



ERIC GARCETTI
MAYOR

April 11, 2019

The Honorable Members of the Budget and Finance Committee
c/o the City Clerk
City Hall, Room 395

Attention: Andrew Choi

SUBJECT: AUTHORIZATION TO EXTEND AGREEMENTS WITH WELLS FARGO BANK

Dear Honorable Members,

The Office of Finance (Finance) is requesting approval to execute the attached proposed Amendments to Contract C-114826 and Contract C-114564 between the City and Wells Fargo Bank. The amendments extend the existing service agreements until June 30, 2020. The current agreements expire on June 30, 2019.

BACKGROUND

The two contracts for amendment resulted from a Request for Proposal (RFP) released by the Office of the Treasurer in 2008. Wachovia Bank and Wells Fargo Bank were the successful bidders and contracts were executed between the City and these banks for banking services: Contract No. C-114564 with Wachovia Bank and Contract No. C-114826 with Wells Fargo Bank. The agreements were executed in July 2008, pursuant to California Government Code Section 53649, which grants the City Treasurer authority to execute depository bank service related contracts.

Bank services for the Department of Water and Power, Department of Recreation and Parks, the Library Department, and the Los Angeles Zoo are provided pursuant to Contract No. C-114826. Bank services for all other City departments were originally provided by Wachovia Bank pursuant to Contract No. C-114564. Wells Fargo Bank acquired Wachovia Bank in late 2008, and continues to provide bank services pursuant to the terms and conditions of the original Wachovia agreement.

The terms and conditions of the agreements require Wells Fargo Bank to provide general banking services, which include maintaining over 800 depository accounts for all City departments, processing Electronic Funds Transfer transactions (approximately \$50 billion in EFT transactions are processed annually), providing direct deposit, payroll tax processing, lockbox, and cash vault services.

Finance released an RFP for bank services on January 5, 2018. Responses to the RFP were received from eight (8) financial institutions on April 18, 2018. Finance has completed its review of the proposals and the results from this evaluation process are forthcoming in a separate report from Finance.

It should be noted that Wells Fargo Bank did not submit a response to the RFP. However, Wells Fargo Bank has reaffirmed its commitment to the effective management of the City's banking services to allow for a smooth transition of services to the new bank services providers.

The amendments are necessary to extend the current agreements to ensure there is no lapse in service while the RFP evaluation process concludes and new agreements are in place with the new bank service providers.

In accordance with Los Angeles Administrative Code Section 10.5 (a), Council approval of the proposed amendments is required because the cumulative term of the contracts exceeds three years. The Office of the City Attorney must still review and approve the amendments as to form and content.

AMENDMENT

The proposed amendments extend the existing service agreements until June 30, 2020. The current agreements expire on June 30, 2019. Finance previously obtained approval to execute amendments with Wells Fargo through June 30, 2020 in two six-month increments (CF 14-0806). However, Finance is requesting authority to extend the agreement with Wells for a full year, notwithstanding the six-month increments. Finance is requesting the full one year term to help support the City's Bonding Assistance Program through a Letter of Credit established between the City and Wells Fargo.

BONDING ASSISTANCE PROGRAM

City and State law mandate that the City obtain bid bonds, performance bonds, and payment bonds on public works construction contracts. In recognizing the difficulty of obtaining surety bonds, the City established the City's Contractor Development and Bonding Program (CDABP) to assist contractors with their respective contracting capacity and business growth. The CDABP qualifies local, small, and emerging (including minority and women owned) contractors in obtaining the required bid, performance and payment bonds necessary to compete for various City construction projects. The CDABP is administered by the Office of the City Administrative Officer that partners with a broker/administrator who works with contractors in preparing them to meet bond underwriting requirements, thereby providing sureties a comfort level allowing them to bond those contractors previously unable to obtain the necessary bonding.

As part of the program, and in some instances, the City provides bond guarantees for contractors enrolled in the program if it is determined that such guarantees are the only manner in which a contractor could obtain surety bonding. Some of the contractors are unable to meet the bonding requirements for the City's projects. In order to support these contractors furthering the City's local economic and inclusivity goals, the City issues Stand-by letters of credit to sureties on behalf of approved contractors participating in the CDABP.

The City Council established within the Treasury of the City a special fund known as the Insurance and Bond Special Fund, a portion of which is used to pay sureties for contractor bond defaults where the City provided a guarantee under the CDABP. The City Council also authorized the City Treasurer to arrange and establish a \$4,000,000 line of credit to cover outstanding bond guarantees.

Wells Fargo provides a Letter of Credit facility (LOC) under which the financial institution will issue standby letters of credit for the account of a borrower to support the City backed collateral provided to approved CDABP contractor participation. The available commitment, including the aggregate of all undrawn amounts, and all amounts drawn and unreimbursed cannot exceed the principal amount of four million dollars (\$4,000,000.00). Each LOC is issued for a term not to exceed Four Hundred and Eighty Five (485) days as designated by the City. The stated amount of each LOC may not exceed Two Hundred and Fifty Thousand Dollars (\$250,000.00) or 40% of the contract amount, whichever is least.

There are currently ten (10) open LOCs with a value of \$1,952,869 supporting City projects. Seven of those LOCs expire on June 30, 2019, and under the terms of the existing agreements between Wells Fargo, the surety company (Merriwether & Williams), and the City, any action to renew these agreements must commence 45 days before the expiration, otherwise the surety company may potentially call a draw on the LOCs. Consequently, it is critical that Finance execute an extension with Wells Fargo to maintain the appropriate LOC.

Since the CDABP's inception, the program has leveraged its \$4 Million LOC to enable over \$220 Million submitted bid estimates on City projects by program contractors. Of those \$220 Million, \$94 Million in contracts were awarded to eighty-three (83) distinct contractors that are program participants. These awards generated \$7 million in overall returns to the City from the cost savings generated by participant low-bid contract awards. Additionally, there have been approximately 25,000 technical assistance sessions to over 4,000 contractors through the CDABP.

FISCAL IMPACT

The City paid \$18.2 Million in bank service charges for all City departments in Fiscal Year 2017-18 and is projected to spend \$18.5 Million in bank service charges in Fiscal Year 2018-19. In

anticipation of a transition to a new bank platform, Finance initiated migrating the City's merchant accounts from the Wells Fargo Merchant Services platform to Elavon, Inc. at the start of this fiscal year. Finance is also migrating the service charges for its Armored Courier services off the Wells Fargo payment platform. Approximately \$8.9 Million of the service charges to be paid in FY 2018-19 are invoiced through the agreements with Wells Fargo Bank.

The Department of Water and Power, the Los Angeles World Airports, and the Department of Transportation are invoiced directly by the bank and pay their charges directly, which are projected to be approximately \$14.5 Million in Fiscal Year 2018-19. Finance pays for all other City departments' bank service charges.

RECOMMENDATION

The Office of Finance recommends that the City Council:

- 1) Authorize the Director of Finance, or designee, to execute Amendment No. 6 to Contract No. C-114826 with Wells Fargo Bank for banking services, subject to final approval as to form and legality by the City Attorney; and
- 2) Authorize the Director of Finance, or designee, to execute Amendment No. 6 to Contract No. C-114564 with Wells Fargo Bank for banking services, subject to final approval as to form and legality by the City Attorney.

If you require any further information regarding this request, please contact Nicole Bernson, Assistant Director of Finance, at (213) 978-1774.

Respectfully,



Claire Bartels
Director of Finance / City Treasurer

Attachments

cc: Miguel Sangalang, Office of the Mayor
Zara Bukirin, Office of the City Administrative Officer