



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

CONSENT
May 12, 2009

**Honorable Mayor and
Members of the City Council**

Title: Extension of Banking Services

Location/Council District: Citywide

Recommendation: Adopt **Resolution** 1) authorizing the City Treasurer to negotiate a one year to 18 month extension to the Banking Services Agreement with Bank of America (Agreement No. 2004-0772) and 2) authorizing the City Treasurer to enter into an agreement implementing such extension on terms and conditions acceptable to the City Treasurer.

Contact: Russell T. Fehr, City Treasurer, 808-5832; Lydia Abreu, Investment and Operations Manager, 808-7746

Presenters: None

Department: City Treasurer's Office

Division: Investment & Operations

Organization No: 0900

Description/Analysis

Issue: Authorize the extension of one (1) year to eighteen (18) months to the banking services agreement with Bank of America (Agreement No. 2004-0772). [NOTE: The Banking Services Agreement is with Bank of America and custodial services are with Bank of New York Mellon]. Authorize the City Treasurer to execute agreements to extend banking services for the additional one-year to 18 month extension.

Policy Considerations: The services agreement with Bank of America (Agreement No. 2004-0772) expires on September 23, 2009. Due to the current economic uncertainty and problems in the financial industry, and due to the current status of the implementation of the banking and cash management functionality of the City's

eCAPS financial system, we are recommending a one-year to 18 month extension in the City's agreement with Bank of America.

Environmental Considerations:

California Environmental Quality Act (CEQA): Under the California Environmental Quality Act (CEQA) guideline, continuing administrative activities do not constitute a project, i.e. the subject banking activities will not result in a physical change in the environment, and are therefore exempt from review.

Sustainability Considerations: There are no sustainability considerations applicable to this action.

Commission/Committee Action: None

Rationale for Recommendation: Under the City Charter Section 73, the City Treasurer shall be responsible for the deposit and investment of all funds of the City Treasury not made subject to the control of others and keep Council fully advised, which includes the selection, overview and management of the City's banking services. While the City Treasurer is prepared to issue a RFP for banking services to be provided after the expiration of the existing Agreement 2004-0772, the recommendation to defer the issuance of that RFP and extend the existing contract for one year to 18 months is in the best interest of the City.

The banking industry is in turmoil. Additionally, the City is in the midst of configuring our eCAPS financial system for banking and cash management with Bank of America. This work should be completed, tested, and implemented before the City should consider changing banks. With the uncertainty of the financial market and in the event necessary, the City Treasurer may find it necessary to obtain banking services with another institution.

The contract extension will address existing fees, extending a line of credit to the City for vehicle and equipment purchases where full bond financing is inappropriate, and obtaining greater support for internet payments to and from the City.

Financial Considerations: The approval of this extension will have significant savings to the City in both labor costs, interface conversion costs and hard costs of services. The existing contract costs are allocated to departments citywide. The City Treasurer will negotiate pricing for the numerous banking services to obtain the lowest possible cost for banking services.

Emerging Small Business Development (ESBD): Not Applicable.

Respectfully Submitted by: Lydia Abreu
Lydia Abreu
Investment & Operations Manager

Approved by: Russell T. Fehr
Russell T. Fehr, City Treasurer

Recommendation Approved:

Russell T. Fehr
Russell T. Fehr
City Treasurer

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Background:

The City must have a relationship with a bank in order to operate. The bank serves as the place of deposit of revenues and the institution from which expenditures are made. The City also obtains other services from the operating bank such as a line of credit for debt financing for equipment and other capital expenditures where a traditional bond financing is not appropriate, the use of credit cards by the City and those doing business with the City, and making electronic transfers of funds.

The City Treasurer is prepared to issue a request for proposal for banking services to be provided after the expiration of the existing agreement 2004-0772, however it would be in the best interest of the City to extend the contract for a period of up to 18 months. The RFP has been prepared and could be issued; however, this is not the right time to consider changing banks.

We recommend that the Mayor and City Council give the City Treasurer the authority to negotiate a contract extension with the Bank of America for a term of one year to eighteen months. The current economic environment has impacted the financial industry to a level not experienced since the great Depression. As we move forward it is our expectation that the financial industry will establish equilibrium and we can issue the RFP from a select group of banks that have survived nationalization discussions and operating in a better economy supported by stimulus and assistance packages. The federal government is currently conducted "stress tests" of the major banks, and the results will be known soon.

The implementation of the new eCAPS financial system has been a major endeavor for the City. Staff resources in the Finance Department, the Information Technology Department and the City Treasurer's Office are focused on getting the full potential from eCAPS and continuing to implement the system for fiscal processes. The implementation of banking and cash management involves integrating the City with our bank. This process should be completed, tested and implemented before a change in banks is contemplated.

Prior Council Action

- On January 8, 2004, the City Treasurer informed the City Council that the City had issued an RFP for Financial Services and had selected Bank of America/Bank of New York Mellon to provide banking services to the City beginning November 1, 2003, for a period of five years with the option for two one-year extensions. It was estimated that the City would save approximately \$110,000 annually in banking service costs, as well as a one-time conversion savings of \$60,000. The agreement may be extended by mutual consent of the parties as set forth in the RFP.

In addition, since Bank of America currently provides City Banking services, the City will avoid extremely high conversion costs comprised of labor hours, supplies and costs to sub-systems.

Advantages

Extending the banking services for an additional year would be to our advantage in several aspects:

- In the event of a worst case scenario and a form of nationalization of banks were to occur, the routine banking operations would more than likely continue under a form of supervision. There is currently a strong commitment from our bank to continue providing services.
- Conversion and system changes could save the city upwards to \$1 million in costs. Some of the sub-systems interfaces and staff hours may include:
 - Lockbox Services
 - Merchant Services
 - Department of Utilities Billing System
 - Parking Permit CyberSource System
 - Parks & Recreation Class System
 - Department of Finance – Accounts Payable
 - Payroll
 - Workers' Compensation
 - Convention Bureau
 - SCERS Payroll/Operating

Any conversion would require the assistance and lead in many cases of our IT Department to test and ensure file transfers and sub systems integrations operated properly. As we continue to resolve the eCAPS financial system interface issues, IT staff may become available to take a major role in any potential conversion, however at this time that is not feasible.

Disadvantages

As banking services continue to increase, the challenge to convert to banking services of a new provider likewise increases. The imbedded systems permeate the daily operations to an extent not fully recognized. However, once the eCAPS financial system stabilizes, we can reallocate necessary resources to a banking conversion in the future.

RESOLUTION NO. 2009 _____

Adopted by the Sacramento City Council

May 12, 2009

**AUTHORIZING A ONE-YEAR TO 18 MONTHS EXTENSION TO THE
EXISTING CONTRACT WITH BANK OF AMERICA TO PROVIDE
BANKING SERVICES FOR THE CITY**

BACKGROUND:

- A. On January 8, 2004, the City Treasurer informed the City Council that the City had issued an RFP for Financial Banking Services and had selected Bank of America to provide those services. The contract was for five years with the option of two one-year extensions.
- B. Office of the City Treasurer is requesting authorization to renegotiate the banking services contract services and fees and to extend the existing contract for one year to 18 months.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL
RESOLVES AS FOLLOWS:**

Section 1. The City Council hereby authorizes an extension of the existing banking services contract with Bank of America (Agreement No. 2004-0772) for a period of one year to 18 months, as the City Treasurer determines is appropriate, and to renegotiate banking services and fees on terms and conditions acceptable to the City Treasurer.