



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Administrative Services

Meeting Date: January 16, 2024

Report #:2310-2132

TITLE

Approval of Contract Amendment Number 1 to Contract Number C24189060 with US Bank and its Wholly owned Subsidiary Elavon for General Banking and Merchant Services and Approval of Contract Amendment Number C24189061 with Wells Fargo for Lockbox Services; CEQA Status – Not a Project.

RECOMMENDATION

Staff recommends that the City Council approve and authorize the City Manager or their designee, to execute:

1. Amendment No. 1 to Contract C24189060 with US Bank and its wholly owned subsidiary, Elavon, for general banking and merchant services (Attachment A), extending the term for one-year, ending June 30, 2024, with an option to negotiate extension for one additional year and;
2. Amendment Number C24189061 with Wells Fargo for lockbox services (Attachment B), extending the term for one-year, ending June 30, 2024, with to negotiate an option to extend for one additional year; and

EXECUTIVE SUMMARY

This report recommends the approval of a one-year extension of current banking services contracts and related services, through completion of an ongoing procurement for new contracts. Administrative Services staff issued a request for proposal (RFP) for these services in October 2023. Proposals are being reviewed by staff and plans to award contracts in 2024. The extensions attached to this staff report are effective July 1, 2023 through June 30, 2024 and maintain pricing from when the contracts were extended on September 21, 2020. Due to the imbedded nature of banking services with day-to-day financial transactions at the City, staff recommends that the City Manager be authorized to negotiate an option to extend the general banking and merchant services agreement with US Bank and Elavon and lockbox services with Wells Fargo to provide overlap for transition if new banking providers are selected.

BACKGROUND

Staff last conducted a competitive solicitation for banking and related services in 2014. Details for the RFP process are discussed in staff's report to Council on June 23, 2014¹. Council awarded contracts to the following financial institutions:

- 1) U.S. Bank and Elavon for banking and merchant services,
- 2) Wells Fargo for lockbox service,
- 3) Commerce Bank for a new and innovative Accounts Payable bill payment service,
- 4) Union Bank for investment safekeeping (custodial) service, and
- 5) JP Morgan Chase Banks for purchase card (P-Card) service.

The Commerce Bank's Accounts Payable bill payment implementation was halted and then discontinued as the service was unable to meet the City's needs as was originally expected as part of their proposal. Union Bank was acquired by US Bank in August 2021.

On September 21, 2020², the contracts extended for to two- or three-year extension for banking services contracts and related services, extending the contracts to a total term of eight or nine years. At the time, Union Bank was in the process of selling this line of business to US Bank, therefore a two-year extension was done. Upon acquiring this service US Bank honored the full three-year and beyond extension under the original Union Bank's existing terms (Attachment C).

ANALYSIS

Due to the embedded nature of banking contracts in day-to-day financial transactions of City business, it is not uncommon to see longer term contracts up to 8-10 years to ensure continuity of service and necessary strategic deployment of resources for major projects, such as Automatic Clearing House (ACH) services, auto-draft payments for utility customers, internal control or fraud features (i.e., positive pay), and integrations with the City's enterprise resource planning system, SAP. An RFP was issued in October 2023 and staff plan to recommend Council's approval to award contracts to service providers in March 2024. To bridge services and provide overlap in the event service providers are changed through the RFP, staff recommends extending the contracts through June 30, 2024, with an option for the City Manager to negotiate an additional one-year extension if the banks maintain the per unit pricing as in the 2020 extensions. In each contract, the City and the banking services provider each retains the option to terminate the contract upon 30-day notice.

Below is a summary of the recommended agreements:

- 1) US Bank and its wholly owned subsidiary, Elavon, for general banking and merchant services. U.S. Bank and Elavon have agreed to continue the same transaction prices for

¹ City Council, June 23, 2014, Staff Report ID #4905:

<https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmr/yr-archive/2014/4905.pdf>

² City Council, September 21, 2020, Staff Report ID #11402:

<https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmr/yr-archive/2020-2/id-11402.pdf>

this one-year contract that were agreed to in the original contract in FY 2014. In FY 2023, the annual net spending was \$31,700 (gross expense of \$41,700, offset by earnings of \$10,000) for general banking. (Attachment A)

- 2) Wells Fargo provides lockbox services. This extension reflects the current pricing. In FY 2023, the annual net spending was \$16,500 (gross expense of \$24,900 offset by earnings of \$8,400). (Attachment B)

These contracts are structured based on service and activity level; the City essentially controls costs via a fixed payment per service during the length of the contracts. Therefore, staff recommends continuation of the previous contract terms that do not include a “not-to-exceed limit”, as cost is dictated by transaction volume which can change over time. Staff has and will continue to closely monitor costs on a regular basis. In total, net annual costs for these contracts have remained at or below \$100,000 annually.

FISCAL/RESOURCE IMPACT

The FY 2024 Adopted Budget includes sufficient funding for this extension. Staff will return to the City Council for approval of any future funding needs upon completion of the RFP, as necessary. These one-year contracts are from July 1, 2023 to June 30, 2024 for (1) banking and merchant services; and (2) lockbox services. Fees are netted against interest earnings. therefore, a not-to-exceed limit is not assigned to these contracts and is based on negotiated per unit fixed pricing, based on specific services, with volume controlled by the City.

STAKEHOLDER ENGAGEMENT

For the duration of these contracts, Administrative Services staff coordinates with departments that are involved in daily banking transactions, primarily the Utilities Department, whose feedback on the service level provided by US Bank and Wells Fargo is satisfactory.

ENVIRONMENTAL REVIEW

Council action on this item is not a project under the California Environmental Quality Act (CEQA) because the contract amendments for general banking and merchant services and lockbox services are a continuing administrative or maintenance activity. CEQA Guidelines section 15378(b)(2).

ATTACHMENTS

Attachment A:	US Bank and Elavon Amendment Agreement
Attachment B:	Wells Fargo Amendment Agreement
Attachment C:	US Bank (Formerly Union Bank) Existing (Investment) Custody Agreement

APPROVED BY:

Kiely Nose, Assistant City Manager

Lead Staff: Christine Paras, Assistant Director