

CITY OF OAKLAND

AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

TO: SEP - Office of the City Administrator
ATTN: Deanna Santana, City Administrator
FROM: Arturo M. Sanchez, Assistant to the City Administrator
DATE: September 13, 2011

Re: ACTION ON A REPORT ON THE OPTIONS FOR IMPLEMENTING THE
MUNICIPAL IDENTIFICATION AND DEBIT CARD PROGRAM

SUMMARY

The Municipal Identification Program Ordinance No. 12937 C.M.S. was adopted by the City Council to develop and implement a municipal identification card in 2009. On July 26, 2011, staff provided the Oakland City Council with a status update on the development of the Municipal Identification and Debit card program. At this Council meeting, staff was directed to return to the Finance and Management Committee with further information and options for Council to consider in light of the delays in developing the program.

Below staff presents the information requested by the City Council. In light of the developments which occurred during the Council recess, e.g. the successful execution of a due diligence contract with Bretton Woods to conduct a Due Diligence assessment of provider and the quick turn around time they agreed too, staff recommends proceeding with the work effort toward the development of an identification and debit and banking card program.

BACKGROUND

On June 4, 2009, the Oakland City Council adopted Ordinance No. 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. 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 the debit card, account-to-account and international funds transfer services from SF Mexico's partner, Central National Bank and Trust of Enid, Oklahoma (CNB).

It was determined in 2010 during the City's solicitation process for banking and card vendors that the City did not have subject matter experts to inform the requirements for the request for proposals (RFP) for the stored value ("debit") card component. The City Attorney's Office retained outside counsel with specialized banking expertise to review and advise staff on the specifications. SF Mexico subsequently submitted a proposal which included the debit card component in addition to more complex banking functions, such as international fund transfers and account-to-account fund transfers.

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The additional functions are subject to more complex federal laws and regulations than debit cards. To prepare the contract, the Mayor's Office obtained pro bono assistance from a banking expert. This expert advised staff that their expertise was limited to debit card laws and regulations and they could not advise on the more complex banking transactions proposed by SF Mexico. Hence the City Attorney's Office brought in outside counsel again to review and advise on the terms for the Municipal Identification contract with SF Mexico. At the July 29 City Council meeting, in response to a status update of the program development, Council President Pro Tem De La Fuente directed staff to return to the Finance and Management Committee with a report and recommendation on the following:

- A. The status of the due diligence assessment and what it would mean to move forward with the due diligence review of the selected vendor;
- B. Cost of contracting with San Francisco to issue the cards;
- C. Exploring the option of having SF Mexico begin to issue the cards without the debit function and activating the debit function once the "due diligence" assessment has been completed;
- D. Information regarding the difference in cost between the options;
- E. The difference associated with the confidentiality of the data for each of the options;
and
- F. Include a list of documents the City will accept for proof of identity.

DISCUSSION

A. The status of the due diligence assessment

Staff requested and obtained referrals for firms (listed below) to conduct the due diligence from the City Attorney's outside counsel. Prior to the report on July 29, 2011 staff had already begun the process of drafting and preparing an RFP/Q for the due diligence assessment of the SF Mexico and their partner Central National Bank and Trust of Enid, Oklahoma. On August 1, 2011 a Request for Qualifications/Proposals was sent to the following firms:

1. Charles Grice
250 South End Avenue
Stop 21-C West
New York, NY 10280
Bus. Phone # (917) 568-0603
Mobile: (309) 453-2726
Email: cgrice@cricompliance.com

2. Allen Wienberg
Glenbrook Partners
1100 Alma Street, Suite 101
Menlo Park, CA 94025
Bus. Phone #: (415) 305-6660
Email: allen@glenbrook.com

3. G. Michael Flores
Bretton Woods, Inc.
1030 Sea Palms West Drive
Suite 200
St. Simons Island, GA 31522
Bus. Phone #: (404) 352-1800
Email: michael.flores@bretton-woods.com
Web: www.bretton-woods.com

Applications were due by August 12, 2011, and the City received one response from G. Michael Flores, Bretton Woods, Inc. Bretton Woods was determined to be a qualified applicant and met the terms of the City including our price point. In addition, Bretton Woods estimated that they would be able to complete such assessment within three weeks of the execution of the contract with the City of Oakland. As such, on Friday August 19, 2011, the City formally extended an offer to contract to Bretton Woods, Inc to conduct a due diligence assessment of SF Mexico and their Partner Bank CNB. The execution of this contract on the week of August 22nd would place the estimated completion of the due diligence assessment being completed by the week of September 12, 2011.

