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CITY OF OAKLAND

AGENDA REPORT

2010 OCT -7 PM 2:53

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Office of the City Clerk
Office of Councilmember Ignacio De La Fuente
Office of Vice Mayor Jean Quan
DATE: October 12, 2010

RE: **A Supplemental Report Regarding Implementation Of The Municipal Identification Card Program And Financial Analysis Of The Respondent Proposals**

SUMMARY

This report provides supplemental information to the Finance and Management Committee regarding details on the costs and revenue estimates from SF Mexico Services and Veritec Financial Services for implementation of the Oakland Municipal Identification/Stored Value Card Program.

FISCAL IMPACT

This supplemental report provides a detailed fiscal analysis of the proposed outsourced vendor operations and further illustrates how the outsourced program recommendations are cost neutral to the City of Oakland. The outsourced recommendations specifically include proposals for debit based financial services, which as reported by the Oakland Police Department, have an element of crime attraction. Fiscal impacts of such potential crime attraction could not be quantified.

DISCUSSION

Fiscal Analysis Of Out-Sourced Municipal ID Proposal With Financial Services Options

City of Oakland staff requested additional information from vendors who submitted proposals to produce municipal identification cards offsite with ***NO cost to the City***. The two outsourced proposals were submitted by SF Mexico Services, LLC and Veritec Systems.

SF Mexico Services, LLC

SF Mexico proposed to partner or subcontract with Oakland non-profit or community organizations to establish five (5) in-take centers within the City of Oakland. The figures provided from SF Mexico assumes the total cost for the establishment of ***1 intake center*** inclusive of one time start up costs. Each in-take center will be staffed with one full-time worker

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funded by SF Mexico to perform applicant intake processing. SF Mexico indicated there will be **NO** costs to the City for the lifetime of this program, making the program cost neutral to the City of Oakland.

Operations Cost Estimate

SF Mexico projected first year operations to cost \$255,299 for each intake center. This amount included one time office, equipment, software, and marketing costs of \$112,475, and other costs of \$10,750 allocated to personnel staff, office rental, card supplies, and ongoing marketing as listed on *Attachment 1*.

Revenue Estimates

SF Mexico has proposed a \$15 fee for adults and a \$10 fee for youth and seniors, with issuance of 300 adult cards and another 200 youth/senior cards for a total of 500 cards per month per intake center. Based on revenue estimates, SF Mexico will achieve cost coverage between the 15th and 16th month of operations. The program will also become revenue generating in the 16th month.

SF Mexico established a transaction fee of \$6.75 per month for customers who at their options may add the financial function to the Oakland Municipal Identification card. SF Mexico estimates distribution of 250 cards per month with transaction revenue of \$131,625 for Year One. Total card sales and transaction revenue is estimated \$209,625.

Revenue Sharing – Community Benefit Model

SF Mexico offers revenue sharing with merchants who perform intake and loading services, in the form of monthly ‘residuals’ on certain transactions and on commissions for loads. However, there is no revenue sharing with the City. Nonprofits and community centers serving as intake centers and load points will earn a commission of \$1.00 per load. It is unclear how the \$1:00 load fee is calculated in their financial assumptions.

Veritec Financial System Inc.

Veritec proposed to operate one in-take center in each Council District with **NO** costs to the City. The following cost and revenue estimates are based on *one* in-take center:

Operations Costs Estimate:

Veritec’s estimated operations will cost \$459,693 for the first year for *one* intake center. The costs cover approximately 1,000 sq. ft of office space, salaries for two staff members and one supervisor, equipment/maintenance, network, and card stock as detailed in *Attachment 2*.

Revenue Estimate:

Veritec proposed \$15.00 fee per Oakland Municipal Identification card with estimated card sales at 36,000 in 1 year with revenue of \$540,000. Customers, at their option, can add the ATM function to the ID card, with charges of \$5.95 per month. Veritec estimates participation in the ATM service at 80% of the total ID cards issued (2400 cards) will generate service fee revenue at \$679,668 annually. The total revenue of sales and service fees is approximately \$1,219,668 and net revenue of \$759,975 for the first year. Please see detail on *Attachment 2*.

