

CITY OF OAKLAND

FILED
OFFICE OF THE CITY CLERK
OAKLAND

INFORMATIONAL AGENDA REPORT

TO: 2011 Office of the City Administrator
ATTN: P. Lamont Ewell, Interim City Administrator
FROM: Arturo M. Sanchez, Assistant to the City Administrator
DATE: July 26, 2011

Re: STATUS UPDATE ON THE DEVELOPMENT OF THE MUNICIPAL IDENTIFICATION AND DEBIT CARD PROGRAM.

SUMMARY

The Municipal Identification Program Ordinance 12937 C.M.S. was adopted by the city council to develop and implement a municipal identification card in 2009. Staff was subsequently directed to solicit proposals from banking vendors for production of the cards, operation and management of the Municipal Identification Program and debit card services for cardholders. In 2010, the City selected SF Mexico Inc. (hereinafter "Provider") as the provider of the Muni Id card with Central National Bank and Trust of Enid, Oklahoma (hereinafter "CNB") as the guarantor of the debit component of the program. The proposal also included enabling the cards to perform account-to-account transfers and international transfers, in addition to the debit component. Since October 2010 Staff has been actively working to develop and implement this program.

The development of the program requires the drafting of an agreement that outlines the operation of the identification card program (i.e., taking applicant information, producing and issuing identification cards) and licenses the banking vendor to use the City's name in connection with the various banking services to be offered to cardholders. A major area of concern is that the Identification Card and banking services have to be provided in a safe, secure and appropriate manner. To assure that the program and agreement sufficiently protect the City and Card holders, in particular with respect to the banking services to be offered, a due diligence assessment of the Provider and CNB should be completed. A due diligence assessment of the Provider and CNB would mean ascertaining the structure of the provider and CNB, the financial wherewithal, and structural and procedural ability to meet the terms of a contract with the City. Staff is currently working to prepare a request for proposals to conduct the due diligence assessment and anticipates issuing the solicitation in Mid-August.

BACKGROUND

On June 4, 2009 the Oakland City Council adopted Ordinance 12937 C.M.S. amending Chapter 2.34 and authorizing the development of a municipal identification card program to be administered by the City Clerk.

Later that year in October the Council directed staff to prepare and issue a notice soliciting proposals from 1) banking institutions for the issuance of Oakland's identification ("ID")/debit card; 2) debit/ID cards systems providers; and 3) vendors who only provide ID cards. Staff was directed to return to the City Council with the bid results, and associated fiscal analysis for each

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service provider's proposal. The City Clerk created a working group that included representatives from the Office of Councilmember De La Fuente, Office of Councilmember Quan, Office of the City Clerk, Office of the City Attorney, Treasury Division, Oakland Police, and Information Technology to prepare the solicitation, and the request for proposals was issued on January 17, 2010. Three proposals were submitted on March 17, 2010, including the proposal from SF Mexico Services, LLC, which staff deemed to be the proposal that best met the City's requirements.

On November 9, 2010 the Oakland City Council approved staff's recommendation to select SF Mexico as the Muni ID program provider and directed staff to proceed with contract negotiations to establish a cost neutral program to issue the municipal identification card with the option for cardholders to have debit card, account-to-account and international funds transfer services from SF Mexico's partner, Central National Bank and Tmst of Enid, Oklahoma.

Subsequently it was determined that the City did not have subject matter experts to inform the negotiations and contract requirements for the debit card, international fund transfers and account-to-account transfers. These functions could involve complex rules and regulations that require someone with expertise.

In response Mayor Quan contacted One California Foundation to request aid in the development of the banking aspect of the program. In early February 2011, One California Foundation agreed to provide funding for 20 hours of support from debit card expert, Ms. Lauren Leimbach, Executive Director of Community Financial Resources, to aide in the development of the debit component of the Muni ID program.

Concurrent with this offer of aide Mayor Quan requested that a point person from the City Administrator's office be assigned to work with the City Attorney's Office to draft the comprehensive agreement with SF Mexico for development, implementation, and management of the overall program. From Late March through May, a draft contract was completed and reviewed by staff, the industry expert, Ms. Leimbach, and outside counsel with banking expertise.