At the time of the Committee meeting, staff may be able to provide preliminary or partial information regarding next steps after the due diligence assessment. If all goes as planned and the due diligence assessment does not raise concerns, staff would then be free to begin negotiating a licensing agreement with SF Mexico and CNB.

B. Revisit the option of contracting with San Francisco to issue the cards.

Staff was asked to reach out and discuss the ability of the City of Oakland to partner with the City and County of San Francisco to use their system to provide identification cards to our residents. Staff reached out to the Office of the Clerk of the County of San Francisco, which is the office charged with administering the SF identification card program. On August 16, 2011, the County Clerk responded that they currently cannot answer our questions, since their office has not evaluated the logistics and cost with such endeavor. A discussion on our requirements, demand, and project would have to be initiated in order to be able to provide an in depth analysis. This answer is consistent with the answer provided to the City in 2009 and provided to the City Council on October 13, 2009:

“Option 3 (*In-House Intake, Partner with San Francisco for printing*)¹ – Pursuit of an MOU with San Francisco to provide ID card printing portion of the service. Internal staff (2 temporary part time employees) would still be required with this option.

Costs. In light of San Francisco’s purchase of all required system components, Oakland staff has proposed a partnership with San Francisco to perform printing of Oakland’s ID cards at a cost not yet determined. To move forward, San Francisco has stated the need to obtain policy direction and approval from their Boards of Supervisors and establishment of an MOU to render services to the City of Oakland. MOU costs cannot be determined until Council authorizes this option and approval is obtained from the San Francisco Board of Supervisors. Should Council selection this option, staff would enter into formal discussions with San Francisco to identify the costs for services, with return to Council for approval of the MOU.

The above enumerated costs would be in addition to two Administrative Assistant I temporary part time staff positions that would be necessary to support the program. Additional annual recurring costs would include purchase of card stock at approximately \$17,500, office supplies and fees for systems maintenance. The annual fully burdened cost for first year operations is approximately \$87,880. Thereafter, the cost is \$68,770.

Considerations for total program costs for Option 3 include 1) the lease or purchase of less equipment to only perform intake; 2) MOU costs which cannot be determined; and 3) staffing and operations costs. This option requires staff to return with results of the RFP for less equipment and an MOU with San Francisco to determine total program costs.”

C. Explore the option of having SF Mexico begin to issue the cards without the debit function and activating the debit function once the “due diligence” assessment has been completed.

SF Mexico has advised this office of the following:

If the City Council obliged [SF Mexico] to do so, [they] would seek the cooperation of [the] issuing bank to issue the ID card on the debit card platform and disable the debit card activation for a period of months. If the City of Oakland requires [SF Mexico] to disable debit card activation for a period of time, the costs to the City of Oakland would be as follows:

Debit card activation disabled for any period of time equaling between 1 and 90 days: \$122,400.00

Debit card activation disabled for any period of time equaling between 91 and 180 days: \$428,400.00

¹ Excerpt from October 13, 2009 Staff report “Discussion And Action On A Report And Recommendations To Implement The Municipal Identification Program”

[SF Mexico] strongly recommend[s] against disabling debit card activation for any period of time since it will cost the City of Oakland money, reflect poorly upon the City, and cast doubt upon the credibility of the Oakland ID/debit card program.

Staff understands the fees above to be related to the cost for the bank to reactivate the debit feature to the cards which have already been issued. These costs would be irrespective of the number of cards issued. The fee paid by an applicant to receive a card would remain at full price: \$15 full price and reduced price \$10 (Youth, Seniors, and Low-income Residents).

D. Information re the difference in cost between the options as well as the difference associated with the confidentiality of the data for each of the options.

Below, please find the options for the administration of this program and the fiscal analysis provided by the Office of the City Clerk in October 2010. At the time staff provided the City Council with a fiscal analysis of three options for administering the municipal identification program, one was completely in-house with equipment being provided by Capture Technologies, the other two were off-site solutions which included SF Mexico.