Summary Analysis

While both vendors propose a similar fee structure, both proposals illustrate significant differences in the anticipated demand for the Municipal Identification Cards. SF Mexico proposes the distribution of 6,000 cards annually through 1 intake center. Veritec proposes the distribution of 36,000 cards annually through 1 intake center. The City of San Francisco issued a little over 6,000 cards in their first year of operations. San Francisco's estimated population is approximately twice the estimated population of the City of Oakland. Staff estimates card demand to be 2,000 to 4,000 annually for the City of Oakland. *The City's Muni ID selection panel members found the business model proposed by SF Mexico to be more viable and reasonably cost justified in terms of operations costs and anticipated card demand for the City of Oakland.* If vendors do not meet card distribution projections, their operations will *not* be cost covered and could require higher card fees.

The Muni ID selection panel members further expressed concerns about the methods for issuance of the cards, in terms of compliance with security standards for identity verification, fraudulent duplication, and controls in processing of applicants. The consensus of the Muni ID selection panel members was that SF Mexico gave greater consideration to achieving the security standards of the adopted ordinance number 12937 C.M.S.

Although, both SF Mexico and Veritec are outsourced operation vendors, City may still require exiting staff or new staff at additional cost to manage the Municipal Identification Card project to ensure the program is operating within the City's policy and standards.

RECOMMENDATION(S)

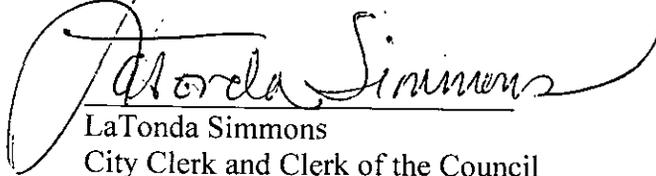
Staff requests City Council approval to proceed with negotiations with one of the three Muni ID Card service providers. *Staff recommends SF Mexico Services, LLC as the company to provide the Oakland Municipal ID/Stored Value Card for Oakland residents.* Once negotiations with SF Mexico Services, LLC have been concluded, staff will return to the City

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Council with details on the relevant program design, costs, charges to residents, security features, and City's involvements with and control of the process.

Staff recommends including criteria that provides for the auditing of all security standards in the issuance of Municipal ID cards, verification of systems and controls to ensure the proper issuance of cards, and periodic reviews with evaluations to determine compliance with contracted and municipal standards.

Respectfully submitted,



LaTonda Simmons
City Clerk and Clerk of the Council
Office of the City Clerk

Prepared by:
Fendy Guan
Management Assistant

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:


Office of the City Administrator

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SF Mexico Services, LLC
City of Oakland Municipal ID Program
Costs and Revenue Projections
For First Year of One Intake Center

