* 1. **Statement of Procurement Purpose**The State intends to secure a contract for various banking and treasury management services relative to the State Treasurer’s responsibility for securing public funds, coordinating the banking activities for the State, and managing the State’s Pooled Investment Fund (SPIF). The services requested include account level services; incoming and outgoing wire transfer services; Automated Clearing House (ACH) origination, receipt, and settlement services; State of Tennessee check in-clearing, return cash letter, Image Cash Letter (ICL) depository services, adjustment and service fee billing settlement from the Federal Reserve Bank; custody account services for securities and investments clearing through Federal Reserve Book Entry and the Depository Trust Company; an overnight cash investment vehicle; ATM and restricted check cashing services; and limited storage of gold and other precious metals.  
       
     The following is additional background information and pertains to the State’s internal banking operations, processing and accounting needs relative to the services requested.
  2. **Background**The information in this section provides additional background information, including internal processing, operations, and accounting requirements relative to certain requested services included in RFI Attachment 1 *Pro Forma* Contract,Section A Scope of Services. This information is provided to assist the Respondent’s understanding of the State’s unique approach to these particular services. In addition to the information below, relevant transaction and balance schedules RFI Attachments 3.1 – 3.5. For each of the applicable areas, the current services are described below. It is the State’s expectation that unless otherwise indicated, services will be transitioned to the successful Respondent 60 days from the effective date of the contract, or at a later date at the sole discretion of the State.
  3. **Services Requested**
     1. **Automated Clearing House (ACH) Services**   
        1. **ACH Originations**

The State the receives NACHA formatted origination files from 6 different state agencies and 4 third party vendors. These files will be delivered to the bank by the State in a manner that is centrally controlled at the State by the Treasury Department, and in accordance with delivery procedures developed by the State and the successful Respondent and included in the agreed upon written Operating Procedures. The State needs to retain the ability to track and monitor Origination files, reconcile the State’s Origination activity as it is occurring, and balance the settlement of the Origination activity daily.

* + - 1. **ACH Origination Distributions to Bank**

The current normal distribution windows for ACH Origination files to the ACH bank are at approximately 12:30pm. and 2:50 p.m. On occasion, an additional distribution to the ACH bank is necessary in order to accommodate late arrival of files to the State. The State’s ACH origination activity is typically distributed to the ACH bank by the last normal distribution time of approximately 4:00 p.m., and most of the State’s ACH origination batches carry a next-day effective date, with the exception of main payrolls which are distributed up to 5 days in advance of settlement. The State needs the ability, in the event of a technical problem or other delay, to distribute files to the ACH bank as late as possible into the evening, in order to obtain next-day settlement of the entries. The detailed procedures relative to these processes will be developed by the State and the successful Respondent and included in the agreed upon written Operating Procedures.

* + - 1. **ACH Origination Settlement & Return Entries**

The State prefers that the ACH origination activity settle to the State’s Settlement Account, as defined in RFP Attachment 6.6 *Pro Forma* Contract, Section A.4.a., with the ACH bank by posting totals of debit and credit entries at the Company Batch level. The State currently receives ACH debit and credit receipts, returned ACH origination entries and notifications of change on a single daily consolidated file, typically before 6:00 a.m., from the ACH bank in NACHA format. In addition, the ACH bank will provide distribution files for various state agencies as defined by the State. The detailed procedures relative to these processes will be developed by the State and the successful Respondent and included in the agreed upon written operating procedures.

* + - 1. **E-Payment Routing Directory**

The State currently receives a E-Payment Routing Directory from its ACH bank at the end of each month. This file is used by various State applications to validate ACH routing numbers. The State prefers to continue to receive the E-Payments Routing Directory at least monthly from its ACH bank in order to maintain a current version of its ACH Financial Institution table.

* + - 1. **Origination History**

Currently, the State receives origination files from 6 different state agencies and 4 third party vendors. These agencies or vendors create 50 different ACH originations that could be processed on any day. In a given month, when accumulated by ACH effective date, the maximum total amount of ACH Credits originated over a multiple day consecutive period for the same effective date is $850,000,000, and the maximum total amount of ACH Debits originated over a multiple day consecutive period for the same effective date is $700,000,000.  
  
Transaction volumes and daily settlement amounts relating to the State’s ACH origination activity is presented in Attachment 3.1.

* + - 1. **ACH Receipts**

The State currently receives ACH debit and credit receipt entries through an ACH Receiving Depository Financial Institution (RDFI) Number that has been designated by the State’s ACH bank for the exclusive use of the State.