Below please find the relevant excerpts and analysis provided by Clerk staff at the time:

October 2010 Report and Recommendation Regarding Municipal Identification Program (excerpts)²

The City Clerk's office issued and published the Municipal Identification / Store Valued Card Request for Qualifications (RFQ) in the Oakland Tribune and the San Francisco Chronicle on January 17, 2010. The RFQ was also made available on the Network Branded Prepaid Card Association (www.nbpcaxom), Smart Card Alliance (www.smartcardalliance.org), as well as the City website. Lastly, the City emailed thirty-five (35) copies of the RFQ directly to various Financial Services Institutions, Banks, and Card systems providers.

On March 17, 2010, the City received three (3) responses to the Oakland Municipal Identification request:

	IN HOUSE SYSTEM	OFFSITE PRODUCTION	FINANCIAL SERVICES COMPONENT
Capture Technology	x		
SF Mexico Services, LLC		x	x
Veritec Financial System		x	x

Option 1 *In-House Issuance Of A Municipal Identification Card*

² Review of Responses and related Cost-Revenue Analysis taken from October 12, 2010 Staff Report, with some minor deviations for COLA the figures should provide the City Council with an accurate depiction of costs related to administering the program.

*Capture Technologies*³

Capture Technologies responded with a proposal to provide equipment and systems to produce identification cards with the ability to hold information and perform certain transactions. The complete in-house system encompasses applicant in-take, identity verification/validation and production of the ID card by City staff. This in-house production would require the allocation of additional funding to support personnel and overhead costs, as well as funding for the acquisition of the system, equipment, first year's card stock, and associated maintenance costs to run the system.

The cost of the complete system is \$615,000, which includes equipment, installation, training, and support services. Ongoing annual maintenance will cost approximately \$80,000 in year 2 and increasing thereafter. In addition, with minimum staffing of 2 Temporary Permanent Employee (TPE) positions and equipment, minimum overhead expenses would cost an additional \$48,000 annually. Total program operations would cost at minimum \$662,000 in the first year and approximately \$48,000 annually in ongoing costs.

Total Costs with O/H:	One Time Purchase						
	Fiscal Analysis of Program Operations (Includes equipment purchase and staffing)						
	Equipment & Service Costs	Overhead w/ 2 TPE	Total Cost w/ 2 TPE	Overhead w/ 1 FTE	Total Cost w/ 1 FTE	Overhead w/ 2 FTE	Total cost w/ 2 FTE
Year 1	\$ 614,898	\$ 46,980	\$ 661,878	\$ 72,085	\$ 686,983	\$ 144,170	\$ 759,068
Year 2	\$ 78,017	\$ 45,014	\$ 123,031	\$ 73,531	\$ 151,548	\$ 147,063	\$ 225,080
Year 3	\$ 83,717	\$ 47,264	\$ 130,981	\$ 77,208	\$ 160,925	\$ 154,416	\$ 238,133
Year 4	\$ 86,013	\$ 49,627	\$ 135,640	\$ 81,068	\$ 167,081	\$ 162,137	\$ 248,150
Year 5	\$ 90,314	\$ 52,109	\$ 142,423	\$ 85,122	\$ 175,436	\$ 170,244	\$ 260,558
	Total 5 yrs cost:		\$ 1,193,953		\$ 1,341,973		\$ 1,730,989

This In-house method of issuing Municipal ID's was highly ranked by the reviewing group in terms of compliance with the security standards of the adopted ordinance. However, to make this in-house program cost-covered, each Municipal ID card would need to be priced in the range of \$40.00 to \$60.00 (see table below). The \$40.00 to \$60.00 fee ranges would provide for cost covered operations within the first to third year of operations and would require approximately 7,000 to 10,000 cards be issued annually. However, City projections anticipate issuance of approximately 2,000 to 4,000 cards annually.

