



MEMORANDUM

DATE: July 23, 2019
TO: Christine Daniel, City Manager
FROM: Susan Hsieh, Finance Director
SUBJECT: **Banking And Armored Car Services:**

Resolution Of The City Council Of The City Of Emeryville Authorizing The City Manager To Enter Into An Agreement With Mechanics Bank For General Banking Services Not To Exceed \$13,000 Per Year

Resolution Of The City Council Of The City Of Emeryville Authorizing The City Manager To Enter Into A Service Agreement With Loomis Armored US, LLC, For Armored Car Services Not To Exceed \$6,000 Per Year

RECOMMENDATION

Staff recommends that the City Council approve the resolutions authorizing the City Manager to enter into agreements with Mechanics Bank and Loomis Armored US, LLC, (“Loomis”) for banking and armored car services.

BACKGROUND

The City has two checking accounts with Wells Fargo including one for the City and one for the City of Emeryville as Successor Agency to the Emeryville Redevelopment Agency. In the fall of 2016, the City Council raised concerns about the City’s business relationships with Wells Fargo in light of the bank’s sales scandal and funding of the Dakota Access Pipeline Project (“DAPL”).

On November 15, 2016, the City Council directed staff to begin the process of issuing a request for proposal (“RFP”) to local banks and financial institutions to seek out options for providing banking services for the City of Emeryville. At the meeting, the Council also affirmed the City’s commitment to socially responsible investing.

On February 28, 2017, staff provided an overview to the Budget and Governance Committee and Budget Advisory Committee about the Council’s direction and the status of the RFP process. The Joint Committee requested that staff conduct a comprehensive selection process to identify a suitable financial institution.

On April 18, 2017, the City Council approved the RFP. The RFP was distributed to three qualified local financial institutions in early May 2017, including California Bank and Trust, Mechanics Bank, and Bay Commercial Bank. All three banks are located in Oakland and had initially indicated that they would be able to provide the services required by the City. However, none of those financial institutions responded to the RFP after evaluation of the service and legal requirements, although one bank indicated that it would further evaluate

the RFP. The California Government Code requires California financial institutions to secure public funds by pledging government securities with a value of 110% of deposits. Some financial institutions have indicated that they prefer to invest their capital in other areas instead of using the money to secure public funds; accordingly, those financial institutions are not expanding their market share in the public sector.

The City's practice has been to use a bank located in Emeryville, as a statement in support of local businesses. Besides Wells Fargo, there are three other banks in Emeryville: Summit, Bank of America, and Chase. Of these, Bank of America and Chase also provided funding for the DAPL. Summit does not provide the lockbox services required by the City.

During the research process, staff contacted financial institutions located in Oakland and Berkeley to understand their services/products. Some of these institutions are community banks and credit unions (e.g. Beneficial State Bank, Community Bank of the Bay, Utility District Credit Union). Unfortunately, smaller institutions are not able to provide all of the City's required services and some do not serve government sector customers.

Parent/subsidiary financial institutions that funded the DAPL were not included on the initial list of qualified financial institutions. Thus, staff only reached out to three qualified financial institutions outside of Emeryville for the proposal process.

Ultimately, in late October 2017, Mechanics Bank submitted a proposal to the City for general banking services, merchant/credit card processing services, and armored car services. After evaluating their proposal, staff also interviewed bank representatives. The interview questions focused on Mechanics Bank's services and products, financial strength, and the policies and practices it has in place and which demonstrated that Mechanics Bank is fair and honest in its dealings. Reputation and social responsibility is one of the City's key rating factors. The City's goal is to select a well-capitalized financial institution that can meet the City's banking needs and policy objectives.

Due to the low response rate to the RFP, staff sought direction from the Budget and Governance Committee. The Committee held several meetings in 2017 and 2018 to provide guidance and recommendations to staff. Staff also reached out to neighboring cities and other agencies regarding banking services and fees. After a comprehensive evaluation process, staff concluded that Mechanics Bank provides high-quality services and their fees appear to be reasonable. The Budget and Governance Committee recommended entering into contract with Mechanics Bank for the City's banking services.

