



Legislation Details (With Text)

File #: 18-355 **Version:** 1 **Name:** Banking RFP Criteria
Type: Staff Report **Status:** Filed
In control: Finance Committee
On agenda: 7/3/2018 **Final action:** 7/3/2018
Enactment date: **Enactment #:**
Title: Staff Report on Divestiture from Wells Fargo Bank due to its Funding of the Dakota Access Pipeline (DAPL) Project
Indexes:
Code sections:
Attachments: 1. Letter from concerned citizen, 2. Wells Fargo Letter, 3. Wells Fargo FAQs, 4. Financial Reports Calendar, 5. Draft Banking Request for Proposals (RFP)

Date	Ver.	Action By	Action	Result
7/3/2018	1	Finance Committee	Received and Filed	

Staff Report on Divestiture from Wells Fargo Bank due to its Funding of the Dakota Access Pipeline (DAPL) Project

SUMMARY AND RECOMMENDATIONS

Staff recommends that the Finance Committee discuss criteria identified on Page 14 of the attached Request for Proposals (RFP) and consider issuing an RFP for commercial banking services

BACKGROUND

On March 6, 2017, the City Council received a letter from a group of citizens requesting that the City replace Wells Fargo Bank (Bank). 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 "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 the Bank's bonds. Staff completed its sell of the \$700,000 holdings in Wells Fargo bonds during the last week of November 2017.

Wells Fargo has been the City's primary bank offering commercial services since June 2008. The Bank was chosen in a competitive 6-month Request for Proposals (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 the bank's service applications. Wells Fargo 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 \$5 million deposited with Wells Fargo 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.

DISCUSSION

Prior to Wells Fargo Bank, 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. 12 months elapsed from the time the RFP was issued until the time banking services were officially changed over to Wells Fargo. In order to provide the City with the best service and pricing possible, staff anticipates a similar process and 12-18 month timeline should a new banking RFP be prepared and issued. The selection process would include at minimum:

- RFP preparation and issuance;
- Needs assessment;
- Evaluation of vendor proposals;
- Vendor presentations;
- Client site visits, and
- Contract negotiations

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 Wells Fargo;
- 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 is enough remaining funds with Wells Fargo to cover any uncashed checks in transit during the transition between banks;
- Modifying pickup and delivery of City deposits to cash vault locations via armored car services.

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. It should be noted that there are very few banks that could meet the City's 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 Wells Fargo's share is less than 5%. Other banks' lending to the

DAPL Project are Union Bank, Citibank, Bank of America, BNP (Bank of the West), and Royal Bank of Canada (City National Bank). 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.

Third, 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 Wells Fargo concerning their involvement in the DAPL Project. This written response includes DAPL FAQs as well as a response to Wells Fargo's recent settlement involving opening of unauthorized accounts by its employees. Wells Fargo has been a valued financial partner of the City for nearly 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 have issued RFPs for banking services. Hayward received five proposals on April 1, 2017 and chose JP Morgan Chase. South San Francisco (SSF) and Alameda County Water District also received five bids and each chose JP Morgan Chase in 2017. SSF 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.

The Financial Reports calendar was presented to the Finance Committee in October 2017. The report highlights the deadlines and volume of activity requiring City Finance Department resources. Key priorities of the Department are the completion of the annual audit, production of the budget and preparation of bond documents in connection with the upcoming new money bond issue.

PREPARED BY: David Baum, Finance Director, Finance Department

ATTACHMENTS:

- (1) Letter from Concerned Citizens
- (2) Letter from Wells Fargo Bank
- (3) Wells Fargo Dakota Access Pipeline FAQs
- (4) Financial Reports Calendar
- (5) Draft Banking Request for Proposals (RFP)