



Office of the City Manager

INFORMATION CALENDAR

March 14, 2017

To: Honorable Mayor and Members of the City Council

From: *DWR* Dee Williams-Ridley, City Manager

Submitted by: Henry Oyekanmi, Director, Finance

Subject: Banking Services with Wells Fargo Bank

SUMMARY

On January 24, 2017, the City Council directed the City Manager to “initiate a process for proposals from providers of banking services that uses criteria articulated in the 2013 process, but adds and emphasizes criteria related to ethical business practices.” A rigorous solicitation process like the one that resulted in the award of Contract No. 9367 requires approximately 18 to 24 months to formulate, advertise, receive, evaluate, award and implement. (Without factoring in the new financial system being implemented by the City). Full transition requires another 9 to 12 months post implementation to allow all banking transactions to post and to close-out accounts. To ensure business continuity during the solicitation, implementation and transition processes it is necessary to exercise the first three-year option period available under the existing Wells Fargo contract.

A competitive solicitation for comprehensive banking services will be initiated in the first quarters of CY18 with a target contract start date of June 1, 2020. Following the directive of the City Council, solicitation documents will incorporate any approved business ethics policy, as well as examples of unethical practices that may preclude the City from contracting with companies that violate the policy or its intent. Additionally, the solicitation will include criteria against which each respondent’s history of ethical (or unethical) business practices and social responsibility can be evaluated. Disclosure and certification documents may be required.

In the interim, Finance Department staff has started to review the existing contract with Wells Fargo Bank to determine which service elements can be carved-out of the scope, bid out, and quickly transitioned to an alternate financial institution without disrupting the general financial services on which the City relies for its day-to-day financial operations. The table below lists the opportunities, along with the timing, to be pursued by staff.

Service Element	Direct/ Indirect Cost	Contract Value	% of Total Expenditure	Compensation to Wells Fargo	Estimated Transition Start Date – End Date
Services that can be carved-out, bided and transitioned in CY2017					
Merchant Service Fees (Credit Card)	Direct	\$445,000	4.3	\$445,000	April 2017 – October 2017
Armored Car Service	Indirect	\$1,450,000	14.0	\$1,450,000	April 2017 – December 2017
Services that cannot be transitioned prior to implementation of ERP Core Financials FY2019					
General Banking: Day-to-Day Banking Operations	Direct	\$1,575,000	15.2	\$1,575,000	July 2018 – May 2020
Interchange and Assessment Fees Collected by Visa & MasterCard (based on 3% fee)	Indirect	\$6,886,000	66.5	\$200,563	July 2018 – May 2020
TOTAL		\$10,356,000	100.0	\$3,670,563	

As noted in the table above, the complete transition is tentatively scheduled to be completed by May 31, 2020, the end of the first 3-year extension period. This tentative schedule is contingent on the completion of the new ERP implementation.

CURRENT SITUATION AND ITS EFFECTS

The current banking services contract was executed with a not to exceed \$10,356,000 over a 10-year period. The contract is divided between direct and indirect costs. Direct costs are the actual cost that the City pays Wells Fargo Bank for its services which includes its General Banking and Merchant Service Fees which total \$2,020,000 (19.51%) of the not to exceed amount. The Indirect cost which the bank pays on the City's behalf includes Armored Car Service Fees of \$1,450,000, Interchange and Assessment Fees collected by Visa and MasterCard of \$6,886,000 for a total Indirect costs of \$8,336,000 (80.45%) of the total not to exceed amount.

Resolution No. 66,106 dated May 7, 2013 authorized the City Manager to enter into a Contract No. 9367 with Wells Fargo Bank for banking and related services for a period of four (4) years (the "initial period") for a not to exceed amount of \$4,142,000, with the option to extend the term for two (2) additional three-year periods, and to expend funds up to the not-to-exceed amount of \$10,356,000 for the entire ten (10) years.

The first four years of the contract not to exceed is \$4,142,000 and is broken down as follows:

For section I, which are direct cost paid to Wells Fargo Bank. The total contract price is \$808,000 in direct costs for general banking services (e.g., check processing; wires, ACH and direct deposit; and other deposit activities) and merchant services/credit card processing fees. These are broken down as \$630,000 for general banking and \$178,000 for Merchant Service fees for Credit card. Direct Costs represent 19.5% of the contract's value for the initial period.

For section II, which are indirect costs paid on City behalf. The total cost of \$3,334,000 in indirect costs comprises of \$2,574,000 in interchange and assessment fees collected by Wells Fargo and passed through to the credit card processors - Visa and MasterCard. The remaining \$580,000 is for armored car Service. Indirect costs represent 80.49% of the contract's value for the initial period.

