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CALIFORNIA

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ERIC GARCETTI
MAYOR

April 11, 2019

The Honorable Members of the City Council
c/o City Clerk
City Hall, Room 395

APPROVAL TO EXECUTE SERVICE AGREEMENTS WITH BANK OF AMERICA, N.A., J.P. MORGAN CHASE BANK, N.A., AND MUFG UNION BANK, N.A. TO PROVIDE GENERAL BANKING SERVICES

Dear Honorable Members,

The Office of Finance (Finance) has completed its review of the proposals submitted in response to the General Banking Services Request for Proposal (RFP) and is providing the results and recommendations from its review for the Council's consideration. The City's banking services contracts are critical to City operations, effectively enabling service delivery to all our constituents by: Providing City departments the means to meet their respective financial obligations to vendors; Enabling the timely processing of the City's payroll; Affording City constituents efficient and effective means to make payments; and, providing the ability to meet all other necessary payment obligations.

It is Finance's goal to implement treasury industry best practices as a result of this RFP. Among those best practices is moving away from the City's current reliance on the one-bank service model of today. The RFP stated our intention to select a minimum of two banks to provide general banking services. In addition the RFP included a robust review of the proposers' social and environmental responsibility, including their local lending and investment and overall commitment to the communities that the City serves. Consequently, Finance respectfully requests approval to award and negotiate service agreements with three (3) banking services providers: Bank of America, N. A. (Bank of America), J.P. Morgan Chase Bank, N.A. (JPMC), and MUFG Union Bank, N.A. (Union Bank) to provide general banking services to the City.

The agreements with Bank of America and JPMC will succeed the existing agreements between the City and Wells Fargo Bank, which expire on June 30, 2019. The City does have the option to extend the existing Wells Fargo agreement through June 30, 2020, as needed to allow Finance to work with the new service providers to migrate the City's bank services to the new respective bank platforms. Finance submitted a separate report requesting to extend the agreement with Wells Fargo through June 30, 2020. The agreement with Union Bank will supersede an existing agreement between the City and Union Bank for banking services to support the City's Neighborhood Council Funding Program (NCFP).

AN EQUAL OPPORTUNITY-AFFIRMATIVE ACTION EMPLOYER

In accordance with Los Angeles Administrative Code Section 10.5 (a), City Council approval of the proposed agreements is required because the cumulative term of the respective contracts exceeds three years.

BACKGROUND

Finance, in conjunction with its general banking services partners, provides treasury and banking services to all City departments to support their respective departmental operations and delivery of services to City residents. Approximately \$40 billion in transaction value is processed through City financial transactions, including the acceptance of more than \$360 million in currency from various City public counters, over \$6 billion in Automated Clearing House (ACH) transactions, and approximately \$33 billion in wire transfers. The treasury transaction volume includes over one million City ACH or electronic payroll transactions, processing nearly three million deposited checks, settling City obligations through more than four hundred and sixty thousand (460,000) checks issued, and nearly nineteen (19) million credit/debit card transactions.

The terms and conditions of the agreements will require Bank of America, JPMC, and Union Bank to provide general banking services, which include maintaining over 800 depository accounts for all City departments, processing Electronic Funds Transfer (EFT) transactions, providing direct deposit, payroll tax processing, lockbox, cash vault, and branch depositing services, supporting the NCFP, and providing a Letter of Credit to support the City's Contractor Development and Bonding Program (CDABP).

Nearly all of these services are currently provided by Wells Fargo Bank as a result of an RFP released by the Office of the Treasurer in 2008. The initial term of the agreements was for a five-year period with an option to extend the agreements with five one-year options. The final extension option was exercised recently in September 2018 and Council approved extending the services with Wells Fargo Bank through June 30, 2019 with an option to extend the agreements through June, 2020 if needed. Union Bank currently supports the City's NCFP.

