THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: May 31, 2013 REPORT NO: 13-050

ATTENTION: Honorable Council President Todd Gloria and Council Members

SUBJECT: Approval of the Bank of America and Citibank Banking Services Contracts

REQUESTED ACTION:
Authorize approval of the five year contracts with Bank of America and Citibank.

STAFF RECOMMENDATION:
Approve the Bank of America and Citibank banking services contracts.

SUMMARY:
Under City Charter Section 45, the City Treasurer is responsible for selection of the City's banking services provider. The City is required to rebid contracts every five years, per Section 99 of the City Charter.

The City's prior banking contracts expired on December 1, 2012; however, in October 2012, the City Council authorized extension of the contracts by one year, with month-to-month termination options, to provide the necessary time to finalize the current Request for Proposal (RFP) selections.

Upon Council and Mayoral approval, commencement of the new banking services contracts will begin on August 1, 2013 and be in effect for a 5-year term. The total cost of these banking services contracts is estimated to be $5.75M over the 5-year period. These contracts are transactional so the total contract cost could vary based on levels of service. During the course of the contracts, banking services providers will be subject to the reporting requirements as outlined in the City's *Responsible Banking Ordinance* O-20201, as well as subsequent review by the City of San Diego Community Reinvestment Review Advisory Committee pursuant to City Council Ordinance O-20200.

After an extensive evaluation process of qualified proposals, the City Treasurer has selected Bank of America to service the City's Core Banking requirements (including Depository, Disbursement, Reconciliation and Reporting Services), Payroll Automated Clearing House (for Electronic Direct Deposit Payroll Services) and Procurement Card needs. Citibank was selected to provide Security Clearance and Safekeeping Services for the City's Pooled Investments and Bond Construction Funds.

As a result of the selection of the aforementioned Banking Services providers, the City will realize a cost savings attributed to the negotiation of fixed pricing for the new five (5) year contract term. Bank of America submitted a particularly favorable fixed pricing schedule which will lead to an estimated 35% reduction in fixed core banking services fees. Bank of America extended a reduction in its discount fee charged for merchant card processing – a 21% reduction in its credit card per item processing fee and a 64% reduction in its pin-based debit card per item processing fee. Based on prior volumes, the City will save approximately $410,000 in fixed core banking fees over the new contract term compared to the prior pricing agreement. The City will also receive a one-time $150,000 loyalty credit for continuing its partnership with Bank of America for the new contract term. The selection of Bank of America for the City's Procurement Card Services will provide the City with an additional 0.92% rebate on all purchases through the Procurement Card program, which for a 12 month period ending in December would have represented a rebate of approximately $117,000 to the City. Finally, the new Custody Agreement with Citibank is projected to be slightly lower than the current contract with Bank of New York-Mellon.

Background

On June 7, 2012 the City released a Banking Services RFP in order to solicit proposals from qualified financial institutions to provide banking services for a new 5-year contract term. The formulation of the RFP's scope of services was a collective Citywide effort, as the service requirements stated within this RFP impact all departments that accept, manage, reconcile, and/or facilitate City payments. Please refer to *Attachment 1* for a list of Banking Services to be performed by the service providers.

The City stated within the RFP that, in addition to meeting the required technical specifications, the selected banking services provider(s) would be expected to help the City promote the following objectives:

- Actively support economic growth and community reinvestment within the City of San Diego
- Provide enhanced payment options for City departments and the citizens of San Diego
- Maximize use of technological resources to achieve greater operational efficiencies and promote cost savings to the City
- Further advance the integration of the City's Enterprise Resource Planning Software, SAP, to various banking modules for purposes of initiating, reconciling, and receiving financial data
- Streamline cash collection/disbursement processes and maximize use of electronic payment methods
- Utilize best-in-class fraud control and disaster recovery services to mitigate the City's financial risk exposure and safeguard against loss

The RFP was posted by the City's Purchasing and Contracting Department via DemandStar, advertised in the Daily Transcript, and notifications of the release were emailed out to local, regional and commercial banks and other payment processing institutions.