³ Excerpt from "Action on A Report And Recommendations Regarding Responses To An RFQ To Implement A Program To Issue A Municipal Identification Card With Additional Financial And City Systems Card Services Components" – October 12, 2010

REVENUE PROJECTION TO ACHIEVE COST COVERED OPERATIONS WITHIN 1 TO 3 YEARS

Annual Card Demand	Daily Issuance	Annual Revenue Based on Card Fee				
		\$40	\$45	\$50	\$55	\$60
2,000	8	\$ 80,000	\$ 90,000	\$ 100,000	\$ 110,000	\$ 120,000
3,000	12	\$ 120,000	\$135,000	\$ 150,000	\$ 165,000	\$ 180,000
4,000	16	\$ 160,000	\$180,000	\$ 200,000	\$ 220,000	\$ 240,000
5,000	20	\$ 200,000	\$225,000	\$ 250,000	\$ 275,000	\$ 300,000
6,000	24	\$ 240,000	\$270,000	\$ 300,000	\$ 330,000	\$ 360,000
7,000	38	\$ 280,000	\$315,000	\$ 350,000	\$ 385,000	\$ 480,000
8,000	32	\$ 320,000	\$360,000	\$ 400,000	\$ 440,000	\$ 480,000
9,000	36	\$ 360,000	\$405,000	\$ 450,000	\$ 495,000	\$ 540,000
10,000	40	\$ 400,000	\$450,000	\$ 500,000	\$ 550,000	\$ 600,000

• The highlighted boxes are the range of card prices and distribution levels that would achieve cost covered operations in the first to third years of operation.

Option 2 (*In-House Service, Leasing technology*)⁴ – Option similar to the above, but instead of purchasing, the City would lease the hardware and software to perform all aspects of card, processing, verification, data collection and printing of a Municipal ID program. Internal staff (2 temporary part time employees) would still be required with this option.

This option would require an *annual* investment into technology that could be spread over several years. Depending on the competitive pricing of vendor systems and the standard of security technology, annual lease payments range from \$75,000 to over \$133,000 using \$300,000 to over \$500,000 (using San Francisco’s costs) and assuming a five-year lease. The above cost estimates are very preliminary; exact costs would *require* a **Request for Proposals** to seek bids on technology.

In addition, two Administrative Assistant I temporary part time staff positions would be necessary to support the program. Additional annual recurring costs include purchase of card stock at approximately \$17,500, office supplies and fees for systems maintenance. The annual fully burdened cost for first year operations is approximately **\$87,880**. Thereafter, the cost is **\$68,770**.

538,000 5 year lease at 2.066%/month							
	Yearly Lease Payment	Overhead w/ 2 TPTE	Total Cost w/ 2 TPE	Overhead w/ 2 FTE	Total Cost w/1 FTE	Overhead w/ 2 FTE	Total Cost w/ 2 FTE
Year 1	\$ 133,381.00	\$ 87,880.00	\$ 221,261.00	\$ 108,006.00	\$ 241,387.00	\$ 175,112.00	\$ 308,493.00
Year 2	\$ 133,381.00	\$ 68,770.00	\$ 202,151.00	\$ 90,951.00	\$ 224,332.00	\$ 156,002.00	\$ 289,383.00
Year 3	\$ 133,381.00	\$ 68,770.00	\$ 202,151.00	\$ 90,951.00	\$ 224,332.00	\$ 156,002.00	\$ 289,383.00
Year 4	\$ 133,381.00	\$ 68,770.00	\$ 202,151.00	\$ 90,951.00	\$ 224,332.00	\$ 156,002.00	\$ 289,383.00
Year 5	\$ 133,381.00	\$ 68,770.00	\$ 202,151.00	\$ 90,951.00	\$ 224,332.00	\$ 156,002.00	\$ 289,383.00
TOTAL	\$ 666,905.00		\$ 1,029,865.00		\$ 1,138,715.00		\$ 1,466,025.00

⁴ Excerpt from October 13, 2009 Staff report “Discussion And Action On A Report And Recommendations To Implement The Municipal Identification Program”

The Council was also provided the following Pro/Con analysis of the options 1-3:

Option 1 - In-House Service, Ownership of technology

Pros

- Provides program implementation that fully complies with the City's adopted Ordinance
- Closed System-meets a standard of security / privacy requirements per Ordinance

Cons

- Sizable capital impact in the first year of operations

Option 2 - In-House Service, Leasing technology

Pros

- Provides program implementation that fully complies with the City's adopted Ordinance
- Reduces the City's Capital investment costs by establishing a significantly lower monthly payment
- Provides for reduced purchase of equipment and systems or upgrade at the end of lease

Cons

- City would not own the system
- City would be subject to finance charges, which could be factored into a higher card fee

Option 3 - In-House Intake, Partner with San Francisco for printing

Pros

- Reduction of capital investment

Cons

- Requires policy approval by the SF Board of Directors
- Requires Contract with SF for labor and extended operation costs
- May require Oakland to purchase and configure proprietary modules to work with the SF equipment
- Additional expenses for San Francisco to print Oakland's cards.
- Additional trip for applicants to pick up card
- Additional expenses associated with the transport of card information and printed cards.