DISCUSSION

Overview

The City utilizes Wells Fargo for general banking services including lockbox service (as described below). Currently armored car service is not required because the branch is located within the City; this service will be required if the new service provider is located outside of Emeryville. City departments that accept credit card payments use merchant service providers other than Wells Fargo.

Core services currently offered by Wells Fargo include:

- Depository services
- Check payments and positive pay (a fraud protection tool)
- Electronic fund transfers (direct deposits, wire transfers, Automated Clearing House transactions, etc.)
- Lockbox services in which the bank receives payments and deposits funds into the City's account directly. This service decreases the potential for theft, fraud and error, and improves overall cash flow.

These services are an integral part of the City's cash management function and were required in the RFP. Mechanics Bank offers comparable services. In addition, Mechanics Bank offers armored car service and merchant services through their partners Loomis and First Data Marketplace if the City wishes to utilize those services.

About Mechanics Bank

Mechanics Bank, established in 1905, is an independent, full-service community bank. According to their proposal, the bank serves more than 32 governmental agencies and has more than \$6 billion in assets. It has 46 branch locations throughout California and Oregon. It is the largest bank headquartered in the Bay Area's East Bay region. Mechanics Bank does not have branches in Emeryville; the closest branches are in Oakland and Berkeley.

Proposal Evaluation

Staff rated Mechanics Bank's proposal based on the following key factors:

1. **Product and service breadth, depth, and quality** – the service provider's ability to provide solutions that meet the government's specific needs.
2. **Quality of servicing staff** – the individual experience, skills, and qualifications of the staff members who will provide services on the account, if selected, and their ability to meet the government's needs.
3. **Service capacity** – the provider's ability to process sufficient transaction volumes and dollars of throughput.
4. **Reputation and social responsibility** – the experience peer governments have had with the provider and the provider's demonstration of being a good citizen that is fair and honest in its dealings.
5. **Regulatory standing** – the provider's status with the applicable regulatory agency.
6. **Cost** – the overall cost or rate included in the proposal, which can include consideration of potential future price escalations.

7. **Financial strength** – the service provider’s profitability, operating history, and net capital (which should be of sufficient size to satisfy service requirements).

Overall, Mechanics Bank meets the requirements described in the City’s RFP, and shows strong commitment to supporting the community. Their community support activities include volunteerism, financial literacy, community development, community involvement, philanthropy, and community reinvestment. The bank reports adequate capitalization, and will work with staff to develop an implementation plan for the transition from Wells Fargo, as well as provide training and ongoing support to City staff.

Cost Analysis

Switching from Wells Fargo Bank to Mechanics Bank will result in higher banking fees due to a decrease in the earnings credit rate which is a calculation of the net funds available in the account. The credit amount can be used to offset service charges. Mechanics Bank offers an earnings credit rate of 0.55%, competitive to other financial institutions. Wells Fargo, however, offers a more favorable earnings credit rate of 2%, which is indexed to the prior month 91-day T-Bill rate based on the old contract. The City’s Successor Agency account, opened in 2012, receives a standard rate of 0.4%.

Mechanics Bank’s annual service charges are estimated at \$32,000 for services including remote deposit capture and armored car services. Of this amount, about \$27,000 is estimated for general banking services and about \$5,000 is for cash transit services with Loomis. These amounts may vary from time to time due to factors such as fee changes, fuel charges, and insurance coverage. Using Mechanics Bank 0.55% earnings credit rate and projecting a monthly investable cash balance of \$2.7 million, the City projects an earnings credit of \$15,000. Because the earnings allowance is lower than the estimated bank fees, the City’s annual service charges would be about \$17,000. This amount may vary from time to time depending on the fees and transaction volume. There will also be minor costs related to banking supplies.