In late May, Ms. Leimbach advised that the City should seek further advice on the contract requirements for the account-to-account transfers and international funds transfer because those areas were outside her expertise. Outside counsel advised that the City should conduct a due diligence assessment of the Provider and CNB given the size of the banks and complexity of the banking services to be offered. The concern is that the bank the City engages to make the various banking services available to cardholders must have the financial wherewithal and industry reputation to cover fraud, theft, market downturns and other types of problems that could jeopardize cardholder funds.

Staff investigated whether the City through the Treasury Division had resources to conduct this type of due diligence assessment and by early June determined that a specialized assessment would be the most prudent decision. The City Administrator will conduct an RFP/Q in the \$5,000-10,000 range for the due diligence assessment of the approved provider. Staff is in the

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process of developing the RFP/Q scope although this project has been delayed by the recent budget process. Outside counsel work on contract revisions for the program provider contract will proceed and a draft should be completed by early to mid-August. Attached please find with this report draft items to be included in our due diligence assessment.

DISCUSSION

The complex nature of this project combined with the lack of in house expertise and resources and the need to address the two-year budget have resulted in significantly slowing the development and implementation of the program.

These realities notwithstanding, please note that the complexity and sensitive nature of the program cannot and should not be rushed. The City of Oakland is attempting to develop a program to provide not just an official form of identification but a means to bank securely and responsibly for member residents who cannot access banking services through another means. Such an endeavor, while noble and just, carries immense responsibilities and challenges for our City.

As this will be a City of Oakland card, the City's name and reputation will be used to market the provision of these cards and related services; staff should pause and handle the development of this program with the level of respect and caution that it warrants. Cardholders will rely on the City to offer adequate, properly insured, and managed banking services. As such staff must ensure that the agreement and structure between the bank and provider will provide the services promised and the cardholders adequate recourse in the event of fraud, identity theft, computer systems breakdowns and general customer services. Absent a strong agreement and a complete assessment of our partner's ability to provide these services the City will not have acted prudently and soundly in deploying this program.

While Oakland's willingness to continue to push the boundaries and development of forward thinking policies and projects that are intended to further access to all individuals, this boundary pushing program must be balanced and honed in a secure, diligent, and comprehensive manner that will ensure that all the recipients of the card receive the services promised with all the necessary protection in place to protect their private financial and biographic information.

The development of this program in a responsible manner is of paramount concern to all the staff involved and as such proceeding with the due diligence assessment remains the most prudent and appropriate course of action, even as it delays the City's ability to deploy a Muni Id program.

Staff does wish to point out that in Mid June President Pro-tem De La Fuente raised a question as to whether or not it would make sense to proceed with a simple Muni Id without a debit component. In response staff indicated to the President Pro-Tem that such a program would be much simpler. But, Council directed staff to proceed with a Muni Id card and a debit component.

At this juncture absent Council direction staff will proceed with the due diligence assessment of the provider and partner bank and completion of the agreement to include the debit card, account-to-account transfers and international funds transfer components. Staff expects to publish the RFP/Q in August and proceed with assessment in the early fall. Assuming everything proceeds as intended we may see the program launch in Early 2012.

FISCAL IMPACT

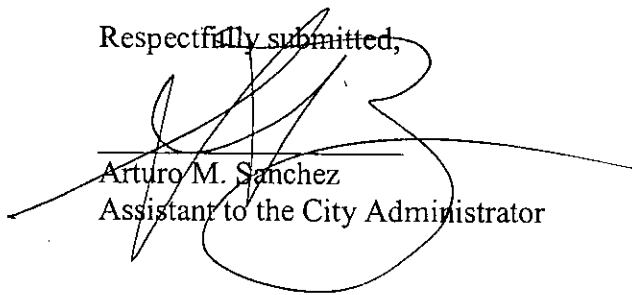
The goal of commencing the program by 2012 is based on the amount of staff time and resources available to the point person in charge of developing licensing structure in the City Administrator's Office, as well as the length of time required by the contractor who conducts the due diligence assessment, and the subsequent negotiation of the Licensing Agreement with SF Mexico. This timeframe may be impacted by the availability of additional staff and the concurrent development of the Cannabis program. In addition please be advised that costs have not been budgeted.

