

CITY OF OAKLAND
COUNCIL AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND
2005 APR 13 PM 6:19

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Finance and Management Agency
DATE: April 26, 2005
RE: RESOLUTIONS APPROVING AN AGREEMENT WITH BANK OF AMERICA TO PROVIDE BANKING/DEPOSITORY SERVICES FOR AN ANNUAL COST NOT TO EXCEED \$275,000 AND AN AGREEMENT WITH WELLS FARGO TO PROVIDE SECURITY CUSTODY SERVICES FOR AN ANNUAL COST NOT TO EXCEED \$25,000

SUMMARY

The City currently is operating under a banking depository agreement with Bank of America and a securities custody agreement with Wells Fargo, each of which was entered into in July 1999 for a three-year period with annual renewals at the City's option. In February 2005, staff issued a new request for proposals ("RFP") for banking depository and custodial services.

Based on the evaluation of the responses to this RFP, staff proposes that the City enter into two new agreements for the separate portions of its banking services: (1) a new agreement with Bank of America to provide the City's primary depository services and (2) a new agreement with Wells Fargo to provide the City's primary security custodial services. Staff proposes that each agreement be for a period of three years, with the ability to renew for two periods of one year each at the City's option. The proposed costs for these combined services will remain at or below present budgeted levels.

These recommendations represent a continuation of our existing depository and custodial services relationships. The recommendations are based on a detailed consideration of overall qualifications, scope and level of services, pricing, and compliance with City requirements.

FISCAL IMPACTS

The current fiscal year budget includes \$275,000 for depository services and \$25,000 for custodial services. The actual future costs will depend largely on service volumes and on the levels of offsetting cash balances in the City's accounts. We estimate that the proposed costs for each of these services will remain at or below these not-to-exceed amounts, which are the amounts included in the proposed budget for FY05-07.

BACKGROUND

In July 1999, the City entered into two banking agreements – one with Bank of America to provide the City's depository services, and one with Wells Fargo to provide the City's

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safekeeping/custody services. In order to ensure that the City continues to receive the most up-to-date and cost-effective services, staff issued an RFP for banking services (including both depository and custodial services) on February 7, 2005, to thirteen banking institutions with branches or headquarters in Oakland.

Responses to our RFP were received on March 4, 2005. Five banks submitted responses to provide depository services - Bank of America, HSBC, Union Bank of California, U.S. Bank, and Wells Fargo. Four banks submitted responses to provide custodial services – HSBC, Union Bank of California, U.S. Bank, and Wells Fargo. After careful examination of the submitted proposals, staff selected four finalists – Bank of America, Union Bank, U.S. Bank, and Wells Fargo – for interviews, in order to further present their qualifications. (HSBC was eliminated from further consideration based on their submitted materials and responses and their failure to meet minimum City requirements.) The interview panel included representatives from the Finance and Management Agency’s Treasury, Accounting, and Information Technology Divisions.

KEY ISSUES AND IMPACTS

General Considerations: The interview panel considered the quality of each bank’s proposal and interview, along with its service, costs, and references. Each bank that was interviewed met the City’s requirements for financial strength and capability.

In the RFP, banks were required to list their references as well as clients lost within the last year. Client references for all of the banks were generally positive. However, the references for Bank of America and Wells Fargo were slightly more relevant given that their reference clients were more comparable to the City of Oakland’s transactional volume and service requirements.

Bank of America and Wells Fargo both have devoted significant resources in their commitment to serving the City. Locally, Bank of America and Wells Fargo have twelve and seven branches in Oakland, respectively; Union Bank and U.S. Bank each have one branch. In addition, Bank of America and Wells Fargo participate on a significantly larger scale than U.S. Bank or Union Bank in community involvement and charitable activities (some major examples are Bank of America’s West Oakland America-Block-by-Block and Neighborhood Excellence initiatives and Wells Fargo’s large Community Reinvestment Act (“CRA”) commitments and grants from the Wells Fargo Foundation). The finalist banks all have CRA ratings of either “Outstanding” (Bank of America, U.S. Bank, and Wells Fargo) or “Satisfactory” (Union Bank).

Depository Services: Considerations in determining staff’s recommendation for depository services included the range of services offered, quality/capability of customer service, technological capabilities, and pricing.

- *Services/Customer Service.* Each proposing bank showed that it can provide, with suitable customer service, the full range of banking and depository services currently utilized by the City, including accepting credit and debit cards, providing expedited lockbox processing of certain revenue streams, implementing electronic data transfer with anti-fraud measures, and providing direct deposit of payroll. In addition, the quality and timeliness with which they

can provide these services were key staff considerations. As lockbox services are a basic component of required Treasury operations, it is important to note that all of the interviewed banks have their lockboxes located in Oakland or San Francisco with the exception of U.S. Bank's lockbox site in Los Angeles. (As a result, payments mailed from Oakland would likely be received and credited later than at a San Francisco-area lockbox.)