RFP Responses and Evaluation

Qualified bids were received by the following proposers: Citibank, Bank of America, JP Morgan Chase, Wells Fargo Bank, US Bank, and Hewlitt-Packard (responding to an Online Payment Processing Services category only). The City's two incumbent service providers, Bank of New York-Mellon (Custody Services) and San Diego Metropolitan Credit Union (Payroll ACH Services), elected not to respond to the City's Banking Services RFP.

Multi-department evaluation committees were formed to perform a comprehensive evaluation of the qualified proposals received. The review of the proposals was conducted by Evaluators or Advisors, selected based on areas of subject matter expertise, which included the City staff from the following City Departments: Purchasing & Contracting, Department of Information Technology, Office of the City Treasurer, and the Office of the City Comptroller. All evaluators signed required Purchasing and Contracting confidentiality forms, to include any financial disclosures or possible conflicts of interests.

All proposals were evaluated based on responsiveness to the RFP including ability to meet the City's current and future banking requirements as specified in the RFP, community reinvestment efforts, ability to integrate with the City's Enterprise Resource Planning (ERP) software, past performance as indicated by references, commitment to Equal Opportunity demonstrated by programs and hiring practices, key personnel knowledge and expertise, as well as fees for services which would provide the most comprehensive service at the most reasonable cost and guaranteed pricing for the contract period. Per the controls set forth by Purchasing & Contracting, pricing evaluation was conducted by a subject matter expert who did not serve on a related Technical Evaluation Committee (TEC).

Responsible Banking Ordinance

Although the City's Responsible Banking Ordinance was not adopted by City Council until October 10, 2012, approximately four months after the City's Banking Services RFP was released, proposers were required to submit information related to their local community reinvestment and lending efforts as part of the City's overall evaluation of their organization. (See *Attachment 2 Community Reinvestment* from the City's Banking Services RFP.) It should be noted that both Bank of America and Citibank have pledged their support of, and intent to adhere to, the requirements of the City's Responsible Banking Ordinance.

Conclusion

The award of the banking services contracts to Bank of America and Citigroup ensures that the requirements for the City's banking needs will be met in a manner which is operationally efficient and fiscally prudent. The selection of these service providers compliments the City Treasurer's mission to receive, safeguard and efficiently manage public funds.

The RFP requirements stressed the importance of community reinvestment, best-in-class disaster recovery and business continuity planning, security/control features to prevent account compromise, full compliance with Federal/State regulatory requirements and industry best

practices, automation of payment functions, security/fraud measures and compatibility with the City's ERP system, SAP.

It is expected that Bank of America and Citigroup will provide banking services which offer the highest level of service quality and deliver the best overall value to the City, while meeting the objectives, specifications and requirements of the RFP.

FISCAL CONSIDERATIONS:
Based on the proposed pricing received from Bank of America, the City is projected to realize annual savings of approximately $82,000, or $410,000 over the 5-year contract term. A rebate for purchases made through the Procurement Card program is estimated to be $117,000 annually. In addition, Bank of America is giving the City a one-time loyalty credit of $150,000. Funding for these contracts was included in the Proposed Fiscal Year 2014 Budget.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:
ORDINANCE NO. O-2013-11, O-2013-12, and O-2013-13, PURSUANT TO SECTION 99 OF THE CHARTER OF THE CITY OF SAN DIEGO, extended the Banking Services Contracts for Bank of America, San Diego Metropolitan Credit Union and Bank of New York-Mellon for one year with month-to-month termination clauses.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
There were no community participation or outreach efforts.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:
Citywide Departments; Bank of America; Citibank

Gail R. Granewich
City Treasurer

Greg Bych
Interim Chief Financial Officer

Attachments(s): 1. Summary of Banking Services Requirements
2. Excerpt from RFP - *Community Reinvestment*