REQUEST FOR PROPOSALS

Finance released an RFP for banking services on January 5, 2018 to identify new services providers and establish succession agreements for banking services after receiving input and direction from the City Council on specific areas of the RFP. The RFP was developed with the intent to maximize the service capabilities and social responsibility of the City's general banking partners, while also providing improved business continuity elements and competitive pricing for a more cost effective business platform to meet the City's critical treasury demands. The RFP required financial institutions interested in submitting proposals to respond to four elements in the RFP: 1) Scope of Work; 2) Financial and Organizational Strength; 3) Pricing and Bank Compensation; and, 4) Social Responsibility.

Scope of Work and RFP Service Requirements

The RFP requested proposals to contract for general banking services for a period of five years, with an option to extend the contract agreement for an additional five year term, and included the following six service categories and associated services:

1. Disbursement Services
 - a. Account Reconciliation Services
 - b. Positive Pay
 - c. Controlled Disbursement
 - d. Integrated Payables – Electronic Data exchange
2. Neighborhood Council Accounts
3. Check Printing Services
4. Lockbox Services
5. Depository Services
 - a. Cash Vault Services
 - b. Check Processing
 - c. Remote Deposit Services
 - d. Contractor Development and Bonding Program Letter of Credit

6. Electronic Funds Transfer
 - a. Automated Clearing House Services
 - b. Wire Transfer Services

Financial and Organizational Strength

Respondents to the RFP were required to demonstrate they possessed the organizational and financial strength to provide a high standard of financial expertise to the City. Respondents to the RFP were also required to submit information relative to their respective experience in government banking, a profile of the bank services currently provided in the City (bank branches, ATMs, data centers, etc.), financial statements (including capital adequacy, structure, and coverage), government agency references, a description of the organization's customer service philosophy, and the bank team that will support the City.

Pricing and Bank Compensation

Finance noted in the RFP that it was looking for a financial institution partner that could provide competitive pricing with an equitable compensation package. Respondents to the RFP were required to provide a pro forma pricing and fee worksheet based on anticipated service volumes provided by the City, including earning allowances formula and rates.

Social Responsibility

In addition to identifying financial institutions with the ability to provide sound banking and treasury services to the City, Finance also structured the RFP to identify financial institutions with the proven commitment and dedication to the communities the City serves. Respondents to the RFP were required to demonstrate how their respective institutions encouraged economic opportunities and

provided responsible banking services by responding to a social responsibility evaluation component in the RFP. The social responsibility component of the RFP required that proposers adhere to the following: 1) Possess a current "satisfactory" Community Reinvestment Act (CRA) rating, both nationally and in the State of California; 2) Comply with the current and future City Responsible Banking Ordinance; 3) Disclose any pending investigation or enforcement action in the past five years by a government agency; 4) Certify that it does not engage in illegal predatory consumer adverse practices nor base evaluations, promotions, discipline, or compensation of any bank employee on illegal consumer adverse practices within the City; 5) Disclose consumer lending activity within the City; 6) Identify community investments that support affordable housing, community services, and finance economic and small business development in the City; 7) Identify a record of community banking services in the City; and, 8) Demonstrate how the bank promotes environmental and global protection.

Proposals

In an effort to maximize the outreach by the City, Finance sent notifications soliciting proposals to over 250 banks doing business in the City and encouraged both local financial institutions and national banks doing business in the City to submit proposals.

A mandatory Proposer's Conference was held on February 14, 2018. Twenty (20) organizations attended the conference. Finance received nearly 300 questions from prospective proposers regarding the content and requirements noted in the RFP.

Responses to the RFP were received from eight (8) financial institutions on April 18, 2018: Bank of America, Bank of New York Mellon, Bank of the West, Beneficial State Bank, Citi Bank, JPMC Bank, Union Bank, and US Bank. 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 a new bank services provider(s).