ACTION REQUESTED OF THE CITY COUNCIL


Staff requests that the City Council:

1. Accept the informational report.

Respectfully submitted,


Arturo M. Sanchez
Assistant to the City Administrator

APPROVED AND FORWARDED TO
THE OAKLAND CITY COUNCIL:


Office of the City Administrator

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Corporate Structure Assessment

- I. BASIC CORPORATE DOCUMENTS
 - a) Articles of Incorporation of the Company as currently in effect, and all prior amendments thereto.
 - b) Bylaws of the Company currently in effect, and all prior amendments thereto.
 - c) Board and shareholder meeting minutes, including copies of any written notices, waivers thereof, or written consents.
 - d) List of all cities where property is owned or leased or where employees are located, with approximate size and number of employees at each location.
 - e) List of all cities in which the Company contemplates undertaking business operations, either directly or through other parties.
 - f) List of all U.S. states where the Company is qualified to do business.
 - g) Copies of the Company's most recent business plan and operations plan.

- II. SHAREHOLDER INFORMATION
 - a) List of all current shareholders, including number of shares owned and stock issued and fully paid for.
 - b) Lists of outstanding options and warrants including date of grant, exercise price, number of shares subject to option, names and addresses of option holders.
 - c) List of any oral or written promises to receive stock, options, warrants or any other form of equity or debt interest in the Company.
 - d) List of all stop transfer orders/legends.

- III. SECURITIES ISSUANCES
 - a) Samples of common share certificates, warrants, options and any other outstanding securities.
 - b) Stock option or purchase plans and forms of option or purchase agreements which have been or may be used thereunder.
 - c) Any other agreements relating to the sale of securities by the Company.
 - d) Any agreements and other documentation (including related permits) relating to repurchases, redemptions, exchanges, conversions or similar transactions involving the Company's securities.
 - e) Governmental permits, notices of exemption and consents for issuance or transfer of the Company's securities and evidence of qualification or exemption under applicable blue sky laws.

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- f) Forms D or any other forms filed to qualify for an exemption under the Securities Act.
- g) All voting trust, shareholder, or other similar agreements covering any portion of the Company's shares.
- h) All agreements containing registration rights or assigning such rights.
- i) All agreements containing preemptive rights or assigning such rights.

IV. CORPORATE FINANCE

- a) Documents generated in connection with any equity financings of the Company.
- b) Documents generated in connection with any convertible debt financings of the Company.
- c) All documents and agreements evidencing borrowings by the Company, whether secured or unsecured, documented or undocumented, including loan and credit agreements, indentures, promissory notes and other evidences of indebtedness, and any amendments, renewals, notices, waivers, etc.
- d) Bank letters or agreements confirming lines of credit, including any amendments, renewal letters, notices, waivers, etc.
- e) All documents and agreements relating to guarantees by the Company, if any.
- f) All documents and agreements evidencing other material financing arrangements, including capital leases, sale and leaseback arrangements, installment purchases, etc.
- g) Correspondence with lenders or security holders, including all compliance reports submitted by the Company or its outside accountant or tax advisor.

V. FINANCIAL INFORMATION

- a) All management letters or special reports by auditors and any responses thereto.
- b) All audited financial statements.
- c) All unaudited interim financial statements prepared for the Board of Directors, including historical quarterly financial statements.
- d) Description of and reasons for any change in accounting methods or principles.
- e) Detailed aging schedule for accounts receivable and accounts payable.

VI. OPERATIONS

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- a) List of major suppliers showing total and type of purchases from each supplier during the most recent fiscal year, indicating which are sole sources.
- b) Description of any toxic chemicals used in production and manner of storage and disposition. Description of any EPA or other investigation or claim.
- c) Form of agreements relating to the sale or lease of the Company's equipment.
- d) Any material operations agreements to which the Company is a party.
- e) List of partnership or joint venture agreements, if any.

VII. SALES AND MARKETING

- a) List of the Company's products and services.
- b) List of the Company's customers.
- c) Agreements with distributors, VAR's, OEM's, dealers and sales representatives.
- d) Copy of standard customer agreement. If agreements are different among customers, copies of all material agreements. Include copies of currently pending customer agreements
- e) Copies of sales literature and forms, including price lists, catalogs, purchase orders, etc.