* + - * 1. **Use of State’s Designated ACH Routing Number**

This designated ACH routing number referred to above will be transferred to the winning Respondent upon the commencement of ACH Receipts processing and settlement. **The winning Respondent will be required to register the State’s designated ACH routing number under its financial institution with the Routing Number Administrative Board for the duration of the contract and the Respondent agrees to the transfer of the ACH Routing Number to the State’s successor ACH bank at the conclusion of the contract.**

* + - * 1. **State Assigned ACH DFI Account Numbers**

The State has assigned over 200 of its own DFI account numbers under the RDFI Number above to State agencies for their use in receiving their ACH entries, enabling the State to identify, segregate, report, and allocate the entries. The unique DFI account numbers enable proper accounting and routing of the entries to agencies**. The State DOES NOT intend to convert these current DFI account numbers to new account numbers. These DFI account numbers & the ACH routing transit number will be transferred to the winning Respondent.** The State intends to continue receiving ACH entries through multiple DFI account numbers as described above. Although the bank does not maintain these unique DFI account numbers on their system, the bank does filter all ACH receipts to validate the DFI account number is a valid ACH account number per a listing that the State supplies to the bank.  
  
The State currently receives ACH receipts entries (along with returned ACH origination entries and notifications of change) on a single daily consolidated file, in NACHA format from the ACH bank, typically before 6:00 a.m. The State will consider the options that the State will have with the Respondent for processing multiple activity files during the day. The State’s internal ACH repository is currently configured to perform special processing and output distribution of entries received based upon the first 3 positions of the DFI account number. The daily ACH receipts received through this designated RDFI Number are posted to the State’s Settlement Account with the ACH bank at the **file total debit and credit amounts**.

* + - * 1. **State Handling of “On Us” Items**

Note that the State originates some ACH entries carrying the State’s Receipts Routing Transit Number and account numbers for “on-us” processing and internal file distribution (example: State Payroll designates the Child Support ACH Receipts routing and account number for making State employee child support payments to DHS Child Support). These “on-us” entries would not generate cash settlement at the bank but would merely be processed by the bank and directed back to the State on the next applicable ACH Receipts distribution.

* + - * 1. **ACH Receipts History**

Transaction volumes relating to the State’s ACH receipts activity are presented in Attachment 3.1.

**ACH Reporting**  
The State intends to receive ACH Origination returns on separate distribution files for each Originator agency of the State from the bank and to use the bank’s reporting system to review Origination returns in a similar manner. Such procedures will be developed by the State and the successful Respondent and included in the agreed upon written operating procedures.

It is the State’s intent to not commence ACH Origination services and ACH Receipts services under the contract awarded pursuant to this RFP, until the State 1) implements processes for delivery of State ACH Origination files to the bank and the receipt of ACH Origination Returns files from the bank, 2) tests such delivery processes with the successful Respondent, and 3) develops the written Operating Procedures for expanded ACH Origination and Receipts services with the successful Respondent. Therefore, ACH Origination and Receipts services under the contract awarded pursuant to this RFP will be effective at a date as determined at the sole discretion of the State.

* + 1. **Settlement of State of Tennessee In-clearing Items and Related FRB Service Fees** (refers toRFI Attachment 1 *Pro Forma* Contract, Section A.7)  
       1. **Use of State’s Designated Routing Number**

Warrants and checks issued by the State of Tennessee clear through the Federal Reserve Bank against an **additional Routing Transit Number registered to the State of Tennessee**. The State has **seven different** **disbursement accounts** that are used to account for these various warrant and check issues separately**. It is the State’s intent to continue to use its existing Routing Transit number and existing bank account numbers to track the warrant & check processing.**

* + - 1. **Correspondent Agreement**

The State of Tennessee does not have an account with the Federal Reserve Bank to settle cash letters, returns, adjustments and related service fee charges. The State requests the successful Respondent to serve as Correspondent for the State of Tennessee with the Federal Reserve Bank (FRB) to accept and settle the related cash letter charges, adjustment entries and FRB service fee charges to the State’s account with the Contractor. The winning Respondent will communicate the FRB cash letter amounts to the State by 1 pm Central Standard Time each banking day in order for the State to balance to its system’s update of the daily warrant and check payment files provided directly to the State by the Federal Reserve Bank.

* + - 1. **Warrant & Check Presentment Paid Files**

The State receives multiple Check21 presentment files of its warrant and check payments from the Federal Reserve Bank (FRB) daily. The presentment point for all items issued by the State is the Federal Reserve Bank (no direct financial institution exchange/presentment is conducted).

