



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Scott P. Johnson

**SUBJECT: AMENDMENT TO AGREEMENT  
WITH UNION BANK FOR  
GENERAL BANKING SERVICES**

**DATE:** June 5, 2006

Approved

Date

6/13/06

## RECOMMENDATION

Approval of the Fourth Amendment to the General Banking Services Agreement with Union Bank of California (UBOC) to (i) increase the maximum annual compensation from \$750,000 to a not-to-exceed amount of \$820,000 for July 1, 2005 through June 30, 2006; and to (ii) extend the term of the agreement for one year from July 1, 2006 through June 30, 2007, in an amount not to exceed \$820,000 for the one-year extension.

## OUTCOME

Approval of the Fourth Amendment to the agreement for general banking services with UBOC will provide the means to pay the increased activity volumes and provide staff sufficient time to issue a new banking services Request for Proposals ("RFP"), evaluate the proposals, negotiate a new agreement, and in the event a new bank is chosen, transition to a new bank.

## BACKGROUND

In early 1999, the City initiated a request for proposal (RFP) process for city-wide general banking services. Responses to the RFP were evaluated based on content of the reply, the array of services proposed and total cost. Interviews with the most responsive banks were conducted, ultimately leading to the selection of UBOC for the City's banking needs. The Redevelopment Agency's banking services were not included in the 1999 RFP.

In March 2000, the City Council approved staff's recommendation to enter into a contract with UBOC to provide the City's banking services for a period of three years with two one-year options to extend the contract. In May 2004, the City executed the second and final Exercise of Option to Extend the Agreement for the term of one year from July 1, 2004 through June 30, 2005, with a maximum annual compensation of \$750,000. In June 2005, the City Council approved the extension of the term of the agreement for one year in an amount not to exceed

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\$750,000. Significant increases in credit card activity volumes has resulted in an increase in the associated compensation fees requiring an amendment to the agreement with Union Bank of California for an increase in the maximum annual compensation fees in the current fiscal year (2005-06).

Staff monitors the banking related activities with the objective of facilitating the delivery of City banking services to internal and external customers, utilizing and updating banking related technology tools needed to support their service delivery, and seeking opportunities to further streamline processes. The City has experienced an increased demand for delivery of services electronically. As part of the general banking services provided to the City under the current UBOC agreement, City customers are able to pay for permits, services and invoices by credit cards by various methods (mail, phone, fax and internet) without passing a convenience fee along to our customers.

## **ANALYSIS**

### **Increase Maximum Annual Compensation for Banking Services**

Under the terms of the original agreement with UBOC, the bank receives a set fee for certain services provided to the City or the City's customers. Activity levels for merchant card services have increased, resulting in an increase in the estimated compensation amounts due to the bank in fiscal years 2005-2006 and 2006-2007.

The City accepts credit card payments to provide the customer with a convenient method to pay the City electronically. The City benefits by receiving the funds sooner and it eliminates the administrative issues of returned checks and collecting funds due to the City. The annual number of transactions for FY 2005-06 is expected to increase by approximately 10,000 over FY 2004-05. The annual cost of the merchant card program is estimated to increase by approximately \$72,000 in fiscal year 2005-2006, due to overall growth in credit card usage primarily in the following programs: Development Services, Permits On-Line, Finance's cashiering and payment processing including utility billing services, Parks, Recreations and Neighborhood Services' parks and animal services.

Staff estimates an additional increase in credit card usage next fiscal year and will continue to monitor the volumes of all banking activities. If needed, staff will submit a request for an increase at mid-year to cover the estimated additional increase in activity volumes for the remainder of the fiscal year and also will submit to Council a request to amend the banking services agreement to increase the maximum annual compensation.

**Extension of Banking Services Agreement**

Staff had planned to develop an RFP to enter into a general banking services agreement for both the City of San Jose and the Redevelopment Agency (RDA) with an aggressive completion date of June 2006 for a new contract. Due to redeployment of existing staffing resources to work on city-wide projects of higher priority, for example the implementation of the consolidated cashiering operations in the new City Hall and streamlining Finance-related operations, the RFP for general banking services had been delayed. The expected timeline to complete the development of the RFP is fall 2006.

Staff's recommendation to extend the general banking services contract with UBOC will:

- Provide staff with additional time necessary to complete, issue and evaluate the RFP for general banking services by the winter of 2006 following the new RFP standards.
- Allow time for contract negotiations and, in the event that a new bank is chosen as a result of the RFP process, preparation to transition to the new bank.

**ALTERNATIVES**

Not applicable.

**LEPUBLIC OUTREACH**

Not applicable.

**COORDINATION**

This report was coordinated with the City Manager's Budget Office and the City Attorney's Office.

**COST IMPLICATION**

Costs for banking services are funded from the pooled investment interest income. The amount of funding for fiscal year 2005-2006 is included in the Adopted 2005-2006 Operating Budget and funding for fiscal year 2006-2007 is included in the Proposed 2006-2007 Operating Budget.

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**BUDGET REFERENCE**

Fund #	Appn. #	Appn. Name	RC #	Total Appn.	Amt. For Contract	2005-2006 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
001	2987	Banking Services	009278	\$750,000	\$750,000	IX-13	N/A

Fund #	Appn. #	Appn. Name	RC #	Total Appn.	Amt. For Contract	2006-2007 Proposed Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
001	2987	Banking Services	009278	\$750,000	\$750,000	IX-14	N/A

\*A budget adjustment to increase the 2005-2006 and 2006-2007 allocations to \$820,000 as amended in the Rebudget/Clean-up Manager's Budget Addendum will be incorporated into the 2005-2006 and 2006-2007 Adopted Budgets.

**CEQA**

Not a project.

  
SCOTT P. JOHNSON  
Director, Finance

For questions, please contact Scott P. Johnson, Director of Finance at (408) 535-7000.