FINANCIAL SUMMARY

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total YEAR 1
REVENUE													
Card Sales, Full Price (15.00)	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 54,000
Card sales, chlld senior low income (10.00)	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 24,000
Transaction Revenue	\$ 1,688	\$ 3,375	\$ 5,063	\$ 6,750	\$ 8,438	\$ 10,125	\$ 11,813	\$ 13,500	\$ 15,188	\$ 16,875	\$ 18,563	\$ 20,250	\$ 131,625
TOTAL GROSS REVENUE	\$ 8,188	\$ 9,875	\$ 11,563	\$ 13,250	\$ 14,938	\$ 16,625	\$ 18,313	\$ 20,000	\$ 21,688	\$ 23,375	\$ 25,063	\$ 26,750	\$ 209,625
COSTS													
Sales/marketing manager	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 36,000
Office	\$ 2,950	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 17,250
Call Center	\$ 208	\$ 417	\$ 625	\$ 833	\$ 1,042	\$ 1,250	\$ 1,458	\$ 1,667	\$ 1,875	\$ 2,083	\$ 2,292	\$ 2,500	\$ 16,250
New card program with CNB	\$ 15,000												\$ 15,000
New Software Development (if necessary)	\$ 50,000												\$ 50,000
New IVR Set-up (if necessary)	\$ 40,000												\$ 40,000
Costs of Goods Sold (COGS)	\$ 3,250	\$ 3,250	\$ 3,250	\$ 3,250	\$ 3,250	\$ 3,250	\$ 3,250	\$ 3,250	\$ 3,250	\$ 3,250	\$ 3,250	\$ 3,250	\$ 39,000
Salary Intake personnel (1)	\$ 1,992	\$ 1,992	\$ 1,992	\$ 1,992	\$ 1,992	\$ 1,992	\$ 1,992	\$ 1,992	\$ 1,992	\$ 1,992	\$ 1,992	\$ 1,992	\$ 23,904
Marketing	\$ 6,825	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 17,825
TOTAL COSTS	\$ 123,225	\$ 10,959	\$ 11,167	\$ 11,375	\$ 11,584	\$ 11,792	\$ 12,000	\$ 12,209	\$ 12,417	\$ 12,625	\$ 12,834	\$ 13,042	\$ 125,229

Assumptions	
Cost of card production (EFT)	\$ 6.50
Salary for Intake Person /month (\$12.45/hour * 8 hours * 20 days)	\$ 1,992

*: Note that this list of costs exclude the cost for debit transactions to SFM. Transaction revenues are spit with the payment network, acquiring bank, issuing bank, and processors.

Attachment 1

Veritec, Inc.

City Of Oakland Municipal ID Program
1 year Expense/Revenue Projections
10/5/2010

Expense (note 1)

Gen. and Admin. (Overhead)	Notes	Startup	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Office Space	note 2	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$27,625
Salaries	note 3	\$8,944	\$8,944	\$8,944	\$8,944	\$8,944	\$8,944	\$8,944	\$8,944	\$8,944	\$8,944	\$8,944	\$8,944	\$8,944	\$116,272
Insurance		\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$3,250
Telecomm		\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$3,900
Utilities		\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$13,000
Ofc. Supplies		\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$6,500
Postage		\$100	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$6,100
Adv. & Promo	note 4	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$13,000
Travel		\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$3,250
Prog. Dev.	note 5	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$13,000
Equip. and Maint	note 6	\$0	\$7,033	\$7,033	\$7,033	\$7,033	\$7,033	\$7,033	\$7,033	\$7,033	\$7,033	\$7,033	\$7,033	\$7,033	\$84,396
Interest Exp.		\$0	\$900	\$900	\$900	\$900	\$900	\$900	\$900	\$900	\$900	\$900	\$900	\$900	\$10,800
Totals		\$15,469	\$23,802	\$23,802	\$23,802	\$23,802	\$23,802	\$23,802	\$23,802	\$23,802	\$23,802	\$23,802	\$23,802	\$23,802	\$301,093

Cost of Goods

Card Stock	note 8	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200	\$93,600
Network	note 9	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$65,000
Totals		\$12,200	\$12,200	\$12,200	\$12,200	\$12,200	\$12,200	\$12,200	\$12,200	\$12,200	\$12,200	\$12,200	\$12,200	\$12,200	\$158,600

Total Expense		\$27,669	\$36,002	\$36,002	\$36,002	\$36,002	\$36,002	\$36,002	\$36,002	\$36,002	\$36,002	\$36,002	\$36,002	\$36,002	\$459,693
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Revenue