EVALUATION AND SELECTION PROCESS

Evaluation Committee

Finance coordinated and facilitated the evaluation process and established a panel of five (5) members to evaluate and score the responses submitted. Members of the panel included City departments that engage in high volume and transactional value operations. In selecting representatives for the evaluation committee, Finance wanted to obtain the perspective of the City's three largest general banking services clients, namely, the proprietary departments, as they have the largest footprint in the City's treasury operations due to their respective debt financing and large transactional values and volumes. Additionally, Finance sought the experience of a department with a strong financial administration perspective, as well as the perspective of a non-City government agency with commensurate levels of treasury volumes and activity. Representatives from the following agencies participated on the evaluation committee: Los Angeles World Airports, Department of Water and Power, Office of the City Administrative Officer, Harbor Department, and the County of Los Angeles Treasurer and Tax Collector. Each of the panel members had treasury operations experience with more than one of the following operations: large cash transactions, debt

management and administration, lockbox, electronic fund transfer, and account reconciliation services.

Each of the panel members conducted an independent review of the proposals in each of the service categories outlined in the RFP and ranked the proposals in order of merit in accordance with the criteria established in the RFP. The evaluation panel used the following scoring criteria set forth in the RFP:

Phase One – Organizational Capacity

Financial Strength	30 points
Service/Products	30 points
Cost	15 points
Customer Service	10 points
General Requirements	5 points
Implementation Plan	5 points
References & Experience	5 points

Phase Two – Social Responsibility

Community Lending & Investing	10 points
Enforcement Actions	15 points
Environmental Sustainability	5 points

The panel participated in a series of bi-weekly conference calls to discuss the merits of the proposals, obtain clarifying guidance from Finance, and to discuss and reach consensus on the final rankings of the proposals. The panel was provided with additional independent credit risk analysis, pricing analysis, and reference reviews conducted by Finance staff to help the panel in its evaluations.

Credit Risk Analysis

Finance’s Investment Division conducted a credit risk assessment of the banks to assess their probability for default and financial strength. Finance Investment staff reviewed current credit ratings of each respondent bank from three nationally recognized statistical rating organizations including Moody’s, Standard & Poor’s, and Fitch. Finance investment staff also assessed Credit Default Swaps (CDS) based on the current price of one-year CDS (per Bloomberg pricing) to gauge capital market probability of default expectations over a one year horizon. In addition, Investment staff used Bloomberg's Default Risk Analytics model to arrive at a probability of default score and percentage. These analyses were submitted to the evaluation panel for its consideration and review.

Pricing Analysis

Finance Treasury staff conducted an independent review and analysis of the proposed price and service fees submitted by each respondent bank. The review also factored into its analysis the proposed Earnings Credit Rate and earnings allowances. This analysis was submitted to the evaluation panel for its consideration and review.

Reference Reviews

As part of the evaluation process twenty (20) reference checks were made to treasury offices at fifteen (15) government agencies across the nation that have existing service agreements with the respondent banks. There are government agencies on the reference list, such as the State of California and City of New York, which currently have bank service agreements with more than one of the respondent banks. The agencies contacted include three (3) states (California, Arizona, and Michigan), five (5) counties (Los Angeles, Riverside, City and County of San Francisco, Maricopa (AZ) and Multnomah (OR)), and seven (7) municipal agencies (Cities of Bakersfield, Dallas, Milwaukee, New York, Sacramento, and San Diego, and the New York City Housing Authority). The results from these reference checks were provided to the evaluation committee for its review and consideration.

Award Outcome

Bank of America and JPMC consistently ranked either first or second in the following service categories: Disbursement, Depository, Lockbox, Check Printing Services, and Electronic Funds Transfer. Union Bank ranked the highest in the Neighborhood Council Banking service category. The RFP was developed with input from the Council, which set high standards to identify financial institutions that could provide quality operational services and that had demonstrated a record of making a commitment to the community. The evaluation committee determined that these three financial institutions submitted the strongest bids in the aforementioned service categories.

