



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: June 9, 2010

Approved

Date

6-10-10

COUNCIL DISTRICT: Citywide

**SUBJECT: APPROVAL OF AMENDMENTS TO BANKING SERVICE AGREEMENTS
WITH UNION BANK OF CALIFORNIA AND WELLS FARGO BANK**

RECOMMENDATION

Adoption of a resolution authorizing the City Manager and the City Manager's authorized designees ("City Manager") to negotiate and execute (i) the Twelfth Amendment to the General Banking Services Agreement with Union Bank of California ("UBOC") to increase the maximum annual compensation by \$30,000 from \$320,000 to \$350,000 to provide final banking and transaction services through June 30, 2010; (ii) the Third Amendment to the Agreements with Wells Fargo Bank for General Banking Services and Merchant Card Processing Services and First Amendment to the Agreement with Wells Fargo Bank for Custodial Services to increase the maximum annual compensation by \$145,000 from \$574,000, to an amount not to exceed \$719,000 for the initial term through June 30, 2010; and (iii) amendments to the agreements with UBOC and Wells Fargo Bank, if necessary, to either increase or decrease the maximum annual compensation or extend the term of the UBOC agreement without further City Council approval provided the total maximum compensation for banking services does not exceed appropriated funds for banking services.

OUTCOME

Adoption of the resolution authorizing the City Manager and her authorized designees, to negotiate and execute the Third Amendment to the General Banking Services and Merchant Card Processing Services agreements with Wells Fargo Bank, and the Twelfth Amendment to General Banking Services agreement with UBOC, will provide the necessary increase in contract authorization to finalize the transition from UBOC to Wells Fargo Bank and will not exceed \$1,069,000 for Fiscal Year 2009-2010.

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BACKGROUND

In May 2009, the City Council approved staff's recommendation to enter into an Agreement with Wells Fargo Bank to provide the City's banking and financial services including General Banking Services, Merchant Card Processing Services and Lockbox Services for an initial term commencing with the execution of the agreements by the parties through June 30, 2012; and Securities Custody Services for an initial term of July 1, 2009 to June 30, 2012, with a total maximum annual compensation for the four agreements for the period through June 30, 2010 not to exceed \$864,000 and, thereafter, subject to annual appropriation of funds for the second and third year of the initial term. In addition, the City Council approved staff's recommendation to extend the term of the agreement with UBOC for an additional year in a amount not to exceed \$30,000. There have been multiple actions by Council to amend the agreement with UBOC to increase the initial compensation of \$30,000 to the current compensation of \$320,000 to facilitate the banking transition.

Due to the complexity of the City's first banking transition in over a decade, certain bank product lines could not be migrated from UBOC until technology enhancements and/or process changes were implemented. The required changes to the related systems necessitated maintaining UBOC product lines beyond initially anticipated timeframes and resulted in banking fees in excess of initial contract authority estimates. Examples of product lines requiring additional technology enhancements and process changes include: Retirement's Pension Gold Payroll system, accounts payable controlled disbursement process, and internet home banking processing. In addition, the City maintained merchant card processing through UBOC for the first three months of the year while Wells Fargo established new Merchant Identification (MID's) accounts citywide, evaluated if current credit card processing equipment met Payment Card Industry (PCI) standards, and deployed new credit card processing equipment as necessary. As of May 21, 2010 all the services have been transitioned to Wells Fargo Bank and UBOC is only being utilized for the clearing outstanding checks still to be presented for payment.

ANALYSIS

The proposed amendments will increase the maximum compensation that can be paid to Wells Fargo Bank and UBOC during the initial term of the agreements through June 30, 2010 in order to finalize the transition of banking services from UBOC to Wells Fargo Bank. Finance staff was delegated authority by the City Council in May 2009 to administratively process amendments to the four Wells Fargo Banking Services Agreements provided the maximum annual compensation did not exceed the contract authorization. During the banking transition City Council has previously approved several amendments to the UBOC and Wells Fargo agreements to reallocate funding within the banking services appropriation to pay for budgeted banking services. The reallocation of funding was necessary as product lines migrated from UBOC to Wells Fargo Bank. With the transition complete the proposed increase in contract authorization will finalize the transition from UBOC to Wells Fargo Bank and will not exceed the contract authorization. Staff is requesting a total aggregate increase of \$175,000 for the agreements with UBOC and

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Wells Fargo in order to complete this transition. The current 2009-2010 Operating Budget includes a banking services appropriation of \$965,000. In addition, it is anticipated that an increase in the amount of \$25,000 will be included in the recommended year-end adjustments for 2009-2010 as part of the June 22, 2010 Council Agenda which would increase the budgeted funds to \$990,000.

