit of a certain sum specified on the face thereof and payable...

   1. on a certain date
   2. at the expiration of a certain specified period of time
   3. upon notice in writing, which is required to be given
   4. in all cases upon presentation and surrender of the instrument.

b. Time Deposits/Open Accounts means deposits.....in respect to which a written contract or agreement has been entered into with the depositor at the time the deposit is made providing that neither the whole nor any part of any such deposit may be withdrawn in any manner whatsoever prior to the date of maturity.

Under Regulation Q of the Board of Governors of the Federal Reserve System, interest may be paid on Time Deposits according to a schedule detailed in the Regulation. However, if State Banking Regulations (in the State in which the bank involved is located) differ from those in Regulation Q as to either rate or time, the lower of the two shall govern.

Therefore in Pennsylvania, the following maximum rates may apply, effective January 1, 1962.

Four percent (4%) - on Certificate of Deposit providing for a maturity date 12 months after date of deposit.

This, practically, is what is intended. The State Regulation actually says: "No bank.... shall pay interest accruing at a rate in excess of 4% per annum.... (a) On any time or savings account made pursuant to a written agreement or contract under the provisions of which such deposit has a maturity date 12 months or more after the date of deposit or is payable upon written notice of 12 months or more." It seems that a municipality, to get this rate, would benefit most with a Certificate of Deposit, since as the maturity date gets closer, there is less waiting time involved to withdrawal date rather than waiting for a full year, after giving notice, in case a withdrawal is necessary.

Three and one-half percent (3 1/2%) - on Savings Accounts; these can be used only by school districts.

Three and one-half percent (3 1/2%) - on a time Deposit/Open Account provided a minimum of 180 days notice of withdrawal is required or a Certificate of Deposit with a maturity of at least 180 days. (Local banks pay 3%)

Two and one-half percent (2 1/2%) - on a time Deposit/Open Account provided a minimum of 90 days notice of withdrawal is required or a Certificate of Deposit with a maturity of at least 90 days. (Local banks pay 2 1/2%)

One percent (1%) - on a time Deposit/Open Account provided a minimum of 30 days notice of withdrawal is required or a Certificate of Deposit with a maturity of at least 30 days.

A proper balance between the active non-interest-bearing demand deposit and the inactive interest-bearing time deposit must be attained. Once this proper level of balance has been determined by the municipality, all other funds should be placed in interest-bearing accounts without regard to ratios or any other outside factors.

This category of time deposits represents the largest investment medium for municipal funds. For many of the smaller municipalities, these deposits normally may constitute about the only usable type of investment.

B. Savings and Loan Associations

Federal saving and loan associations are also legally permitted to accept deposit of local government funds. The interest paid is called dividends, which may be paid quarterly. Dividends vary and do not accrue between payment dates. Local governments may invest in savings accounts with federal savings and loan associations to the extent that such accounts are insured by the Federal Savings and Loan Insurance Corporation. Since the maximum limit insurable is $10,000, local governments can not place more than that amount in a savings account with a savings and loan association.

Local governments may deposit funds with savings fund societies. Funds are insured up to $10,000 limit as in the case of commercial banks, with the same bond proviso of savings and loan associations.

C. Federal Government Securities

U.S. government securities are one of the best investments for a municipality since they reflect the current level of interest rates because they are not subject to the hazards of credit risk or quality deterioration.

Government securities are issued in the form of bonds, notes, certificates of indebtedness, and bills. Maturities vary from the short-term 91-day bills to long-term bonds of 20 and 30 years or longer. The varieties and types of securities are numerous and constitute another reason why proper advice from a qualified bank or broker is necessary before entering the market.

Treasury bills which are limited in maturity to a period of 1 year or less are heavily purchased by municipalities. They are issued on a discount basis, and the return on the investment is the appreciation between the price at which they are purchased and their maturity value of 100. With the exception of tax anticipation bills issued from time to time to finance temporary treasury needs, bills are currently issued with a maturity of 90 to 92 days. Bills are issued in weekly series at a competitive auction each Monday for payment every Thursday. Such

bills are held primarily by commercial banks, the Federal Reserve System, and nonfinancial corporations, although at times, long-term investors such as insurance companies and savings banks use them for employment of temporary funds. These bills provide, with relatively little market risk, a highly liquid investment for short-term funds. They are especially desirable for a small municipality with a limited amount of investable funds and a short-range spending program. Bills do not have to be held long to make a profit, but they are not a satisfactory source of revenue unless a municipality can purchase at one time a minimum of $50,000. Exact figures for minimum purchases in a specific situation may be obtained from a bank or an investment counselor.