Bank of America

Bank of America consistently ranked high in all service areas for which it submitted a response. The committee noted Bank of America's strength and experience in providing relationship management to government agencies, the experience of the client relationship team that will be assigned to work with the City, its familiarity with the City's treasury operations, and its State and National consumer market share. The committee also looked favorably on the treasury solutions proposed by Bank of America for initiating payment transactions and funding disbursements, managing receivables, and recent investments in its technology to support its web-based platform for conducting financial transactions. The committee also felt that Bank of America demonstrated a strong lockbox operation capable of efficiently processing both retail and wholesale payments and providing easy online access to City departments of the related remittance information that they would need to reconcile accounts. Finally, the committee noted the bank's geographic footprint in the City that could support the City departments with broad geographic footprints.

J.P. Morgan Chase

JPMC consistently ranked high across all the service categories for which it submitted a response. JPMC has experience working with government agencies and has a demonstrated record as a leader in the banking industry. The City evaluation committee recognized JPMC's ability to help the City in its efforts to enhance and optimize the City's automation and electronic efficiency initiatives for electronic payments. JPMC's business solutions for integrated payables was considered a strength that would suit the City. Additionally, JPMC was noted for its consumer branch locations that could support City vendors and City staff.

Union Bank

Union Bank was one of two banks which submitted proposals to provide banking services to support the City's NCFP. The committee noted that Union Bank is the current service provider for the NCFP. In evaluating Union Bank's proposal, the committee recognized the quality of customer service and relationship management that has been provided by the bank to support the Neighborhood Council's banking needs. The bank also worked closely with staff of the Office of the City Clerk (City Clerk) to establish an interface between its reporting system and the City Clerk's accounting system. It was the opinion of the committee that Union Bank has provided exceptional service and would continue to do so pursuant to the requirements set forth in the RFP.

Non-Responsive Submissions

The submissions by the Bank of New York Mellon and Beneficial State Bank were deemed non-responsive to the RFP. Additionally, the proposal submitted by US Bank was disqualified as the proposal failed to comply with the Business Inclusion Program (BIP) outreach efforts required by the RFP. Consequently, the remaining five proposals were reviewed and considered by the evaluation committee.

Award Notification and Appeal

Finance mailed notices to all proposers informing them of the evaluation committee's recommendations and non-selected firms were afforded an opportunity to submit an appeal as provided for in Section 2.10 of the RFP. No firms filed an appeal with Finance.

CITY BANKING RELATIONSHIP MODEL

The Los Angeles City Charter establishes the City Treasury as the official depository of the City, which is under the direction and control of the City Treasurer. The primary goal and success of an effective cash treasury operation is an efficient cash flow program that excels in optimizing the collection of receipts, efficiently manages and controls disbursements, and provides complete and thorough financial data to effectively ascertain the City's daily net cash position. On a daily basis, guided by the City's investment and earnings strategy, Finance determines whether to allow excess balances to remain in the City's depository account for earning allowance credit or to invest surplus balances to obtain a more competitive rate of return. The fundamental cash treasury operation is managing cash flows and balances. Cash flows involve moving money (cash) into, and out of, City accounts through collection and payment transactions.

An effective cash flow process is based on the establishment of a bank account structure that lends itself to cash-in (credits) and cash-out (debits) flows that are deliberately set to manage and control cash as much as possible while being prepared to handle any unexpected inflow or outflow as not to overdraw its checking account or require Finance to sell assets prematurely which, in both cases, would negatively impact overall investment returns. As such, the goal of Finance is to provide as much control over disbursements, whether manual (paper checks), commercial card (EPayables), automated clearinghouse (ACH), and wire or reversal electronic transactions while ensuring revenue is collected efficiently by maximizing collection processing best practices.

An added critical tie-in to managing cash flow is the strategic and deliberate establishment of data delivery and retrieval protocols of an organization's receivables and payables systems with the

financial institutions' systems to render a straight-through processing that is free and clear of much, or even any, manual intervention except review.

In addition to the deliberate management of cash flow previously described, a large cash management operation must set in place a strong treasury infrastructure based on its expectation of current and future bank processing trends. All in all, ensuring the protection of continued service to its clients with no interruption in service is foremost and critical to a large public entity such as the City when establishing a banking relationship/structure.