- *Technological Capabilities.* Bank of America and Wells Fargo are more advanced in terms of technology now in place compared to Union Bank and U.S. Bank. Furthermore, Bank of America's and Wells Fargo's current technical capabilities and plans indicate that they are likely to be better positioned to provide additional services that staff anticipates implementing during the coming years.
- *Pricing – Services:* Costs for depository services were carefully examined. Although the out-of-pocket costs for Bank of America and Wells Fargo were higher than those of the other banks, Bank of America being slightly lower than Wells Fargo, their more technologically advanced and efficient services make them more cost-effective overall than the two lower-priced banks. Bank of America's proposal included pricing reductions for several types of services, compared to our current contract.

- *Transition:* In their proposals, Wells Fargo, Union Bank, and U.S. Bank all offered to absorb the out-of-pocket transition costs, while Bank of America offered the City an incentive of a \$3,000 renewal credit to retain the contract.

Safekeeping/Custodial Services: Security custody services were considered separately, since they are distinct from depository services, and need not be provided by the same banking institution. Three finalists offered custodial services: Union Bank, U.S. Bank, and Wells Fargo. In considering a custodial service provider, staff analyzed all of the same considerations as with the depository service provider, including the range of services provided, quality/capability of customer service, technological capability, and pricing. All of the finalists demonstrated that they were capable of offering the services and customer support that the City would require. However, as with the depository services, Wells Fargo could provide more advanced technological capabilities than Union Bank and U.S. Bank.

Local/Small Local Business Enterprise (“L/SLBE”) Program: Based on their branch(es) in Oakland, all of the banks interviewed fall within the “local” business definition of the City’s L/SLBE Program. However, all of the banks confirmed that the centralized nature – and the extensive regulatory and security requirements – of both depository and custody services preclude their ability to subcontract their services as envisioned by the L/SLBE Program. After carefully evaluating each of these factors, staff agrees that subcontracting these essential services would be inappropriate and unrealistic. In order to obtain the necessary banking services for the City, staff requests that Council continue to waive the L/SLBE requirements.

Living Wage Ordinance: All of the banks confirmed that full compliance with the language of the City’s Living Wage Ordinance would not be possible for them. Due to the extremely large number of different employees who could be involved with servicing the City’s day-to-day cash handling, securities custody, and processing services, it would be extremely difficult, if not

impossible, to identify all of the employees who would actually handle the work for the City. However, in all cases, the bank staff directly related to the City's accounts are in compliance with the Living Wage levels, and the banks each stated their willingness to comply as much as legally possible with the records-access requirements of the Living Wage Ordinance.

Therefore, in order to obtain the necessary depository and custodial services, staff requests that Council continue to waive the requirements of the ordinance.

Linked Banking Ordinance: All of the interviewed banks exceeded their 2004 Linked Banking lending goals, and were pre-qualified for certification under the Linked Banking Ordinance. All of them comply with the City's non-predatory lending requirements.

RECOMMENDATIONS AND RATIONALE

Depository Services: Staff recommends entering into a new three-year depository services agreement with Bank of America with options to renew for two periods of one year each at the City's sole discretion. Three years is a reasonable minimum contract term, given the complexity of a full-range depository services agreement, the time and effort involved in soliciting new proposals, and the potential disruptions and costs involved with changing providers. At the same time, a three-year period will allow for timely reconsideration of the agreement, while the option for two one-year renewals will allow for limited extensions of the agreement if this is determined to be in the best interests of the City.

The recommendation for Bank of America is based on a number of factors, including its strong record of providing excellent service to the City, the quality and scope of services it is able to provide, a cost analysis, and the bank's active involvement in and around Oakland:

- *Record as Excellent Service Provider.* As the Council is already aware, Bank of America is the City's current provider of depository services. In that capacity, it has been fully engaged in providing not only the required services, but also in offering recommendations and products that reduce cost and/or streamline our internal processes. However, it is also important to note that Bank of America's platform in providing services to the City of Oakland extends beyond the depository capacity. The firm also actively bids on the City's competitive debt transactions, and provides full underwriting services for many negotiated transactions.
- *Quality/Scope of Services.* After careful examination of the four banks' qualifications, staff concluded that Bank of America and Wells Fargo were the best suited to serve the City based on their proposal submissions, technological capabilities, interview presentations, and client references. While recognizing that Wells Fargo could likely provide specific services comparable to Bank of America, staff could not find any compelling reason to change providers, especially since our current service is excellent. As a result, staff is recommending the City continue banking with Bank of America, given the firm's excellent service to the City both within and outside of its depository banking relationship.

