



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: July 23, 2019
TO: Christine Daniel, City Manager
FROM: Susan Hsieh, Finance Director
SUBJECT: **Resolution Of The City Council Of The City Of Emeryville As Successor Agency To The Emeryville Redevelopment Agency Authorizing The City Manager To Enter Into An Agreement With Mechanics Bank For General Banking Services Not To Exceed \$2,500 Per Year**

RECOMMENDATION

Staff recommends that the Successor Agency approve the resolution authorizing the City Manager to enter into an agreement with Mechanics Bank for banking 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 ("Successor 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 to 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 they 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 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 don't 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 the bank's representatives. The interview questions focused on Mechanics Bank's services and products, financial strength, and policies and practices in place demonstrating 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

Like the City, the Successor Agency wishes to obtain banking services from a new provider. The Successor agency has relied on the City's selection process for evaluating banking service providers.

The City utilizes Wells Fargo for general banking services as described below. The City uses lockbox services while the Successor Agency does not utilize these services.

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 request for proposal (RFP). Mechanics Bank also offers cash transit service through their partner. The Successor Agency usually does not receive cash payments. Therefore, armored car service is not required. Check payments will be deposited remotely.

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 lower banking fees due to an increase 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 offers a standard rate of 0.40%. Please note that earnings credit rates are subject to change.

Mechanics Bank's annual service charges are estimated at \$2,700 for services including remote deposit capture service. Wells Fargo's service charges are estimated at \$2,800. Annual service charges may vary from time to time depending on the fees and transaction volume. There will also be minor costs related to banking supplies. If Mechanics Bank's 0.55% earnings credit rate is not reduced, the earnings allowance may be able to cover or exceed the annual fees by about \$700 to \$1,000.

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

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 and account information changes with customers and vendors, the bank account with Wells Fargo Bank will remain open for a few months after establishing an account with Mechanics Bank. The Successor Agency may incur minor costs during that period.

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 Successor Agency 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.

FISCAL IMPACT

The Fiscal Year 2019-20 Recognized Obligation Payment Schedule (ROPS) approved by the Department of Finance includes \$2,500 for bank fees. Staff recommends entering into contract with Mechanics Bank for the budgeted amount.

CONCLUSION

Staff recommends that the Successor Agency authorize the City Manager to enter into an agreement with Mechanics Bank for banking services.

PREPARED BY: Susan Hsieh, Finance Director

**APPROVED AND FORWARDED TO THE
CITY COUNCIL OF THE CITY OF EMERYVILLE AS SUCCESSOR AGENCY TO THE
EMERYVILLE REDEVELOPMENT AGENCY:**



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