TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: NOVEMBER 22, 2004 CMR:476:04

SUBJECT: AWARD OF CONTRACTS TO: WELLS FARGO BANK FOR BANKING SERVICES AND UNION BANK OF CALIFORNIA FOR CUSTODIAL SERVICES; AND APPROVAL OF RESOLUTION DELEGATING AUTHORITY TO THE DIRECTOR OF ADMINISTRATIVE SERVICES TO EXECUTE AGREEMENTS AND SIGN DOCUMENTS ON BEHALF OF THE CITY.

REPORT IN BRIEF

The City currently has contracts with Bank of America for banking services and Union Bank of California for custodial services. Staff recently requested proposals for these services since the last request was conducted in 1998. Seeking cost-effective services of a high caliber with the technological capacity to meet current and future needs, staff reviewed proposals from six banks providing banking and custodial services. After thoroughly analyzing and discussing each proposal, it is staff’s recommendation to enter into an agreement with Wells Fargo Bank for banking services and to renew the City’s contract with Union Bank of California for custodial services.
RECOMMENDATION
Staff recommends that Council:

1. Approve the attached resolution delegating authority to the Director of Administrative Services to execute agreements and sign documents, forms, and negotiable instruments with Wells Fargo Bank for banking services and with Union Bank of California for custodial or safekeeping services on behalf of the City of Palo Alto for a term of four years, through December 31, 2008.

2. Delegate authority to the Director of Administrative Services to exercise the option to renew the contract for the fifth and sixth year, through December 31, 2010, provided costs for banking, excluding merchant services, and custodial services do not increase, the vendors are responsive to the City’s needs, and the quality of the vendor’s work is acceptable during the four years of the original contract. In addition, the Wells Fargo’s processing fees for merchant services may not exceed three basis points.

BACKGROUND
The City currently has contracts with Bank of America for banking services and Union Bank of California for custodial services. Banking services include, for example: maintaining the City’s various checking accounts, wiring funds for purchases of goods and overnight deposits, processing cash, providing a variety of reports to enhance cash management, and merchant services (processing of debt and credit card payments). Custodial or safekeeping services include: taking custody of investment securities purchased by the City; paying interest and principal due from securities; and providing monthly statements which show the book, par and market values of securities in the City’s portfolio.

The last Request for Proposal (RFP) for banking and custodial services was conducted in August 1998. That process resulted in four proposals for banking services and three proposals for custodial or security safekeeping services. After analyzing and comparing the proposals, Bank of America was awarded a three-year contract with an option to renew for an additional three years, or through December 31, 2004.

DISCUSSION
In anticipation of the banking and custodial contracts expiring, staff issued an RFP for these services in August 2004. The City received six banking and custodial services proposals from: Union Bank of California, Wells Fargo, Bank of America, US Bank, Comerica, and Bank of the West. The City was seeking cost-effective, comprehensive, high quality services along with the proven technological capacity to meet current and future needs.
Summary of Solicitation Process

<table>
<thead>
<tr>
<th>Proposal Description/Number</th>
<th>Banking and/or Safekeeping Services, RFP No. 109043</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed Length of Project</td>
<td>4 years with the option to renew to 2 additional years</td>
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<tr>
<td>Number of Proposals Mailed</td>
<td>8</td>
</tr>
<tr>
<td>Total Days to Respond to Proposal</td>
<td>35 Days</td>
</tr>
<tr>
<td>Pre-proposal Meeting Date</td>
<td>September 14, 2004</td>
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<tr>
<td>Number of Company Attendees at Pre-proposal Meeting</td>
<td>6</td>
</tr>
<tr>
<td>Number of Proposals Received</td>
<td>6</td>
</tr>
<tr>
<td>Company Name:</td>
<td>Location (City, State): Selected for oral interview?</td>
</tr>
<tr>
<td>1. Union Bank of California</td>
<td>Walnut Creek, CA No</td>
</tr>
<tr>
<td>2. Wells Fargo</td>
<td>San Francisco, CA Yes</td>
</tr>
<tr>
<td>3. Bank of America</td>
<td>Sacramento, CA No</td>
</tr>
<tr>
<td>4. US Bank</td>
<td>Walnut Creek, CA No</td>
</tr>
<tr>
<td>5. Comerica</td>
<td>Los Angeles, CA No</td>
</tr>
<tr>
<td>6. Bank of the West</td>
<td>Walnut Creek, CA No</td>
</tr>
<tr>
<td>Range of Proposal Amounts Submitted:</td>
<td></td>
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<tr>
<td>Banking Services</td>
<td>$192,000 - $214,000</td>
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<tr>
<td>Custodial or Safekeeping Services</td>
<td>$4,200 - $34,000</td>
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</tbody>
</table>

**Banking Services**

Based on the above criteria, a committee consisting of staff from the Administrative Services (Treasury and Accounting divisions) and Utilities departments evaluated the six proposals.

