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Attachments: 1. Letter from Concerned Citizen 3-6-2017, 2. Letter from Wells Fargo Bank 3-13-2017, 3. RFP 57656 - Commercial Banking Services, 4. Wells Fargo Dakota Access Pipeline FAQs, 5. 2019 Bank RFP Ranking, 6. 2019 Bank Services Implementation Scope -- San Leandro Time and Cost Estimate

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Staff Report on results of Banking Request for Proposals (RFP) - continued from April 2, 2019 Finance Committee

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City select Wells Fargo Bank based on the results of a competitive proposal process for banking services based on criteria approved by the Finance Committee in 2018

BACKGROUND

On March 6, 2017, the City Council received a letter from a group of citizens requesting that the City divest from banks that fund the Dakota Access Pipeline (DAPL) such as Wells Fargo Bank (WF). Please see attached letter. The Council referred the request to the City's Finance Committee for discussion on April 4, 2017. The Finance Committee heard testimony from "Our Revolution San Leandro" members and directed staff to bring a banking RFP to Council for its consideration.

On November 20, 2017, the City Council directed staff to sell its \$700,000 investment in WF's bonds. Staff completed its sale of the \$700,000 holdings in WF bonds during the last week of November 2017.

WF has been the City's primary bank offering commercial services since June 2008. WF was chosen in a competitive 6-month RFP process in 2007 that had eight respondents. Six of the eight respondents were selected by an Evaluation Committee (consisting of six finance staff members) to provide an in-depth presentation and demonstrate their ability to support daily City operations in an effective and efficient manner utilizing WF's service applications. WF was chosen primarily due to anticipated savings of 31% over the City's former banking provider (Bank of America) as well as technological offerings, enhanced customer service, and operational efficiencies. Services include providing the City's general checking accounts for payroll, accounts payable, and worker's compensation, collateralization of deposits (as required by Section VII (D) of the City's Investment Policy and Section 2257.021 of California Government Code), and nightly sweep of the City's deposits into short-term investments to earn the City maximum return on its liquid funds. The City currently has approximately \$5 million deposited with WF for daily operational purposes. Bank's fees are

approximately \$80,000 per year, which is less than the amount paid to Bank of America more than a decade ago.

On July 3 and November 13, 2018 the Finance Committee discussed and approved criteria identified on Page 14 of the attached RFP for commercial banking services.

On April 2, 2019, staff summarized the results of the RFP. The Finance Committee discussed the results and requested some additional information. The Committee requested the rating matrix and the estimated cost of implementing a new bank to replace the current bank.

DISCUSSION

Prior to WF, the City had used Bank of America for 35 years. The 2007 banking RFP was an extensive process requiring significant staff resources and costs prior to selection as well as during post-selection implementation. Roughly one year elapsed from the time the RFP was issued until the time banking services were officially changed over to WF.

On December 14, 2018, staff issued an RFP for commercial banking services consistent with Finance Committee direction. On February 8, 2019, the City received three proposals from Bank of the West/BNP Paribas (BNP), JP Morgan Chase (JPM) and WF. The proposals were based on criteria recommended by staff and approved by the Finance Committee. The review committee was comprised of the primary users of the commercial banking services, including the City's accountant, Assistant Finance Director and Finance Director.

Other banks, which participated in RFP discussions, but chose not to respond, included Fremont Bank, City National Bank, Comerica Bank and Tri Counties Bank.

The selection criteria and relative importance of the criteria approved by the Finance Committee follow:

- Ability to provide efficient and user-friendly web-based products and services (5%)
- Ability to support products and provide training on site (5%)
- Reliability, experience, and quality of customer service (5%)
- Overall cost (45%)
- Experience in providing services to the public sector, as well as dedicated resources and personnel (10%)
- Corporate consistency with City goals and policies, including a commitment to environmental sustainability (15%)
- Community involvement and related Community Reinvestment Act contributions (5%)
- Financial strength and capitalization (10%)

Based on the weighted criteria, WF produced the highest score, followed by JPM and BNP. WF produced the lowest monthly fee and provided the most favorable economic stimulus to the City of San Leandro. For example, WF employs 451 staff in San Leandro and 202 WF staff reside in the City. Over the past five years, WF has helped 2,224 San Leandro borrowers obtain mortgages totaling \$638 million. Also, WF is headquartered in San Francisco, whereas JPM and BNP are headquartered outside of California.

The scoring matrix is attached. Based on the weighted average score, WF received a score of 2.95, JPM's score was 2.4 and BNP's score was 1.7. Based on the 52 menu of service items listed in Tab U of the RFP, WF, JPM and BNP monthly fees are \$837, \$1,193 and \$2,134, respectively. Of course, these cost items are relatively small compared to the implementation cost, which is nearly \$120,000 based on the attached implementation cost estimate.

