



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Authorization to Amend an Existing Contract for Banking Services (F17-055)

REPORT IN BRIEF

Approval is requested to amend the City's existing banking contact with Union Bank by extending it two years. Approval is also requested to authorize the City Manager to renew the contract up to two (2) additional years. The City requires the services of a financial institution in order to have accounts into which revenues collected for City services can be deposited and from which the City can pay expenses.

EXISTING POLICY

This type of specialized professional service can be exempted from competitive bidding under Section 2.08.070(b)(1) of the Sunnyvale Municipal Code.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment

BACKGROUND AND DISCUSSION

The City has maintained a banking relationship with Union Bank since 1993 following competitive selection processes in 1993, 2000, and 2006. The 2006 contract included a 36% price reduction followed by an additional 8% reduction in 2013. The current contract term, extended by Council in 2013, expires on December 31, 2016 (RTC No. 13-287). Union Bank has offered to increase the current contract earnings credit rate by 0.12% which is estimated to generate an additional \$12,000 per year in earnings to offset fees that the bank charges, which will not increase under the first two years of the new extension. Subsequent changes would be subject to negotiation.

Under the banking contract, Union Bank provides the following:

- Deposit services for all City departments that collect payments
- Wire transfer and check clearing services
- Direct Deposit of employee payroll
- Automated Clearing House (ACH) processing for utility customers to pay utility bills electronically
- Merchant Credit and Debit Card processing (in partnership with Elavon Payment Network)
- Account reconciliation reporting

The City currently accepts approximately \$26 million in credit card payments annually. The largest component of the fees paid by the City is the Interchange fee, which is the fee that the processor's bank pays the card issuing bank to process the credit card. This fee is determined by Visa and MasterCard and is passed onto the merchant. This fee averaged 1.47% for FY2015/16.

Union Bank has had a relationship with Elavon Payment Network for many years. Elavon charges a processing fee of 0.12% per transaction.

In addition to the banking services contract, the City has a separate contract with Union Bank for custody services, which also expires on December 31, 2016. Based on the projected annual cost of \$9,200, Council action is not required on this contract because the contract amount is below the threshold for Council action. Staff is planning on also renewing this contract for a two-year term to expire on December 31, 2018. Under the custody contract, the bank provides for custody services for the City's investment transactions, which includes the following:

- Processing and safekeeping of all securities
- Reconciling assets
- Collecting and reinvesting interest income
- Providing accounting statements
- Executing ownership documents and forms

Although staff had anticipated conducting a Request for Proposals (RFP) process in advance of the calendar 2016 end date, a contract extension of the current vendor is recommended. Union Bank has been a valued City partner, providing acceptable service levels and responsiveness. Additionally, the City's average interchange rate experience of 1.47% is competitive to other jurisdictions based on survey research. Finally, the continuation of the current banking services vendor would mitigate any potential issues that could arise from the potential change of banking service vendors with the upcoming implementation of the Enterprise Resource Planning (ERP) system replacement project, which is scheduled for implementation during the term of the recommended contract amendment.

FISCAL IMPACT

Staff estimates that the cost of banking services will include credit card interchange fees of \$380,000 and other banking service fees of \$40,000 for a total of \$420,000. Based on the City's transaction volume, it is anticipated that the City will realize an earnings offset to fees of approximately \$12,000 per year through the more favorable earnings credit rate offered by both Union Bank in the recommended new contract.

Funding Source

Credit card interchange fees are funded through the General Fund, Development Enterprise Fund, Golf and Tennis Operations Fund, and Utility Enterprise Funds. A total of \$383,405 is currently budgeted for these fees. Banking services fees are funded through the General Fund and allocated out to all other funds on a periodic basis.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

RECOMMENDATION

1) Authorize the City Manager to execute an amendment to the existing contract with Union Bank, extending the contract by two years, from January 1, 2017 through December 31, 2018; and 2) authorize the City Manager to renew the contract for up to two (2) additional years.

Prepared by: Pete Gonda, Purchasing Officer

Reviewed by: Timothy J. Kirby, Director of Finance

Reviewed by: Walter C. Rossmann, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

ATTACHMENT

1. Third Amendment to Banking Services Agreement