Subsequently the City Council determined to proceed in a fourth direction which was the development of an RFP/Q to solicit a vendor that could provide an identification and debit card on behalf of the City of Oakland. The development of a combined identification and debit card is the program direction that staff is currently pursuing based on the direction of Council in 2010.

E. Security and Confidentiality

Pursuant to OMC section 2.34.040 C "[t]he City shall keep confidential to the maximum extent permitted by applicable laws, the name and other identifying information of persons applying for and receiving municipal identification cards. The City shall cause the applications to be produced

in a form that allows applicants to state their privacy preferences. The City shall not retain records of applicants' residential addresses." Regardless of how the program is administered we must conform to the requirements of the Chapter 2.34. As Council knows, much of the records information maintained by the City becomes part of the "public" record and as such would be subject to the public records request act. The methods and structures that could protect private information for Options 1-3 above were never pursued because Council directed staff to proceed with a joint identification and debit card. The pursuit of such a system subjects the card to privacy and security requirements of the banking industry. It would take staff more time than we had to prepare this report to adequately vet all the security issues related to Options 1-3. If Council re-directs staff to pursue one of these options then we can return to Council with more information regarding security before pursuing that method.

The need to maintain adequate security and privacy of applicant's information is one of the bases for conducting a due diligence assessment of SF Mexico. One of the benefits of the debit card component will be the protections of FDIC requirements regarding security of private confidential information. The due diligence assessment will provide the City with surety that the Provider and partner bank can in fact meet FDIC and government security and privacy requirements by reviewing and auditing the two companies' policies and system frameworks to assure the City that they have the ability to meet the needs of the City.

F. Include documents the City will accept for proof of identity.

Pursuant to Oakland Municipal Code section 2.34.040 (A) "[t]o obtain a municipal identification card, a resident shall complete an application, under penalty of perjury, requiring proof of identity and proof of residence within the City. Upon receipt of both the proof of identity and residency that this section specifies, and the applicable fee, the Program Administrator shall issue a card to the applicant."

An applicant must submit one of the following documents, which contains the applicant's photograph and date of birth, to establish identity:

1. U.S. or foreign passport;
2. U.S. driver's license;
3. U.S. state identification card;
4. U.S. Permanent Resident Card (commonly known as a "green card");
5. A consular identification ("CID") card; or
6. A photo identification card issued by another country to its citizens or nationals that meets the requirements of Subsection 2.34.010 A.

Except that "if the applicant is 13 years of age or younger, he or she, as an alternative, may present a certified copy of a U.S. or foreign birth certificate to establish identity under this subsection".

In the alternative, an applicant can also provide two of the following documents, "provided that at least one form of identification shall display the applicant's photograph and date of birth":

1. A national identification card with photo, name, address, date of birth, and expiration date;
2. A foreign driver's license;
3. U.S. or foreign military identification card;
4. A current visa issued by a government agency;
5. U.S. Individual Taxpayer Identification Number (ITIN) authorization letter;
6. An identification card issued by a California educational institution, including elementary, middle, secondary, and post-secondary schools;
7. A certified copy of a U.S. or foreign birth certificate; or
8. A court order issued by a state or federal court to verify a person's identity; or a Social Security card.

Except that "where the applicant is aged 13 or under, he or she may in the alternative present an official medical record and/or official school record to establish identity under this subsection, provided that at least one of the two forms of identification presented shall display the applicant's date of birth".