VIII. EMPLOYEES

- a) Forms of employment agreements, if any.
- b) Employee benefit, pension, profit sharing, compensation and other plans.
- c) Form of employee confidentiality agreement, together with a list of all employees that have not signed such agreement.
- d) Any non-competition agreements.

IX. OFFICERS AND DIRECTORS

- a) Founders agreements, management employment agreements, indemnification agreements and "golden parachute" agreements, if any.
- b) Bonus plans, retirement plans, pension plans, deferred compensation plans, profit sharing and management incentive agreements.
- c) Agreements for loans to officers or directors and any other agreements (including consulting and employment contracts) with officers or directors, whether or not now outstanding, including (i) loans to purchase stock and (ii) consulting contracts.

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- d) Description of any transactions between the Company and any "insider" (i.e., any officer, director, or owner of a substantial amount of the Company's securities) or any associate of an "insider" or between or involving any two or more such "insiders."

X. INTELLECTUAL PROPERTY

- a) List of all U.S. and other country patents and patent applications held by the Company, with descriptive titles, numbers, jurisdictions, and copies of all correspondence to or from examining authorities or other parties regarding such patents and patent applications.
- b) List of any trademarks, trade names, service marks or copyrights, with descriptive titles, numbers, jurisdiction and status of any registration or pending applications, if any.
- c) List of material licensing agreements. Include agreements that provide for both licensing in and licensing out of intellectual property.
- d) Any correspondence from third parties regarding potential infringement of intellectual property rights of others.
- e) List of proprietary products under development and the status of such products.
- f) Copies of all other agreements relating to intellectual property that are material to the business of the Company.

XI. TANGIBLE PROPERTY

- a) List of real and material personal property owned by the Company.
- b) Documents of title, mortgages, deeds of trust, leases and security agreements pertaining to the properties listed in (a) above.
- c) All outstanding leases for real and personal property to which the Company is either a lessor or lessee.
- d) List of any security interests in personal property, including any UCC filings.

XII. LITIGATION AND AUDITS

- a) All letters from counsel sent to auditors for year-end and current interim audits, i.e. "litigation letters."
- b) Complaints, orders or other significant documents in pending or threatened matters
- c) Active litigation files, including letters asserting claims, complaints, answers, etc. (nonprivileged material only).
- d) Any litigation settlement documents.

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- e) Any decrees, orders or judgments of courts or governmental agencies.
- f) Information regarding any material litigation to which the Company is a party or in which it may become involved.

XIII. INSURANCE

- a) Schedule or copies of all material insurance policies of the Company covering property, liabilities and operations.
- b) Schedule of any other insurance policies in force, such as "key person" policies, director indemnification policies or product liability policies.

XIV. GOVERNMENTAL REGULATIONS AND FILINGS

- a) Summary of all material inquiries by a governmental agency, if any.
- b) Status of government contracts subject to renegotiation, if any.
- c) Permits for conduct of business.

In addition to the information listed above, please provide copies of all other documents or descriptions of all other facts or things that are important to an understanding of the Company, its products or the industry in which it operates.

Debit Vendor Assessment Checklist

Organizational Information

- Legal structure
- Primary corporate officers
- Asset size
- Last year's revenue and current year projection
- Issuing bank relationship
- Card associations

Product Features/Capabilities

- Money Transfer structure
- ATM and PCS networks
- Loading Options
- Linked savings accounts or pursuing
- Bill Payment service
- Text message alerts
- Add-on features

Customer Experience

- Current solicitation and distribution channels
- Account opening process and ID requirements
- Customer support language capabilities
- Terms and Conditions
- Fulfillment materials
- Website functionality
- Transaction initiation
- Card activity tracking and on-line statements
- Card utilization and cross-sell programs
- Dispute process
- Lost/stolen liability limitations
- Overdraft risk

Operational Assessment

- Transaction platform, contingency plan, and uptime performance
- Location of Operations
- # of employees
- Other 3rd -party providers, e.g. card production
- Fraud detection tools
- Credit bureau reporting

Portfolio Performance

- Average cost per account booked
- Expected annual revenue per active card
- Average % of portfolio active
- Average balance per active card
- Average annual losses through charge-off or fraud

Partnership Potential

- Pricing structure and flexibility
- Marketing support
- Revenue share plan
- Program and product development flexibility