Treasury certificates of indebtedness are also issued with a maturity not exceeding one year. They carry one coupon payable at maturity and, in order to assure a successful refunding, they have been priced when offered to yield a return which would result in some premium on the open market. This results in maturing issues which have a market, or sound value above par because of this exchange privilege. For this reason, certificates of indebtedness frequently sell in the market at a yield which appears on the surface less attractive, when maturity is considered, than do the treasury bills which have no right value. The same fact influences the market prices of treasury notes and bonds as they near the maturity. While they are not as liquid as

treasury bills, experience has shown that certificates of indebtedness can, under most circumstances, be quickly and easily liquidated when the holder requires cash.

Treasury notes are beneficial for cities whose available resources allow them to plan a little further in advance. The longer government securities provide more possibilities for increased earnings. Treasury notes are issued with a maturity of longer than 1 year, but not more than 5 years.

The amount of funds available for investment and the length of the potential investment period determine the extent to which these securities may be purchased. These are ideal for pension funds, both redemption and interest funds, or any other funds where the principal is not needed until some future date.

D. Municipal Securities

Bonds issued by states and their political subdivisions are known as "municipals." The interest that these bonds bear is exempt from federal income taxes. If the earnings of municipal funds are not subject to federal taxes, there is no incentive for any municipality to pay a premium for tax exempt income.

There are times, however, when a city may be justified in purchasing municipal bonds of one or two types: (1) general obligation and (2) revenue bonds. The first are secured by the general tax power of the issuing entity. Revenue bonds are secured by the pledge of the earn-

ings of a publicaly owned utility or enterprise. Revenue bonds usually carry higher yields than general obligation bonds.

Sound issues of revenue bonds are available and opportunities for profitable investment of public funds may be found if expert advice is sought when selecting municipal bond issues.

PART II

QUESTION 1

DO YOU CONSOLIDATE DIFFERENT FUNDS INTO ONE ACCOUNT IN THE BANK?

On the question of consolidating accounts, only 3 of the 52 municipalities studied consolidated their various accounts. These three are West Wyoming, West Pittston Borough, and Franklin Township.

	Separate	All in one account
Third Class Cities	4	0
Boroughs	23	2
First Class Twp.	4	0
Second Class Twp.	18	1
Total	49	3

Most essentially, it should be pointed out that some procedure of consolidating needs to be instituted before a policy of investing idle funds can be adopted. This is more so a prerequisite for a small community than for a large city. The local finance officer interprets a state law or code provision which requires that monies be maintained in separate funds as meaning in separate accounts in the bank. The records of the treasurer must show actual receipts and disbursements for each fund or special account. For this purpose, he maintains a cash receipts and cash disbursements book, a separate section of which is used for each fund and special account. It is the secretary who has the accounting responsibility for all appropriations, receipts, and expenditures. A complete monthly treasurer's report enables the secretary to check

the accuracy of his accounts.

The legislative body, be it council or board, has the responsibility for determining what funds shall be kept by the treasurer. The council or board must make a distinction between accounting of funds on the one hand and the deposit and investment of funds on the other hand.

It is apparent that a fund is an independent fiscal entity and must be accounted for as such. The accounting system must be so devised that the revenues and expenditures can be identified with the particular fund to which they apply. It follows that each fund must have a self balancing group of accounts. Cash segregated for certain purposes may not constitute a fund.

Solely from an accounting standpoint, there is no need for a separate bank account for each fund. The mere segregation of cash funds is sufficient. An independent fund may be said to exist even if no separate bank account is provided for it.

The use of one bank account for all funds frequently leads to hidden interfund borrowing; that is, cash really applicable to one fund is used to meet the expenditures of another fund. Hidden borrowing is especially likely to be resorted to if statutes prohibit interfund borrowing. Statutes prohibit the use of funds from one fund to meet expenditures for another fund. However, advances made by one fund to another fund would seem to conform with the Statutes. For example, several funds with small inactive, idle balances may pool their funds in order to make investments. It is not uncommon for municipalities to maintain an

amusement tax account, (which is allocated to the school district and the municipality at the end of each month), social security account, withholding tax account, defense bond account. These latter accounts are usually made up of funds deposited each payroll period.

Moreover, to use separate bank accounts for each fund complicates the accounting procedure considerably. At the most, separate bank accounts should be established only for each type of fund - such as general fund, etc. Consolidating accounts would be easier on a bank, acting as depository, and also on the treasurer, in view of the fact that the treasurer does not receive very much compensation.

Some of the funds and accounts maintained by municipalities are: general fund account, water fund account, light fund account, and state highway aid fund account. One municipality maintains social security and workmen compensation monies in a separate account.

QUESTION 2

A. WHAT TYPES OF CHECKING ACCOUNTS DO YOU MAINTAIN?

All except one of the municipalities included in the survey maintain regular checking accounts, the lone exception being Dupont, which maintains three different types of accounts.