In addition, an applicant must provide proof of residency. To establish residency, each applicant must present one of the following items, provided that the item includes both the applicant's name and a residential address located within the City:

1. A utility bill dated within the last 30 days;
2. A written verification issued by a homeless shelter that receives City funding confirming at least 15 days residency within the last 30 days;
3. Written verification issued by a hospital health clinic, or social services agency that receives City funding, confirming at least 15 days residency within the last 30 days;
4. A local property tax statement or mortgage payment receipt dated within the last 30 days;
5. A bank account statement dated within the last 30 days;
6. Proof of a minor currently enrolled in a City school;
7. An employment pay stub dated within the last 30 days;
8. A written ruling, order or notice from the Oakland Rent Adjustment Board dated within the last 30 days;
9. A jury summons or court order issued by a state or federal court dated within the last 30 days;
10. A federal or state income tax or refund statement dated within the last 30 days;
11. An insurance bill (homeowner's, renter's, health, life or automobile insurance) dated within the last 30 days; or
12. If a certified copy of a marriage certificate is presented at the time of application, an applicant may prove residency using documents bearing the name of his or her spouse.

For an applicant that is 13 years of age or younger a parent or legal guardian may verify the applicant's residency, provided that the parent or guardian himself or herself would be eligible for a municipal identification card. In addition "the Program Administrator may by regulation

provide for acceptance of additional forms of proof of identity and/or proof of residency, provided that the Program Administrator determines that such forms of proof are:

- a. Issued by a governmental entity;
- b. Issued by an entity that takes reasonable steps to verify the identity and/or residency of the individual to whom the item is issued; or
- c. Of a type that is normally accepted as proof of identity and/or proof of residency in the ordinary course of business.

FISCAL IMPACT

Currently staff has already identified and allocated funding (\$10,000) to conduct the due diligence assessment of SF Mexico and CNB bank and has executed the agreement to conduct this assessment. Staff resources and time will continue to be expended with a goal of commencing the program by 2012. The fiscal impact to the City will amount to the staff time and resources available to the point person in charge of developing licensing structure in the City Administrator's Office and the subsequent negotiation of the Licensing Agreement with SF Mexico.

Please be advised that staff may be impacted by the availability of additional staff and the concurrent development of the Cannabis program. Costs have not been budgeted nor allocated to the City Administrator's Office for this specific program and the staff time spent developing this program directly impacts the time available to oversee other divisions, such as the day to day operation of the Special Business Permits and Nuisance Abatement.

KEY ISSUES AND IMPACTS

Key issues in the implementation of a Municipal Identification / Stored Value Card program include:

- 1) A due diligence assessment will assure the City that the Provider and CNB can implement a program that complies with the security standards of the adopted Ordinance, with auditable standards;
- 2) A due diligence assessment will assure the City that the program will have the ability to provide the applicants for the card the services and protections they deserve; and
- 3) The development of such a program has continued impacts on the resources available to the City Administrator's Office and directly impacts the operations and oversight of two divisions in the City Administrator's Office.

SUSTAINABLE OPPORTUNITIES

Economic: This program provides card holders access to local and regional services, promoting local economic activity.

Environmental: There are no environmental opportunities from this program.

Social Equity: The Municipal Identification Cards will be made available to all eligible residents to provide proof of residency which will increase public safety, civic participation, and facilitate support of local commerce.

DISABILITY AND SENIOR CITIZEN ACCESS

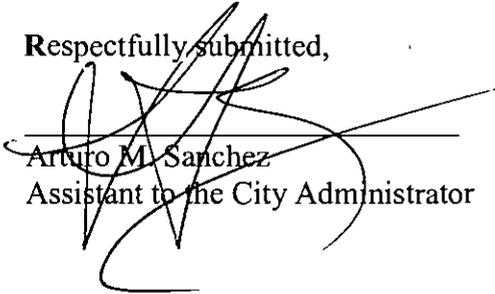
Access to and availability of one identification and debit card can help provide an additional money management tool to seniors and disabled members of Oakland, and reduce the number of items that they travel with which can increase their ability to be mobile.

ACTION REQUESTED OF THE CITY COUNCIL

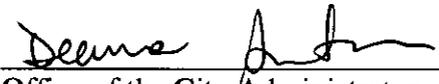
Staff requests that the City Council:

- 1) Accept this report
- 2) Direct staff to continue to pursue the development of a licensing agreement with SF Mexico for a combination municipal identification and debit card.

Respectfully submitted,


Arturo M. Sanchez
Assistant to the City Administrator

APPROVED AND FORWARDED TO FINANCE & MANAGEMENT COMMITTEE:


Office of the City Administrator