ANALYSIS

If the City chooses the second or third bid, then it would need to address the implementation issues related to transferring services to a new bank. The post-selection implementation process would include at minimum:

- Modifying the financial system setup and general ledger for new banking codes;
- Modifying configuration for electronic check deposits;
- Modifying any merchant credit card services affiliated with WF;
- Changing out credit card machines at all City locations that process these payments;
- Notifying all who wire funds into the City's bank account (includes major sources such as property tax, sales tax, credit card transactions, and investment pools);
- Updating authorized signers on all accounts and sub-accounts;
- Notifying every vendor that is authorized to debit City's bank accounts;
- Replacing check stock, deposit bags, deposits slips, etc. as necessary;
- Modifying codes on payroll and accounts payable checks;
- Setting up main and all remote City locations that process cash deposits;
- Ensuring there are enough remaining funds with WF to cover any uncashed checks in transit during the transition between banks; and
- Modifying pickup and delivery of City deposits to cash vault locations via armored car services.

A more detailed list of transition tasks to a replacement bank is provided as an attachment. In pricing these tasks, the estimated cost to implement a new bank is nearly \$120,000. The cost takes into account the time invested by City staff and a third-party expert assisting in the implementation.

While staff understands and appreciates the concerns addressed in the attached letter from citizens, staff does not see this as a simple process of divestiture. There is a complicated and time-consuming process for changing banks as discussed above. It should be noted that there are very few banks that could meet the City's complex needs, Investment Policy restrictions, and State law requirements and not in some way be affiliated with the DAPL Project. There are many financial institutions involved in the financing of the DAPL Project and WF's share is less than 5%.

Other banks lending to the DAPL Project are Union Bank, Citibank, Bank of America, Royal Bank of Canada (City National Bank), and West/BNP Paribas (BNP) - the two other banks that responded to the RFP. Most of these banks have branches in San Leandro and could be considered full service banks that could meet the needs of the City. The other banks funding DAPL are SunTrust, Mizuho, TD Securities, Credit Agricole, Intesa San Paolo, ING, Natixis, Bayern LB, BBVA, DNB Capital, ICBC London, SMBC Nikko, and Societe Generale. Finally, many major banks such as Bank of America are dropping municipal clients in order to focus on more lucrative private clients with fewer restrictions. This leaves a limited pool to select from to ensure that payroll checks to employees and AP checks to vendors are paid on-time.

City staff also directs the Finance Committee to a written response from WF concerning their involvement in the DAPL Project. This written response includes DAPL FAQs as well as a response to WF's recent settlement involving opening of unauthorized accounts by its employees. WF has been a valued financial partner of the City for more than a decade and staff is encouraged by their response to these matters. Nevertheless, while staff recommends against a change in commercial banking services at this time, it will certainly undergo the process should City Council decide to pursue a replacement bank.

During 2017, nearby Cities and local agencies issued RFPs for banking services. Hayward received five proposals on April 1, 2017 and chose JPM. South San Francisco and Alameda County Water District also received five bids and each chose JPM in 2017.

South San Francisco discovered that their Bank's credit card fees are the primary cost ranging from \$8,000 to \$16,000 per month; basic bank service costs are \$4,000 to \$6,000 per month, which includes the Brinks Armored car service. San Leandro also pays more for credit card transactions (\$4,500/month) than basic banking services (\$2,000/month). In San Leandro, the armored car service costs approximately \$1,400/month, which makes the total cost approximately

\$3,400/month before including the cost of credit card transactions.

State of California growing business with WF

The Finance Committee may be interested to know that the State Treasurer suspended its relationship with WF on 9/28/16 due to WF's reported misdeeds. At the time, the Treasurer's Office said that the suspension means the state would not use WF as a broker-dealer for investments by his office, would be banned from underwriting the sales of California bonds and would not purchase more WF stocks and bonds beyond what it already owned.

Since that announcement, the State Treasurer has sold more than \$1 billion of California debt to WF through competitive bid. Six bond issues were underwritten in 2017 and 2018. In addition, WF continued to serve as the State's primary depository bank, providing the checking account for the State Treasurer's disbursements.

The new State Treasurer is now allowing investment in WF stocks and bonds. WF is now allowed to broker government securities. The Deputy State Treasurer has said that WF has made meaningful changes in its senior management and Board to enable the State to engage WF's banking services again.

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ATTACHMENTS:

- (1) Letter from Concerned Citizens
- (2) Letter from WF Bank
- (3) WF Dakota Access Pipeline FAQs
- (4) Banking Request for Proposals (RFP)
- (5) Ranking Matrix
- (6) Banking Implementation time and cost estimate