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REPORT TO THE CITY COUNCIL

March 8, 2018

FROM: MICHAEL A. LIMA, Controller/Finance Director/(ex-officio)Treasurer
Finance Department

BY: CORRINA BARBARITE, Treasury Officer
Finance Department

SUBJECT

Award a five-year contract with the option for two one-year extensions for banking services for the City of Fresno Finance Department to Bank of America, N.A. (Bid File 9412)

RECOMMENDATION

Staff recommends that City Council authorize the Controller or designee(s) to execute a five-year contract with the option for two one-year extensions to Bank of America, N.A to provide banking services to the City of Fresno as outlined in the Request for Proposal issued by the City (Bid file 9412).

EXECUTIVE SUMMARY

The City of Fresno (City) currently has an agreement with Bank of America for banking services, which is scheduled to expire on March 31, 2018. A Request For Proposal (RFP) was issued for banking services on August 3, 2017. Nine RFPs were distributed to prospective proposers. Five

banks submitted proposals, which were opened on September 29, 2017. A Review Committee was formed to evaluate the proposals. Each proposal was examined for conformity with the criteria published in the RFP, consisting primarily of the bank's ability to meet the required services and its charges for those services. The two banks meeting all the service requirements were then contacted for further price negotiations. Based on the service levels to be provided to the City and the pricing that was negotiated, staff recommends the award of a five-year contract with the option for two one-year extensions to Bank of America. The contract has been approved as to form by the City Attorney's Office.

BACKGROUND

The City maintains approximately fifty bank accounts, each essential for a specific purpose, through which hundreds of millions of dollars flow every year. As a large government entity, the City has extensive and complex banking service requirements. The City requires banking services to process coin, currency, check, wire and Automated Clearing House (ACH) deposits. For disbursements, the City issues Payroll direct deposits, paycards, Accounts Payable ACH payments and checks, as well as debit wire transfers. In addition to normal daily banking services, the City looks to its banking services provider for expertise and assistance in reducing exposure to fraud, as well as suggesting services to enhance the City's customer service and streamline processes.

The City's current contract for banking services expires on March 31, 2018. An RFP was issued for banking services on August 3, 2017. The project was advertised in the Business Journal on August 7, 2017. A pre-bid conference was held on August 21, 2017, with representatives from seven banks attending. Nine RFP's were distributed to prospective proposers. Five banks submitted proposals, which were opened on September 29, 2017. The proposers were Bank of America, Bank of the West, JP Morgan Chase Bank, MUFG Union Bank, and Wells Fargo Bank.

A seven person committee was formed to review the proposals including staff from the Finance Department, the Department of Public Utilities (DPU), and City of Clovis Finance Department. The staff from DPU was selected due to its extensive use of multiple banking products. The RFP called for the banks to address 27 areas of service for the City and provide pricing on 107 items for products and services that the City currently uses. They were also asked to explain any additional products or services that they offer which may provide benefit to the City. The committee evaluated each proposal by reviewing all of the material presented. As stated in the RFP, the committee based their evaluations on the following criteria: (i) Proper Submission of Proposal (ii) Comprehensiveness of Services Provided (iii) Public Sector Experience and Resources (iv) Strength and Stability of Financial Institution (v) Assigned Relationship Manager/Team (vi) Charges for Services (vii) Service Enhancements (viii) Other Factors.

As noted, cost of services was only one of the factors included in the committee's evaluation. Since each of the banks submitted a proposal for banking services rather than a formal bid, the City was not required to select the lowest proposed cost. The charges for services proposed by each responding bank were evaluated by comparing pricing for current services, projected costs for converting to a bank other than the current banking services provider, offsets to the conversion costs, and the earnings credit rate offered by the banks.

Upon evaluating the services listed in the responses, the committee noted that some of the banks did not provide services which the City currently utilizes. For instance, three banks did not provide payroll paycards. All three offered a partner vendor to provide paycard service, which would require the City to enter into a separate contract. Another service currently received by the City but not offered by two of the responding banks was Internet payment consolidation, or Paymode. Paymode allows

payments received from various Internet sources to be consolidated into one payment received by the City. Without this service, the City's staff would have to identify and upload multiple Internet-generated deposits which are provided in various formats. Thus, having Paymode greatly reduces the amount of staff time that is needed to process deposits.

After a review of all the services being offered by the responding banks, the committee determined that two banks met all of the service requirements: Wells Fargo and Bank of America. The committee then entered into negotiations with both remaining banks for further refinement of their offered pricing. The results of the price negotiations were:

- Bank of America had a projected five year base cost of services of \$905,522. Wells Fargo had a projected five year base cost of service of \$1,048,264.
- Wells Fargo offered a credit of \$200,000 to offset the projected \$142,672 cost of changing banks. The credit in excess of the conversion cost would be applied to the projected base cost of services. Because there would be no conversion cost by remaining with Bank of America, they did not offer a credit for converting banks.
- Bank of America offered a .85% interest rate on monies kept with them during the five year term of the agreement. The projected earnings from this rate totaled \$394,521. Wells Fargo offered to pay the same rate as the three-month Treasury Bill (currently, 1.25%). However, this rate came with two important caveats:
 - 1) The interest rate would not be offered during the first year of the contract. It would be offered for years 2-5.
 - 2) The rate could be re-set every three months during the contract's term. When queried about the minimum interest rate they would offer during the term of the contract, Wells Fargo responded with a .35% interest rate.

Based on the minimum interest rate and the other restrictions that they proposed, Wells Fargo was projected to pay \$138,082 in interest over the five year life of contract. When the projected cost of services, the conversion credit, and the projected interest earnings were summed, Bank of America had a projected five year cost of \$511,032 (or \$102,206/year), while Wells Fargo had a projected five year cost of \$852,854 (or \$170,571/year). For comparison purposes, the pricing under the City's current contract with Bank of America results in an annual cost of about \$175,000. Thus, this new contract is expected to reduce the expense for banking services by approximately 41%.

Given all this information, the committee selected Bank of America as having the most effective and efficient mix of services at the lowest cost. Staff worked with Risk Management and the City Attorney's Office to ensure that the resulting contract provided the City with the terms and conditions essential to protect the City's interests, while still providing the needed banking products and services. Staff recommends that Council award a five year contract for banking services to Bank of America.

ENVIRONMENTAL FINDINGS

By the definition provided in the California Environmental Quality Act Guidelines Section 15378 this item does not qualify as a "project" and is therefore exempt from the California Environmental Quality Act requirements.

LOCAL PREFERENCE

Local preference was not considered because all the proposers have at least one branch within the City of Fresno.

FISCAL IMPACT

The City currently pays approximately \$175,000 annually for banking services. This figure is net of the earnings credit. The pricing of the new Bank of America proposed Agreement will result in an annual cost of approximately \$102,200 net of the earnings credit, creating a projected annual savings of \$72,000, or 41%.

Attachments:

Bid Evaluation (Attachment 1)

Report from Selection Committee (Attachment 2)

Agreement (Attachment 3)