**Warrant & Check Processing**   
The State intends to utilize Check & Warrant processing services offered by the bank, which will include presentment point, image, and archive services, Check21 cash letter presentment and settlement, adjustment, returns processing and enhanced positive pay options. Detailed procedures for these services to the bank shall be contained in the Operating Procedures developed pursuant to RFI Attachment 1 *Pro Forma* Contract, Section A.2.

* + - 1. **Warrant & Check Processing History**

A schedule of activity relating to the State’s in-clearing cash letters is presented in Attachment 6.8.

* + - 1. **Negotiable items settling at the aggregate level in the State Settlement Bank account**

Checks and Warrants will settle against the routing transit number that is assigned to the State of Tennessee at the Federal Reserve and the ACH Credits & Debits will settle at the RDFI that is assigned to the bank specifically for the State of Tennessee’s ACH entries. Both of these functions will settle at the Bank at the aggregate level. No individual negotiable items (Checks, warrants or ACH entries) should settle against the State’s settlement account. Fraud detection services should refuse any items that are at the individual level.

* + 1. **Image Cash Letter (ICL) Check Deposit Services** (refers to RFI Attachment 1 *Pro Forma* Contract, Section A.8)The State accepts and receives checks for deposit at various agency mail-in and over-the-counter locations across the State and at some centralized remittance processing sites operated by the agencies or their third-party contractors. The various State agencies use either a front-end cashiering module at the decentralized agency location or use a third party contractor’s remittance processing system to create an ICL file. The State currently has 3 separate bank accounts for the ICL Files as shown below:  
       1. **Department of Human Services, Child Support Division**

Through its contract with Systems and Methods, Inc. (SMI), the Department of Human Services, Child Support Division operates a central remittance processing site that currently sends daily Check 21 files to the bank.

* + - 1. **Department of Revenue**

The Department of Revenue works with two software vendors that produce in-house ICL files for the Department’s various revenue collections and processing.

* + - 1. **Consolidated ICL file from all other state agencies**

A consolidatedICL file from the iNovah system (System Innovators application connected with the state wide Edison accounting system), in ASC ANSI X9.37 standard format, is sent from the State to the bank every day at approximately 2:00 p.m. CST.

* + - 1. **Segregated Bank Accounts**

The State currently uses separate bank accounts for each of the above deposit origins in order to segregate the settlement, processing and adjustment activities. **Please note that the State is not soliciting proposals in this RFP for deployment of scanning equipment and hardware associated with remote deposit capture, or for the use of a Respondent’s remote deposit capture system.**

* + - 1. **ICL History & File Format**

A schedule of current transaction volumes relating to the State’s ICL check deposit applications is presented in RFI Attachment 3.3. The ICL file format currently being used is an ASC ANSI x9.37 standard format.

* + 1. **Custodial Services** (refers to RFI Attachment 1 *Pro Forma* Contract, Section A.9)

The State is responsible for the day-to-day management of several investment funds. Each of the funds will need separate custody accounts and each will need daily, monthly statements as well as detail and summary reporting. All trading for these accounts is performed by State staff and trading is complete by 10:00 a.m. on most days. Currently, the State creates a PDF of the trade in the State’s internal cash management system, ACME, and emails the PDF copy to the bank. A brief description of each of the accounts is listed below. The State would like to work toward an automated ticking process or interface from our trade order management system for our daily trading activity.

SPECIAL DRAFT NOTE: The State is looking for enhancements to our Custody relationship and may be making several changes to the services requested in this section.

* + - 1. **State Pooled Investment Fund (SPIF)**

The SPIF is invested in government and agency securities of the US government, repurchase agreements, and the commercial paper of a limited number of issuers. Therefore, the SPIF will require custody services provided through the Depository Trust Company (DTC) as well as Federal Reserve Bank custody services for the Fed book entry items. The SPIF operates as a stable-dollar fund in accordance with GASB 79. The fund is very liquid and there will be securities maturing each business day to cover the demands of participants of the SPIF, including the State of Tennessee. **Because the daily needs of the State are paid from maturing securities, the State requires “contractual” settlement of securities, or immediate funds availability each morning. If there is ever a situation where the bank is not actually paid for a maturing security by the issuer, the State will make the bank whole the following business day.**

* + - 1. **Intermediate Term Investment Fund (ITIF)**

The ITIF is a longer duration investment option open to most participants of the SPIF. The fund invests in US government and agency securities with an average maturity of three years or less and has limited activity.  
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* + - 1. **Tennessee Wildlife Resources Agency (TWRA)**

The TWRA agency specific investment was established by State law to manage assets of the TWRA that are not needed for immediate liquidity. This investment vehicle is only available to the TWRA and invests in US government and agency securities including mortgage-backed securities.