After analyzing the proposals, staff eliminated those from Bank of the West and Comerica. These financial institutions were rejected based on the finding that their technological services were not as comprehensive as the competitors and on the relatively high cost of their services.

The four remaining banking proposals were comprehensive both in services and products and met the City’s technological requirements. There were, however, noteworthy price differences among the proposals with the lowest cost submitted by Wells Fargo Bank. On an annual basis, Wells Fargo’s proposal was lower than the current provider of banking services by approximately $18,600 or 10 percent. With their “cutting edge” technological services, comprehensive products and services, and lower prices as the chief factors, staff’s unanimous decision was to select Wells Fargo for banking services.

Additional factors included:

- Wells Fargo’s banking charges, except merchant services, to the City of Palo Alto are to remain fixed for a total of six years (consisting of a four-year contract with an option to renew for an additional two years). The bank’s processing fees for merchant services are fixed for four years with increases in the fifth and sixth year not to exceed three basis points.
• Wells Fargo has a Master Service Agreement with the State of California for merchant or
electronic (e.g., credit and debt cards, etc.) payment processing. Wells Fargo will extend the
State’s favorable pricing, terms and conditions to the City. As the City, and particularly the
Utility Funds, move toward increased usage of electronic payments, lower fees are important.

• Wells Fargo is an Aaa rated (Moody’s) financial institution, the highest credit rating possible.

• A one-time, maximum $3,000 reimbursement for bank conversion programming costs. The
City has contracts with two vendors who process worker’s compensation and dental payments
and will charge the City for processing costs associated with using a new bank. In addition,
Wells Fargo will waive all one-time implementation fees and provide three months of
supplies (e.g. endorsement stamps, check stock, cash vault deposit supplies, etc.) free of
charge.

Staff was impressed with the credentials and services of all the RFP respondents. Significant time
was spent by banking and City staff, respectively, in preparing and in evaluating the proposals.
Moreover, significant time will be devoted to the conversion from Bank of America services to those
of Wells Fargo. Staff expects to receive outstanding service at competitive prices from the new
relationship.

Custodial Services
Staff recommends Union Bank of California to provide safekeeping services. Compared to other bank
proposals, the lowest cost service was cited by Union Bank. The City has been receiving excellent
service from Union Bank at a very competitive price. The highest proposal was approximately eight
times that of Union Bank’s and the remaining proposals were all higher. Given the City’s strict buy-
and-hold philosophy, which results in a minimum of trading activity, and the relative homogeneity
of its investment instruments (Federal Agency Securities and U. S. Treasury Notes), the City does not
require a complex or costly custodial system. Renewal of the contract with Union Bank, therefore, is
recommended.

Approval of Attached Resolution
In order to enter into a new four-year agreement with an option to renew for an additional two years,
with Wells Fargo and Union Bank of California, staff requests Council approval of the attached
resolution. It delegates authority to the Director of Administrative Services to execute agreements and
sign all required documents to enter into the banking relationships.

RESOURCE IMPACT
The City’s annual banking fees with Wells Fargo are estimated at $192,000 at the current activity
level (merchant services portion is $144,000 and the remainder of the banking fees is approximately
$48,000). Banking fees include, for example, banking maintenance activity for checking accounts,
supplies, federal deposit insurance, special deposit processing, wiring of funds, reports, other
miscellaneous fees, and merchant services, which include the bank’s and interchange fees for the
processing of debt and credit card payments. Palo Alto pays the banking portion of fees through
interest earned on its checking balance and through budgeted expense when checking interest isn’t
sufficient to pay the fees. Merchant services are paid through budgeted expense.
The annual custodial fees are estimated to be approximately $4,200, which is paid via budgeted expense. A fixed fee is charged for each investment purchased and sold and costs are dependent on the level of investment activity.

In summary, the estimated first year annual cost for banking and custodial services is estimated at $196,200.

**POLICY IMPLICATIONS**
There are no policy implications related to this request.

**ENVIRONMENTAL ASSESSMENT**
This does not constitute a project under the California Environmental Quality Act. Therefore, no environmental assessment is needed.

**ATTACHMENTS**
Attachment A: Resolution of the Council of the City of Palo Alto Delegating Authority to the Director of Administrative Services to Execute Agreements and Sign Documents Relating to All Banking Services of the City of Palo Alto; and Rescinding Resolution No. 7821

PREPARED BY: ____________________________________________
TARUN NARAYAN
Senior Financial Analyst

DEPARTMENT HEAD APPROVAL: ____________________________
CARL YEATS
Director, Administrative Services

CITY MANAGER APPROVAL: ______________________________
EMILY HARRISON
Assistant City Manager