Staff recommends that the General Banking Services, Lockbox Services, Custodial Services, and Merchant Card Processing Services agreements with Wells Fargo Bank be amended in order to increase the maximum annual compensation payable under each of these agreements as follows:

- (i) General Banking and Lockbox Services will be increased by \$44,000 to an amount not to exceed \$250,000;
- (ii) Merchant Card Processing Services will be increased by \$100,000 to an amount not to exceed \$450,000; and
- (iii) Custodial Services will be increased by \$1,000, to an amount not to exceed \$19,000.

In addition, staff recommends that the General Banking Services agreement with UBOC be amended in order to increase the maximum annual compensation payable under its agreement as follows:

- (i) General Banking Services will be increased by \$30,000 to an amount not to exceed \$350,000.

ALTERNATIVES

Not Applicable

EVAUATION AND FOLLOW-UP

Not Applicable

PUBLIC OUTREACH/INTEREST

Not Applicable.

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**

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- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This memorandum will be posted on the City's Internet website for the June 22, 2010 Council agenda.

COORDINATION

This staff report has been prepared by the Finance Department in coordination with the City Attorney's Office and City Managers Budget Office.

COST SUMMARY/IMPLICATIONS

The 2009-2010 Operating Budget includes a City-Wide Banking Services appropriation in the amount of \$965,000. In addition, the anticipated increase in the amount of \$25,000 recommended as part of the 2009-2010 Appropriation Ordinance and Funding Sources Resolutions Year End Amendments which is to be heard by the City Council on June 22, 2010 would increase the Banking Services appropriation to \$990,000. These funds provide for the ongoing costs of the agreement with Wells Fargo Bank, one-time costs associated with the transition of the banking services, which includes staff time, technology enhancements, and the one-year agreement with Union Bank of California to cover the services associated with maintaining an account to process payment of checks issued, but not yet presented at the time of the conversion from UBOC to Wells Fargo. Staff is requesting a total aggregate increase in contract authorization of \$175,000 (UBOC and Wells Fargo) in order to complete this transition through June 30, 2010 and will not exceed the new total contract authorization of \$1,069,000. In the unlikely event expenses are incurred in excess of the Banking Services appropriation but within the contract authorization limits, Finance anticipates utilizing the Finance Department's Non-Personal/Equipment budget to ensure all expenditures remain within budgeted levels by year-end. Staff will continue to closely monitor all charges for banking services during the transition and throughout the balance of the fiscal year.

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BUDGET REFERENCE

This reference reflects all Banking Service contracts for 2009-2010, the actions recommended in this memorandum increase the existing contracts with UBOC and Wells Fargo in the amount of \$894,000 to \$1,069,000, a \$175,000 increase.

Fund #	Appn. #	Appn. Name	Total Appn.	Total Amount for Contract Authorizations	2009-2010 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
001	2987	Banking Services	\$965,000	\$1,029,052*	IX - 30	10/20/09, Ord. No. 28653
001	0492	Non-Personal/ Equipment	\$1,300,232	\$39,948	VIII - 86	6/23/09, Ord. No. 28593
Total Contract Amount				\$1,069,000		

* This amount includes \$39,052 in carryover encumbrances as well as the anticipated increase of \$25,000 recommended as part of the 2009-2010 Appropriation Ordinance and Funding Sources Resolutions Year End Amendments which is to be heard by the City Council on June 22, 2010.

CEQA

Not a Project, File No.PP10-066 (a) Professional Services with no changes in the physical environment

/s/
JULIA H. COOPER
Assistant Director, Finance

For questions please contact Julia H. Cooper, Assistant Director of Finance, at (408) 535-7011.