- *Pricing.* Among other criteria, staff carefully analyzed the specific service costs proposed by the four finalists. While Bank of America was not the lowest cost proposer, pricing alone was not the leading factor in forming our recommendation to Council, in view of the quality, scope, and complexity of the required depository services. Indeed, the range and quality of Bank of America's services more than outweighs the pricing differentials. In addition, by staying with Bank of America, the City benefits both by avoiding the intangible costs of a complex transition, and by receiving the \$3,000 retention allowance offered by Bank of America. Although Union Bank, U.S. Bank, and Wells Fargo all offered to absorb some, if not all, of the out-of-pocket transition costs, the City would still need to expend considerable internal resources in terms of time spent by the City's Information Technology staff (to test and implement all of the new technology/communication systems) as well as Treasury staff and other employees City-wide (to learn the new system protocols as a result of transferring services).
- *Community Presence/Involvement.* As mentioned in the previous section ("Key Issues and Impacts"), Bank of America and Wells Fargo have both demonstrated a high level of commitment to Oakland, with major involvement in community development and improvement programs. Bank of America is the largest SBA lender in Oakland, both overall and to minority businesses; its Community Development Bank has provided significant investments for affordable housing projects, including its \$17.5M equity investment in the Mandela Gateway Project. As part of its focus on Oakland, Bank of America has selected West Oakland as one of only four pilot neighborhoods nationwide for its America Block-by-Block program. Bank of America is also a major Oakland employer; including its regional commercial banking office, Bank of America has 500 employees in Oakland.
- *Investment Banking.* As part of their service as a full-service bank, Bank of America alone has been a consistent participant in City investment-banking activities, and has been the successful lowest bidder for a number of City financings, such as the City's equipment lease, and the recent ShoreTel and Enterasys leases. In a number of cases, Bank of America has also provided the most cost-effective proposals to underwrite other City financings.

For all of the above reasons, staff recommends that Bank of America remain the City's depository service provider for the next three years, commencing June 1, 2005, with options to renew thereafter.

Custody Services: Staff recommends entering into a new three-year custodial services agreement with Wells Fargo with options to renew for two periods of one year each at the City's sole discretion. Here again, three years is a reasonable minimum contract term, given the complexity of a full-range custodial services agreement, the time and effort involved in soliciting new proposals, and the potential disruptions and costs of changing providers. A three-year period will allow for timely reconsideration of the agreement, while the option for two one-year renewals will allow for limited extensions of the agreement if this is determined to be in the best interests of the City.

As with staff's analysis for depository services, this recommendation for Wells Fargo is based on a number of factors, including its positive historical working relationship with the City, the

quality and scope of services offered, and pricing. Wells Fargo is our current custodial service provider and has demonstrated excellent capabilities and customer service in that capacity. In comparison to Union Bank and U.S. Bank, Wells Fargo's technical platform is more sophisticated. While Union Bank was the proposer with the lowest bid, staff believes that their aggressive pricing does not outweigh the other considerations, especially when factoring in the intangible costs the City would face in transferring its services from Wells Fargo to another bank.

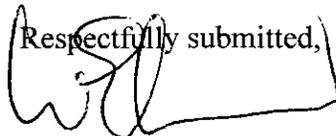
It is recommended that the new agreement with Wells Fargo begin on June 1, 2005.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that Council approve resolutions to:

- authorize a three-year agreement with Bank of America for the City's primary banking and depository services, beginning June 1, 2005, with the option of two renewals of one year each, at an annual cost not to exceed \$275,000; and
- authorize a three-year custodial services agreement with Wells Fargo for the City's security custodial services, beginning June 1, 2005, with the option of two renewals of one year each, at an annual cost not to exceed \$25,000.

In order to provide for these banking services, Council is requested to continue waiving the L/SLBE and Living Wage Ordinance requirements for both agreements, in view of the inability of any bidder to comply with these requirements. Furthermore, for both agreements, staff requests that the City Administrator be authorized to negotiate with the respective banks for additional services, which may become available and/or appropriate, at costs, which she deems reasonable, provided that the total annual costs shall not exceed \$275,000 and \$25,000, respectively.

Respectfully submitted,


William E. Noland
Director, Finance and Management Agency

Prepared by:
Katano Kasaine
Treasury Manager

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE


OFFICE OF THE CITY ADMINISTRATOR

K. Helen Boyle

OAKLAND CITY COUNCIL

RESOLUTION NO. _____ C. M. S.