Separate checking accounts were maintained by local governments for the separate funds discussed in answer to Question 1.

B. WHAT IS THE ANNUAL SERVICE CHARGE?

Only 6 of the 52 municipalities pay the bank an annual service charge. These 6 are Warrior Run, White Haven, Freeland, Dupont and Fairview Township

	Charge	No Charge
Third Class Cities	0	4
Boroughs	5	20
First Class Twp.	0	4
Second Class Twp.	1	18
Total	6	46

In all instances, the amount of the service charge is dependent on the number of checks drawn by the Treasurer. White Haven paid $120 last year, the highest paid by any of the 6 local governments. Fairview Township pays $.50 per month for the checking account, plus $.06 per check and $.06 per deposit.

QUESTION 3

HOW MUCH DOES YOUR DEPOSITORY PAY YOU FOR DAILY BALANCES?

Banks are not permitted to pay interest on a daily balance either directly or indirectly. Such a regulation applies to both active and inactive accounts. It is noteworthy that none of the local officials who were interviewed for this survey were aware that banks could not.

QUESTION 4

A. HOW MUCH DOES THE BANK PAY YOU FOR TIME DEPOSITS

With regard to time deposits (inactive accounts), only 10 of the 52 municipalities are compensated by the banks: 2 third-class cities, 5 boroughs, and 3 second-class townships. None of the first-class townships included in the study were compensated for time deposits.

	Nothing	Compensation
Third Class Cities	2	2
Boroughs	20	5
First Class Townships	4	0
Second Class Townships	16	3
Total	42	10

While the conclusion seems to put the blame upon the depository bank for inactive funds being interest free, actually this failure can be laid right at the feet of the municipal officials involved. If any banks are holding these inactive funds in interest accounts and not paying interest thereon, a violation of Regulation Q is probable since one purpose of the Regulation is to insure that all depositors in any given category are treated alike. It is more likely, however, that the local officials do not know whether the deposits are time or demand deposits. This conclusion is borne out by the replies given by local officials to Part B of the question.

Where compensation is given on inactive time deposits, the rate of compensation ranges between 2% and 3%. The rate of compensation and the municipalities are listed below:

2%	2 1/2%	3%
Freeland	Wilkes-Barre	Nanticoke
Foster Township	Fairview Township	Plymouth
		Hazleton
		Laflin
		West Pittston

B. HOW LONG DOES THE MONEY HAVE TO REMAIN IN THE TIME DEPOSIT BEFORE INTEREST IS PAID?

It should be stated that the rate and time period of time deposits are regulated by the "Federal Banking Code." The replies indicated that the time during which the balance must be maintained before compensation is given varies from 30 days to 6 months. There was a lack of consistency between practice and regulation, as was indicated in Part A of this question. Again, there is either a violation of Regulation Q or the lack of knowledge on the part of the local officials, with the latter being the more likely of the two.

Some of the typical answers given by the local officials:

1. 6 months--The municipal officials of 6 communities who gave this reply were correct since this time limit is consistent with the rate.

2. 3 months--The municipality indicating this time period should have indicated 6 months if the rate is correct.

3. "no set time"--This is impossible if any interest is paid.

4. "Bank decides"--This is correct according to schedule set forth in Regulation Q; however, the official indicated that he really did not know, and therefore stated that the bank "arbitrarily" decides.

5. "No information"--(Indicating the official did not know); on checking with the depository, this should have been 6 months.

6. "Varies depending on the account"--"30 to 90 days"--On the basis of the rate reported by this community official, the answer should have been 90 days.

QUESTION 5

HOW MUCH DO YOU PAY THE BANK ON OVERDRAFT?

Three of the municipalities pay the bank for an overdraft on a checking account: Hazleton, Dennison Township, and Lehman Township. Charges by the banks for services rendered are generally non-existent or where they do exist, are either $1.00 or $2.00.

	Do Not Pay	Pay
Third-Class Cities	3	1
Boroughs	25	0
First-Class Townships	4	0
Second-Class Townships	17	2
Total	49	3

QUESTION 6

DO YOU INSTRUCT THE DEPOSITORY TO PURCHASE GOVERNMENT 90-DAY BILLS?

Particularly meaningful in the relation to the main subject of this report is the response to the question of whether the depository of

the municipal funds is ever instructed to purchase government 90-day bills with the municipal funds. Only 2 of the 52 municipalities surveyed indicated that they do instruct the depository to place their funds in government securities. The notable exceptions to this failure to utilize idle cash balances are the cities of Wilkes-Barre and Hazleton; these two municipalities indicated that they do instruct their respective depositories to purchase government securities with part of their idle funds.