Pursuant to a request for proposals (RFP #12-10654-C) process the City contracted with Wells Fargo Bank for provision of a comprehensive range of banking services. The original term of the contract is four years, with an option to extend for two (2) additional three-year periods. The initial period expires May 31, 2017.

BACKGROUND

In 2013 the City went through a rigorous solicitation process which included the following strategic components:

1. Unbundling – The scope of services in the RFP was segmented into sections so as to remove barriers to participation and encourage all financial institutions to bid on the sections they could perform.
2. Outreach – The City requested and received the list of all financial institutions having a presence in the City of Berkeley from both Federal and State regulators. The RFP was then mailed to all the listed financial institutions (e.g., banks, credit unions and community development financial institutions (“CDFI”)) having a presence in Berkeley. The City advertised the RFP on the City website, posted an announcement in front of Council Chambers, and posted in journals.
3. Accessibility – The financial institutions (banks, credit unions and CDFIs) were provided a total of 10 weeks to submit proposals. The City also conducted a non-mandatory pre-proposal conference to afford interested parties the opportunity to learn more about the City's banking requirements and gain familiarity with the City's fair and open solicitation process.
4. Market Responsiveness and Social Responsibility – Included in the RFP scoring criteria was Section Q (Community Investment and Social Responsibility). This section was developed in concert with the Human Welfare and Community Action Commission and it emphasized that potential proposers should show the commitment they have or have had to the Berkeley community. Due to the high

number of questions asked and interest expressed by potential respondents, the City extended the RFP submission deadline to for an additional 10 days.

5. Best Value Approach – Selection criteria included: financial strength and the ability of the institution to collateralize (protect per California Code Section 2257.021) public deposits (20%); demonstrated ability to provide the required services (25%); ability to offer enhanced services, introduce emerging technology (15%); previous, verifiable experience with other public sector clients (15%); offer the services at a fair and reasonable cost (15%); and demonstrated commitment to the Berkeley community by investment (including the present of established offices in the City to support day-to-day operations), re-investment and social responsibility (10%).

The City received responses to the RFP from four (4) proposers – Bank of the West, US Bank, Union Bank, and Wells Fargo Bank. A selection panel, consisting of City staff from Finance, City Auditor’s Payroll Unit, and Public Works, and an external technical advisor to the panel reviewed, rated and ranked the four (4) proposals.

ENVIRONMENTAL SUSTAINABILITY

None.

POSSIBLE FUTURE ACTION

The City Council previously authorized the implementation of a new ERP system so as to improve business processes, gain efficiencies, simplify, and standardize use of City systems with a comprehensive Enterprise Resource Planning System (“ERP”). The core financial components are projected to be fully functional in Fiscal Year 2019. Core financial components should be substantially complete prior to the migration of banking services from Wells Fargo to another financial institution since data migration will be required based on the results of the solicitation process. A solicitation process beginning on or about July 1, 2018 would allow for sourcing, selection and implementation by the end of calendar year 2019, and outgoing transition requirements (for example, accounts must remain open for 9 to 12 months to allow for all transactions to terminate with the originating bank) through May 31, 2020.

In the interim, Finance Department staff has begun to review the existing contract with Wells Fargo to determine which service elements can be carved-out and quickly transitioned to an alternate financial institution without disrupting the general financial services on which the City relies for its day-to-day financial operations. The table above lists the opportunities, along with the timing, to be pursued by staff. The approach that the City is initiating of carving out scopes and ancillary services that can be uncoupled from core banking services is also being followed in other public institutions. For example, the University of California reviewed its \$875M portfolio under contract with Wells Fargo and identified \$450M in carve outs. Services identified for carve out will be placed with other financial institutions. The remaining \$425M will remain with Wells Fargo due to the difficulty in transitioning and the high cost of leaving the bank.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

There will be extensive fiscal impacts in implementing this. The carving out of scopes might lead to an increase in cost of providing these scopes as separate services. The lump sum price that the City enjoyed for having a complete banking services with Wells Fargo Bank might increase, the City will need to renegotiate the rates so as to limit the financial impact. There will also be additional staff time to carve out the scope of work and re-solicit them. Once re-solicited, there will be the implementation of these services. All these will need more resources to complete the initial phase I of the carve outs, and then the implementation of phase II which will include probably the switching of Banks for the day to day banking services. The City is considered a category level 2 Merchant; level 2 Merchants are merchants with more than one million to six million total credit card transactions annually. These level of activity means the City has extensive financial needs and requirements. These requirements need to be analyzed and all risk mitigated for any potential implementation risks.

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