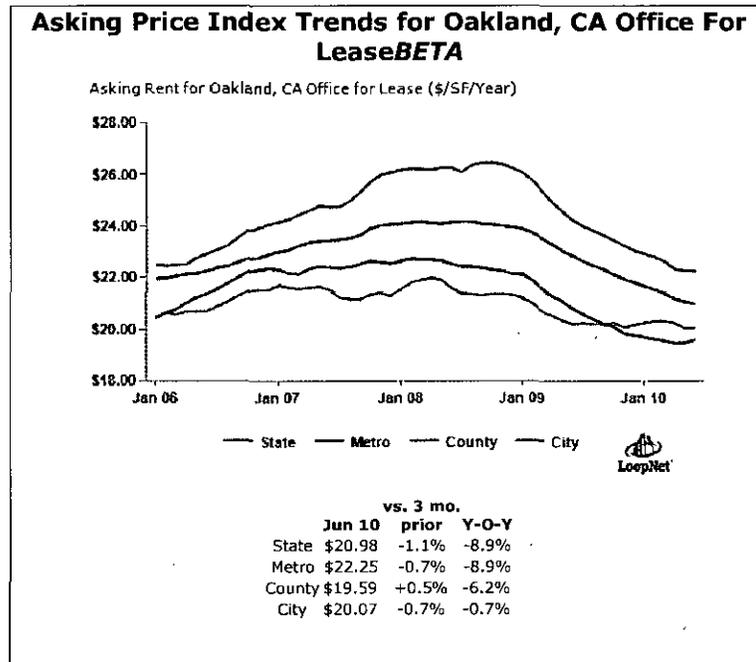
All Card Sales	note 8		3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
ID/ATM Cards	note 10		2,400	4,440	6,174	7,648	8,901	9,966	10,871	11,640	12,294	12,850	13,323	13,724	13,724
Card Sales Rev.	note 8	\$0	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$540,000
Fees	note 10	\$0	\$14,280	\$26,418	\$36,735	\$45,505	\$52,959	\$59,295	\$64,681	\$69,259	\$73,150	\$76,458	\$79,269	\$81,659	\$679,668
Totals		\$0	\$59,280	\$71,418	\$81,735	\$90,505	\$97,959	\$104,295	\$109,681	\$114,259	\$118,150	\$121,458	\$124,269	\$126,659	\$1,219,668
Net Revenue			\$23,278	\$35,416	\$45,733	\$54,503	\$61,957	\$68,293	\$73,679	\$78,257	\$82,148	\$85,456	\$88,267	\$90,657	\$759,975

Attachment 2
Page 1

Veritec, Inc

Notes:

- 1 Projections assume 1 location initially; additional locations to be added as needed;
For purposes of this projection approximately 50% of the illustrative card volumes shown in the original RFP response are used
- 2 Office Space expense includes lease expense for approximately 1,000 sq.ft at a range of \$1.75 - \$2.25 . per sq ft per month.
Lease rates estimates based on actual Frank Ogawa Plaza lease rates and City of Oakland average commercial lease rates



- 3 Salary projections include two (2) staff members and one (1) supervisor expense, fully loaded; projections meet City of Oakland living wage requirements
- 4 Adv. and Promo includes materials for community awareness and card sales promotion activities
- 5 Prog. Dev includes initial and ongoing program design and development activities
- 6 Equip. and Maint. - \$7033 Monthly expense includes \$5833 for 1 year amortization of \$70k equipment purchase expense and \$1200 maintenance expense;
Equipment paid off after one (1) year and monthly expense will be reduced by the corresponding \$5833 amount. Equip. to be replaced after three (3) years.
- 7 Program needs to be funded for \$135,000 @ 8% interest
- 8 Card Stock and Card Sales Revenue - Assume 3,000 cards per month sold @ \$15 per card
- 9 Network Costs - Includes Visa and Star interconnect expense; network hosting and operations expense
- 10 Fees - Assume 80% of card sales will be multipurpose (ID/ATM) cards; Assume 15% of the multipurpose (ID/ATM) cards will drop off per month
For example: 80% of 3,000 cards sold will be 2,400 ID/ATM cards. The remaining 600 cards will be ID only. The next month 15% of the 2,400 ID/ATM cards will drop off, leaving 2040 cards from the first month active in the second month. The 2040 remaining active cards is added to the 2,400 new active cards in the second month for a total of 4,440 ID/ATM cards active in the second month. The pattern repeats each succeeding month.

Attachment 2
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