Estimated annual bank fees:	\$ 27,000
Estimated cash transit service fees:	<u>\$ 5,000</u>
Total	\$ 32,000
Less estimated annual earnings credit:	<u>\$(15,000)</u>
Estimated annual charges:	\$ 17,000

In fiscal year 2017-18, the City’s Wells Fargo bank fees totaled \$27,000, which were offset by an earnings allowance. These bank fees did not include remote deposit capture, armored car, or merchant services. Including remote deposit and armored car services, the total is estimated at \$33,000. If the City’s average monthly investable cash balance remains at fiscal year 2017-18 level of \$2.7 million, Wells Fargo’s earnings allowance is estimated to be \$54,000 with a 2% earnings credit rate. The earnings allowance exceeds the \$27,000 bank fees.

The fees charged by Wells Fargo and Mechanics Bank are comparable. After applying the earnings allowance, Mechanics Bank's net annual fees are higher than Wells Fargo's fees.

Mechanics Bank's partner First Data Marketplace offers competitive pricing for credit card processing services. To achieve savings, the City Council authorized the City Manager to enter into an agreement with First Data as the City's credit card processing service provider in early 2019. The City may consider amending the agreement in the future to add credit card locations.

Training and Implementation Timeline

Mechanics Bank will provide training and ongoing support to staff. Based on the initial implementation plan provided by them, it will take about one to two months to implement all the products and services, including signing all the legal documents and providing training.

Because of outstanding checks, lockbox payments, and account information changes with customers and vendors, the bank accounts with Wells Fargo Bank will remain open for several months after establishing the accounts with Mechanics Bank. Due to earnings credit accumulated from prior periods, the City is not expected to incur any costs.

Contract Terms

The Mechanics Bank's Master Agreement states that the terms will commence upon full execution of the Master Agreement and will continue in full force and effect thereafter until terminated as follows:

- (1) Client may terminate some or all of the Services under the Master Agreement, with or without cause, upon 30 days prior written notice to Bank; and
- (2) Bank may terminate, suspend or restrict some or all of Client's access to the Services under the Master Agreement, with or without cause, at any time immediately upon notice to Client.

Due to the terms stated above, the City is not required to enter into an agreement with Mechanics Bank for a specific period. Staff will evaluate the quality of services and continue the contract if services are deemed satisfactory.

The Loomis service agreement states that services shall continue for a period of one year commencing August 2019. At the expiration of the initial term, the agreement shall automatically be extended for successive like term periods unless either party provides written notice of non-renewal at least sixty (60) days prior to the end of the then current term. Staff will evaluate the services after one year and extend the contract if consistent high-quality services are provided.

FISCAL IMPACT

The City's checking account annual service charges are estimated at \$17,000 if the City decides to open an account with Mechanics Bank.

Please note that service charges are calculated based on transaction volume. The estimated cost can be higher or lower depending on the number of transactions processed. The cost may also increase due to charges to supplies and increases in bank fees, living wages, fuel charges, and insurance coverage. Therefore, staff recommends the following contract amounts to be on the conservative side. Sufficient funds are included in the 2019-20 operating budget to cover the costs.

Mechanics Bank: \$13,000
Loomis: \$ 6,000

CONCLUSION

Staff recommends that the City Council authorize the City Manager to enter into agreements with Mechanics Bank and Loomis for banking and armored car services.

PREPARED BY: Susan Hsieh, Finance Director

**APPROVED AND FORWARDED TO THE
CITY COUNCIL OF THE CITY OF EMERYVILLE:**



Christine Daniel, City Manager

ATTACHMENTS

- City of Emeryville RFP for Banking Services
- Draft Resolution - Mechanics Bank
 - Exhibit A - Business Account Agreement
 - Exhibit B - Master Treasury Management Services Agreement
 - Exhibit C - Contract for Deposit of Local Agency Funds
- Draft Resolution - Loomis
 - Exhibit A - Service Agreement