



Legislation Text

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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 divesting from Wells Fargo Bank

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.

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 \$10.3 million deposited with Wells Fargo for daily operational purposes and also owns a \$700,000 Wells Fargo Corporate Note as part of its Investment Portfolio managed by Chandler Asset Management. Bank's fees are approximately \$80,000 per year, which is less than the amount paid to Bank of America a decade ago..

DISCUSSION

Prior to Wells Fargo Bank, the City had used Bank of America for 35 years. The 2007 banking RFP was the first one the City had ever conducted and it 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, we do not recommend changing banks at this time. First, as shown above, it would be a very long and costly process that would tax limited staff resources. Two, 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 17 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 US Bank, Union Bank, Citibank, Comerica, Bank of America, JP Morgan, 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. 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 timely.

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 pursue a replacement bank.

CONCLUSION

Due to reasons stated above and the lack of alternative banks (which are not lenders to the DAPL), staff recommends that the City continue to retain Wells Fargo for commercial banking services. However, if desired, staff will liquidate its current investment in the \$700,000 Wells Fargo Corporate note and staff will continue to monitor services provided by the Bank.

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ATTACHMENTS:

- (1) Letter from Concerned Citizens
- (2) Letter from Wells Fargo Bank
- (3) Wells Fargo Dakota Access Pipeline FAQs
- (4) Wells Fargo Fraud Response and FAQs