Attachment #1 - Summary of Banking Services Required by the City of San Diego

Depository Services

- **Bank Deposit Facilities:** Adequate branch presence within the City of San Diego is required, since many City locations are not located within a reasonable proximity to the downtown Treasurer's Cashiers Office
- **Coin/Currency Orders:** So that City cashiers may make change, replenish petty cash funds, or place orders for large (>$200) currency/coin order via armored transport; Police occasionally requires check cashing of >$10,000 for undercover/sting operations – so City requires that Bank have special handling/security procedures for such transactions
- **Armored Transport:** Required due to the significant amounts of cash/check/coin collected at locations such as Torrey Pines Golf Course, Police Headquarters, Water Utilities, Miramar Landfill
- **Parking Coin Counting & Depositing:** Weighing, counting, same-day credit for deposits on coin collected from the City's Parking Meter Operations
- **Remote Deposit Capture:** To efficiently process large volume of paper checks received at the City, for electronic deposit, endorsement, and same-day credit, in a system which employs the highest security/control features to prevent unauthorized access to the system
- **EDI Services:** For corporate and/or government agency payments processed via the ACH/EDI network, remittance file processing updates the City's respective billing or A/R systems, including SAP
- **Merchant Card Services:** To meet citizen demand that the City accept credit card or debit card payments for payment of fees, fines, and other services, through safe/secure processing platforms

Disbursement Services

- **EFT:** Comptroller's uses SAP to initiate Book, ACH, and Fedwire transfers for the City's daily payment obligations
- **ACH Tax Payment:** Electronic payment to meet payroll tax obligations every pay cycle
- **Positive Pay/Teller Positive Pay**: Fraud protection measure for our employees, vendors, and the City's checking account funds
- **Controlled Disbursement**: To maximize/capture any excess cash available for short-term Investing; controls the flow of checks

Reconciliation & Reporting Services: Account Reconcilement, Check Imaging, Online Information Reporting System; receipt of an electronic bank reconciliation file sent via secure FTP to aid in efficient/automated reconciliation of Citywide deposits recorded in the City's ERP system, SAP

Payroll ACH Services: Direct deposit of employee payroll, may be expanded to include payroll cards to reach any unbankable/under banked employees who do not have a bank account

Securities Clearance & Safekeeping Services: Custody & Safekeeping, Online Trade/Order Entry System for the City's Pooled Investment Portfolio & Bond Construction Funds

Attachment #2 - Excerpt from RFP Requirements - Community Reinvestment

3. Community Reinvestment

The City seeks to partner with a financial institution which is active in the growth and reinvestment of the City of San Diego community.

a. As applicable, Proposers shall submit with their Proposal their most recent Community Reinvestment Act (CRA) rating and the date of such rating, and in lieu of providing the entire evaluation, may submit a URL of its online location. However, Proposer shall provide a copy of the pages of their most recent CRA evaluation report which affirms and describes the basis for the CRA rating.

b. Banks and other Service Providers are required to provide information pertaining to their organization's contribution to or participation in community reinvestment and economic development within the City of San Diego, including a list of current projects related to the CRA act, if applicable.

c. The items below are applicable to those Proposers submitting proposals for Core Banking Services (RFP Paragraphs II – IV):

(1) Proposer shall describe their residential lending activity in the City of San Diego during the previous calendar year including, but not limited to, the following categories:

i. Total residential loans
ii. Home purchases, both federally insured and conventional loans
iii. Refinancing of home loans
iv. Multi-family loans
v. Modifications of distressed loans

(2) Proposer shall describe the efforts made to help City of San Diego borrowers who are delinquent on their residential loans avoid foreclosure on their primary residence.

(3) Proposer shall describe their banking and small business lending activity in the City of San Diego during the previous calendar year including, but not limited to, the following categories:

i. The entire City of San Diego
ii. Low to moderate income population in the City of San Diego
iii. Minority business enterprises in City of San Diego
iv. Female business enterprises in the City of San Diego

(4) Proposer shall describe how it can help and/or partner with the City on ways to assist citizens who currently cannot open bank accounts ("the unbankable").