OFFICE OF THE CITY CLERK
OAKLAND

INTRODUCED BY COUNCILMEMBER _____

2005 APR 13 PM 6:18

RESOLUTION AUTHORIZING
AN AGREEMENT WITH BANK OF AMERICA TO PROVIDE
PRIMARY BANKING/DEPOSITORY SERVICES FOR THE CITY
AT AN ANNUAL COST NOT TO EXCEED \$275,000

WHEREAS, the City on July 1, 1999, entered into an agreement with Bank of America to provide depository services for a period of three years, with annual renewals at the City's option; and

WHEREAS, the City, on February 7, 2005, issued a Request for Proposals for depository services; and

WHEREAS, five banking institutions – Bank of America, HSBC, Union Bank of California, US Bank and Wells Fargo Bank – responded to this RFP; and

WHEREAS, a City selection committee, after considering these banks' respective capabilities and quality and cost of service, has determined that Bank of America would provide the most cost-effective and highest-quality service; and

WHEREAS, Bank of America has indicated that it can provide the currently required services for an annual amount not to exceed \$275,000; and

WHEREAS, no bank's proposal fully meets the specific requirements of the City's Local/Small Business Enterprise Program or the Living Wage Ordinance;

NOW, THEREFORE BE IT RESOLVED, that the City Administrator be authorized to negotiate and execute an agreement with Bank of America to provide primary depository services for the City for a three-year period with two one-year options to renew, for an annual amount not to exceed \$275,000 for current service levels; and

BE IT FURTHER RESOLVED, that the City Administrator be authorized to negotiate with Bank of America for such additional banking services as she may from time to time deem appropriate, at costs which she shall deem reasonable, provided that such services, combined with existing services, shall not exceed an annual cost of \$275,000; and

BE IT FURTHER RESOLVED, that the City Council finds and determines that in order to secure these services it is in the best interest of the City to waive the requirements of the Local/Small Local Business Enterprise Program and the Living Wage Ordinance.

IN, OAKLAND, CALIFORNIA, _____, 19 _____

PASSED BY THE FOLLOWING VOTE:

PRESIDENT DE LA FUENTE, BRUNNER, CHANG, NADEL, REID, BROOKS AND
QUAN

AYES: -

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____

Interim City Clerk and Clerk of the Council the
City of Oakland, California

K. Helen Boyd

OAKLAND CITY COUNCIL

RESOLUTION No. _____ C. M. S. OFFICE OF THE CITY CLERK

INTRODUCED BY COUNCILMEMBER _____ 2005 APR 13 PM 6:18

RESOLUTION AUTHORIZING
AN AGREEMENT WITH WELLS FARGO BANK TO PROVIDE
SECURITY CUSTODY SERVICES FOR THE CITY
AT AN ANNUAL COST NOT TO EXCEED \$25,000

WHEREAS, the City on July 1, 1999, entered into a new agreement with Wells Fargo to provide custodial services for a period of three years, with annual renewals at the City's option; and

WHEREAS, the City, on February 7, 2005, issued a Request for Proposals for custodial services; and

WHEREAS, four banking institutions – HSBC, Union Bank of California, US Bank and Wells Fargo Bank – responded to this RFP; and

WHEREAS, a City selection committee, after considering these banks' respective capabilities and quality and cost of service, has determined that Wells Fargo Bank would provide the most cost-effective and highest-quality service; and

WHEREAS, Wells Fargo has indicated that it can provide the currently required services for an annual amount not to exceed \$25,000; and

WHEREAS, no bank's proposal fully meets the specific requirements of the City's Local/Small Business Enterprise Program or the Living Wage Ordinance;

NOW, THEREFORE BE IT RESOLVED, that the City Administrator be authorized to negotiate and execute an agreement with Wells Fargo Bank to provide primary custodial services for the City for a three-year period with two one-year options to renew, for an annual amount not to exceed \$25,000 for current service levels; and

BE IT FURTHER RESOLVED, that the City Administrator be authorized to negotiate with Wells Fargo Bank for such additional banking services as she may from time to time deem appropriate, at costs which she shall deem reasonable, provided that such services, combined with existing services, shall not exceed an annual cost of \$25,000; and

BE IT FURTHER RESOLVED, that the City Council finds and determines that in order to secure these services it is in the best interest of the City to waive the requirements of the Local/Small Local Business Enterprise Program and the Living Wage Ordinance.

IN, OAKLAND, CALIFORNIA, _____, 19 _____

PASSED BY THE FOLLOWING VOTE:

PRESIDENT DE LA FUENTE, BRUNNER, CHANG, NADEL, REID, BROOKS AND
QUAN

AYES: -

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____

Interim City Clerk and Clerk of the Council the
City of Oakland, California