	Do Not Instruct	Instruct
Third-Class Cities	2	2
Boroughs	25	0
First-Class Townships	3	0
Second-Class Townships	19	0
Total	49	2

CONCLUSION

When the financial practice of Luzerne County Communities is compared to the financial practices recommended by such expert organizations as the Federal Advisory Commission, Intergovernmental Relations, and the International City Managers' Association, it is apparent that most of the municipalities of Luzerne County would do well to study, reappraise, and redefine the policies governing their financial administration with a view to better planning, more efficient administration, and more profitable utilization of idle cash balance funds.

This survey revealed that many of the local officials did not understand some of the questions asked. It is believed that many of these officials did not fully understand what to do with their taxes and, therefore, were not taking full advantage of the interest that could be gained on this money. With more efficient money handling, many of these municipalities would improve their financial conditions. The financial condition of every community can be improved if there is a closer working relationship between the local government official and the depository.

A survey of fiscal administration in Luzerne County reveals local practices to be for the most part out of step with modern, recommended practice, thus making desirable a reappraisal of financial policies with a view toward instituting more efficient, more economical, and more profitable utilization of idle cash balances in Luzerne County

Short-term investment of idle cash balances affords municipalities an opportunity to increase revenue without raising taxes or increasing other non-tax charges upon the public.

Under Commonwealth statutes, Pennsylvania municipalities are authorized to invest municipal funds in any obligation of the United States, the Commonwealth of Pennsylvania, or any subdivision thereof.

Prior to investing idle cash balances, a projection of the municipality's cash flow should be made in order that the amounts to be invested and the proper maturity dates of investments might be selected.

Three fundamentals underlie any investment program utilizing public funds: (a) Safety - the protection of the tax-payers' money should be the main objective; (b) Liquidity - when the money is needed, it must be available; and (c) Yield - selection of those issues providing maximum earnings.

There are numerous investment possibilities, and each must be explored; but for small municipalities the possibilities frequently narrow down to time deposits in a commercial bank or short-term issues of the United States Treasury.

APPENDIX A

QUESTIONS

1. Do you consolidate different funds into one account in the bank?

2. A. What type of checking account do you maintain?
   B. What is the annual service charge?

3. How much does your depository pay you for daily balances?

4. A. How much does the bank pay you for time deposits?
   B. How long does the money have to remain in the time deposit before interest is paid?

5. How much do you pay the bank on overdraft?

6. Do you instruct the depository to purchase government 90-day bills?

APPENDIX B

Information available from the following Municipalities:

Second-Class Townships

Bear Creek Township
Black Creek "
Buck "
Butler "
Dallas "
Dennison "
Dorrance "
Fairmount "
Fairview "
Foster "
Franklin "
Hazle "
Hunlocks "
Huntington "
Jackson "
Lehman "
Pittston "
Ross "
Wright "

First-Class Townships

Hanover
Newport
Plains
Wilkes-Barre

Cities

Hazleton
Nanticoke
Pittston
Wilkes-Barre

Boroughs

Ashley
Conyngham
Courtdale
Dallas
Dupont
Duryea
Edwardsville
Exeter
Forty Fort
Freeland
Hazleton
Laflin
Larksville
Luzerne
Nescopek
Nuangola
Plymouth
Shickshinny
Sugar Notch
Swoyersville
Warrior Run
West Pittston
West Wyoming
White Haven
Wyoming

Information not available from the following municipalities:

Avoca
Conyngham Township
Exeter Township
Hollenback Township
Hughestown
Jeddo
Jenkins Township
Kingston
Kingston Township
Lake Township
Larksville
Laurel Run
Nescopek Township
New Columbus
Plymouth Township
Pringle Township
Rice Township

APPENDIX C

Philadelphia Develops A New Method of Handling Certified Bid Checks:

"The City of Philadelphia has just adopted a method of handling certified bid checks which will probably produce an income of between $20,000 and $30,000 a year to the City.

The Procurement Department had in the past retained in its safe the certified bid surety checks of the successful bidder and the next lowest bidder. This takes a considerable amount of time in the City of Philadelphia, as it does I am sure in other big cities. The total amount of bid checks held in our custody as of December 21, 1961 was $1,097,107.58 and in 1962 on December 31, the amount was $1,555,693.55. It was reported to me that it was reasonable to expect a constant balance of checks on hand amounting to approximately $750,000. Our Treasurer reported that he could invest this money on a short-term basis and make anywhere from 2-3/4 to 3-1/2% thereon. A system was adopted whereby for security reasons, since a check might be misplaced or lost, and income producing reasons each check is now deposited to a specific bank account as soon as it is received and the successful bidder's money is returned to him by a City check."

Commissioner Otto R. Winter
Procurement Department
City of Philadelphia

NIGP Letter No. 222

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