



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Administrative Services

Meeting Date: June 17, 2024

Report #:2404-2845

TITLE

Approval of Contracts with US Bank and its Wholly Owned Subsidiary Elavon for General Banking, Safekeeping (Custodial), and Merchant Services for a Period of Five Years; and Approval of Contract with Wells Fargo for Lockbox Services for a Period of One Year; CEQA Status: Not a Project.

RECOMMENDATION

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

- 1) The following contracts for five-year terms, ending June 30, 2030:
 - a) Contract (Attachment A) with US Bank to provide General Banking Services,
 - b) Contract (Attachment B) with Elavon, a wholly owned subsidiary of US Bank, to provide Merchant Services,
 - c) Contract (Attachment C) with US Bank for investment Safekeeping (Custodial) Service, and
- 2) The following contact for a one-year, ending June 30, 2025:
 - a) Contract (Attachment D) with Wells Fargo for Utility Lockbox Services.

EXECUTIVE SUMMARY

Approval of four banking services contracts and related services. will enable the City to continue operations with critical contractual services supporting the City's financial transactions. Administrative Services Department (ASD) issued a request for proposal (RFP) for these services in October 2023. Proposals received through the RFP indicated that the City's current banking service fees are in alignment with the market. Considering this and after evaluating both hard costs and soft costs for potential operational transitions between providers in ASD, Utilities, and IT Departments; staff recommends that new contracts be

executed with the City's current service providers. The US Bank and Elavon contract will be for five years. The contract with Wells Fargo will be for one-year.

City staff plan to negotiate and execute an agreement with Wells Fargo for up to four additional years so that staff and Wells Fargo can explore customer service improvements and system efficiencies. In FY 2025, staff and Wells Fargo will evaluate whether it is feasible to implement these enhancements; staff will seek to extend Lockbox services with Wells Fargo up to an additional four years, based on performance of these enhancements. If successful, staff will return for City Council approval of this extension.

BACKGROUND

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

- 1) US 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. This was a cutting-edge ambitious Accounts Payable service offering, if delivered as proposed, it would have been an Accounts Payable service enhancement and improved operational efficiency. There wasn't an alternative service provider offering this service, so the project was permanently cancelled.

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. Union Bank was acquired by US Bank in August 2021; therefore, a two-year extension was done. Once the acquisition was complete, US Bank honored the full three-year and beyond extension under the original Union Bank's existing terms (Attachment C).

An RFP was issued in October 2023 for general banking, lockbox, and investment safekeeping services. To ensure continuity of service, while the RFP was in process, on January 16, 2024, the

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>

City Council approved amendments to extend the contracts for general banking, lockbox, and investment safekeeping services³ through June 30, 2024.

ANALYSIS

Due to the embedded nature of banking services 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), remote desktop (check) deposits and integrations with the City's enterprise resource planning system, SAP.

An RFP was issued in October 2023⁴ and three responsive proposals were received: US Bank, Wells Fargo, and JP Morgan Chase. Evaluation of the proposals was completed by ASD and Utilities and when looking at the scores of each provider, scores for general banking services had a narrow margin of 2.4 point or less than 0.4% difference. In reviewing these proposals and resulting scores, staff gained affirmation of the competitiveness of the City's current providers, and gained insight on new or upcoming features within services providers that can assist staff in operation day-to-days. As a result, it is recommended the City maintain current services providers with the approval of these contracts and instead better leverage the systems for enhancements and new features versus administrative overhead. JP Morgan Chase Bank contract for purchase card (P-card) services was not part of the RFP issued in October 2023. P-Card services remain with JP Morgan Chase. This is a revenue (rebate) contract where there are no service fees. Staff will review the P-card services contract in the future to evaluate the potential of other service providers.

Table 1 summarizes the proposed agreements and include a comparison of fees for the new contracts compared to fees in paid in FY 2023. These contracts are structured based on service and activity level; the City essentially controls costs via a fixed payment per service or percentage basis for merchant (credit card) services during the duration of the contracts. It is important to note that the majority of the credit card fees are attributable to the credit card (brand) networks (e.g., VISA, MasterCard, etc.). Network fees are not negotiable and the same for all service providers, so they were not included in this evaluation. Only bank fees, which are for the portal to the card networks, were evaluated. The structure of the contract terms does not include a "not-to-exceed" limit, as cost is dictated by transaction volume which can vary over time based on the City's service needs. Staff continually monitors costs on a routine basis and in total, gross annual costs in FY 2023 for these contracts have remained at or below \$95,000 annually with net costs which includes the General Banking and Lockbox bank accounts earnings offsetting or reducing the \$95,000 fees by around \$18,400 in FY 2023.

³ City Council, January 16, 2024, Staff Report ID # 2310-2132:

<https://portal.laserfiche.com/Portal/DocView.aspx?id=70169&repo=r-704298fc&searchid=bb0a2e99-01b5-490d-8177-b1087c5c1832>

⁴ Banking, Lockbox, Merchant, Investment Safekeeping (Custodial) and Related Services, RFP 189279:

<https://procurement.opengov.com/portal/palo-alto-ca/projects/62858/document?section=549951>

Table 1: Summary of Banking Fees				
Bank and Service	FY 2023 Actual Fees	New Agreement Est. Annual Fee	% Chg. Over FY 2023	Est. Fees for 5-Years Contract Term
US Bank: General Banking	\$41,700	\$25,775	(38.2%)	\$128,900
Elavon Processing Fee: Merchant Services (excludes VISA and MasterCard network or interchange fees)	10 cents per transaction or \$17,600 *	0.10% of Transaction Amount or \$54,500 based on FY 2023 activity	209.7%	N/A
Wells Fargo: Lockbox Services	\$24,854	\$22,850	(8.1%)	\$114,250
US Bank: Investment (Custodial) Safekeeping	\$28,123	\$30,000	6.7%	\$150,000

** Note: in the existing contract Elavon's pricing was not typical in that it was not priced as a percentage of credit card charges instead of a fixed fee per transaction.*

The ongoing costs for these services do not reflect the cost to implement new banking services providers. Banking costs to transition banks are estimated to be between \$35,000 and \$80,000 though a substantial portion of this is offset by the banks. In addition, transition costs for staff and interface changes between the bank and SAP are complex and involve multiple departments and divisions (ASD Treasury, Revenue Collections, and Accounting; Utilities Customer Service and Billing, and IT Department staff) over six months to one year. Staff recommendation to maintain services with the current bank would avoid these additional one-time costs, while allowing focus on further service improvements and enhancing customer experience.

FISCAL/RESOURCE IMPACT

The FY 2025 proposed budget, subject to City Council adoption scheduled on June 17, 2024, includes sufficient funding for these contracts in FY 2025. Future year funding is subject to Council appropriation during the annual budget process. A not-to-exceed limit is not assigned to these contracts due to the structure and netting of fees against interest earnings; fees are negotiated per unit fixed pricing and percentage basis for merchant services, based on specific services, with volume or amount (for merchant services) controlled by the City.

STAKEHOLDER ENGAGEMENT

Administrative Services staff coordinates with departments that are involved with 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 for General Banking Services
- Attachment B: Elavon Master Services Agreement for Merchant Services
- Attachment C: US Bank Agreement for Investment Safekeeping (Custodial) Services
- Attachment D: Wells Fargo Agreement for Lockbox and Related Services

APPROVED BY:

Lauren Lai, Administrative Services Director