* + - 1. **Special Investment Vehicles**

The State has various needs for short-term investment accounts. Listed below are the accounts that are currently used by the State and details on each of them.

* + - * 1. **State Pooled Investment Fund (SPIF)** (refers to RFI Attachment 1 *Pro Forma* Contract, Section A.10)

The State makes every effort to be 100% invested at all times. Therefore, to maintain adequate liquidity and to remain invested, the State requires a vehicle to invest funds that would be accessible at any time during business hours that would earn hard dollar interest. The amount that will be invested into this vehicle will be relatively stable but could range on any day from $0 to a contractual maximum amount of $300,000,000.

It is the intent of the State to fund all daily obligations with maturities from investments. The State has a repetitive, predictable, and cyclical need for cash to pay its obligations. A year over year analysis will be available as an attachment to the RFP. The intent is that the State will maintain the account balance at the contractual maximum value in order to achieve an investment return. At the same time the account serves as emergency liquidity for those infrequent days when unexpected withdrawals occur late in the day. The State also has policy and practice which discourage late day withdrawals. All of these items reduce the risk that this sweep account will be needed for emergency liquidity and therefore continuously available to offset intra-day liquidity risk. Therefore, the State would desire that the maximum contract amount be as large as possible.

Additionally, while the State may have a need to maintain amounts in the special investment vehicle greater than the contractual maximum amount, such amounts over the contractual maximum amount will not be subject to the earnings rate proposed for the special investment vehicle. The State will make a daily decision to transfer such amounts greater than the contractual maximum amount to an outside investment vehicle, to transfer funds to another investment vehicle with the Contractor, or upon a specific and separate arrangement between the State and the Contractor, to retain the funds in the special investment vehicle where they would receive earnings at the proposed contract earnings rate. The vehicle can be as simple as the balance in the primary operating account (Settlement Account) at the end of the day or can be a sweep account (Deposit Account) separate from the operating account. The State would prefer an interest generating operating account for simplicity, but does seek a competitive rate of return and will consider the sweep option. The balance in the account would be considered a public deposit for collateral purposes and the State will not consider alternativecollateralization. The Respondent bank will provide a rate over/under the Federal Reserve Funds rate that will be paid monthly. The Respondent will propose the specific earnings rate that will be paid monthly as part of the separately prepared RFP.  
The State desires at least a two hundred and fifty million dollar ($250,000,000) net debit intraday cap in the Settlement Account plus, if applicable, the Deposit Account. The State monitors its activity and balances during the day so that once activity settling to the account(s) causes the combined balances to reach a net debit of this amount, the State will transfer funds, generally within 30 minutes, to bring the balances below the net debit cap, with a positive (credit) combined balance maintained overnight.

* + 1. **Storage of Gold Reserve Optional Service** (refers to RFI Attachment 1 *Pro Forma* Contract, Section A.18)

Should the State decide to purchase gold or other precious metals, the State expects the successful Respondent bank to securely store the same on behalf of the State.

* + 1. **Check Cashing/Dispensing and Automated Teller Machine Services** (refers to RFI Attachment 1 *Pro Forma* Contract, Section A.19)

The State Treasurer provides check cashing services for members of the General Assembly and select other State officials who need access to such services. The State currently maintains a $30,000 cash balance in a State Treasury petty cash account at the current Vendor Bank at one specific branch adjacent to the General Assembly offices at Cordell Hull Building in Nashville. The Vendor bank is supplied with a list of authorized employees who may request a check to be cashed at any time. The check cashing service is only authorized at the specified branch and the check cashing service is limited to employees that are on the authorized list. The checks must either be a state of Tennessee warrant or check or a personal check. No third party checks will be cashed. It is anticipated that the General Assembly offices located at 5th Avenue in Nashville, between the State Capitol complex and the Municipal Auditorium and Nashville MTA Music City Central transit facility.

To accommodate the General Assembly, the successful Respondent will provide an automated solution for check cashing, to include cash dispensing combined with Automated Teller Services or KIOSK services located in the General Assembly office building and in the State Capitol. The successful Respondent will have access to the State’s database of warrants and other State-issued checks for verification and authorization purposes. The State will maintain its petty cash account with the successful Respondent for purposes of cashing and depositing the checks. Check cashing/dispensing services are to be provided at no cost to the persons cashing checks and at no additional cost to the State. The successful Respondent will be expected to assist the State in developing a solution that is cost neutral for the State as well as the successful Respondent. Such solution may include additional ATM services in the General Assembly office building, State Capitol and other select State central government facilities. The State and the successful Respondent will develop written Operating Procedures for the successful Respondent’s performance of those services pursuant to Section A.2 of the *Pro Forma* Contract (RFI Attachment 1).