City General Banking Services

Finance obtained input from the City's largest customers, namely the proprietary departments, as well as from the Office of the Controller (Controller) in developing a banking model. Finance is recommending that the general banking services agreement be bifurcated between two financial institutions: Bank of America and JPMC. The bifurcation of a banking structure utilizing split banking relationships is common for larger public agencies such as the State of California and County of Los Angeles.

The bifurcation structure is essential in order to address several key factors challenging governmental treasury operations today. The proposed banking structure is critical in order to address those challenges in the following manner:

1. Ensure non-reliance on one financial institution.
2. Maintain a redundancy should any one financial institution's performance deteriorate and not meet the City's service level expectations.
3. Provide a contingency should a financial institution cease to deliver or discontinue a particular service or product.
4. Maintain a redundant system and service provider with more than one financial institution to allow for the continuity of services and prevent, or minimize, the interruption of services to City constituents and departments during an emergency situation.
5. Ensure the greatest accessibility to collecting receipts and delivering payments by availing of top-tiered State and National market share percentages.
6. Allow for a larger branch banking network to provide convenient access to City departments for depositing receipts.
7. Provide a greater branch banking network that is geographically prominent within the City's boundaries to provide convenient accessibility to City constituents, customers, and employees who have a need to process a check issued by the City.
8. Obtain expansive knowledge and experience in the public sector market place.
9. Leverage expertise and leadership in treasury, cash management, and public finance services and products.

Bank of America would be responsible for serving as the City's primary depository institution used to manage the City's cash flow and/or net banking position. All deposits, whether cash, check, or electronic, will be deposited into Bank of America's concentration of funds. Bank of America would be responsible for processing all depository activities, including cash receipts, lockbox services, wires, Automated Clearing House transactions, and non-controlled disbursements. All controlled disbursements would be serviced by JPMC, including payroll direct deposit and the settlement of accounts payables by checks. All banking services to support the City's Neighborhood Council Funding Program will remain with Union Bank.

Neighborhood Council Funding Program (NCFP) Banking Services

The City supports its ninety-six (96) Neighborhood Councils to promote citizen participation in government and making government more responsive to local needs, in part, through the establishment of an NCFP that is administered by the City Clerk.

The City currently supports the NCFP through an agreement with Union Bank to provide depository and commercial card program and check printing services to the City. This agreement will sunset on March 15, 2020. Finance is requesting authority to continue to use the banking services of Union Bank with a successor agreement resulting from this RFP.

Contractor Development & Bonding Assistance Program (CDABP) Letter of Credit

Finance is requesting authority to apply for a \$4 million letter of credit with Bank of America to support the City's CDABP.

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 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.

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 million line of credit to cover outstanding bond guarantees.

SOCIAL RESPONSIBILITY

Financial institutions responding to the RFP were required to demonstrate their respective commitment and dedication to the communities served by the agency by providing evidence that reflected how the bank encouraged economic opportunities and provided responsible banking.

Enforcement Actions

The City required that banks provide a statement disclosing any enforcement actions or investigations conducted within the past five years by the following government agencies: Consumer Financial Protection Bureau, U.S. Department of Justice, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, U.S. Securities and Exchange Commission and any applicable state banking regulatory body. All three banks recommended for award provided information in their respective responses regarding any pending investigations and completed investigations.

Consumer Practices Certification

Banks were also required to submit a Consumer Practices Certification to certify that the agency does not engage in illegal predatory consumer adverse practices, nor base evaluation, promotion, discipline, or compensation of any employee on illegal predatory consumer adverse practices within the City. All three banks recommended for bank contract awards provided a Consumer Practices Certification.

Responsible Banking Ordinance

The City established a Responsible Banking Investment Monitoring Program Ordinance (RBO) to spur community investment by financial institutions that partner with the City and promote responsible banking. The successful proposers awarded contracts pursuant to the RFP are required to comply with the City's RBO, as well as with any future amendments and changes to the RBO. Bank of America, JPMC, and Union Bank completed and submitted a *Responsible Banking Investment Monitoring Program for Commercial Banks* form which includes lending information. All banks certified to their ability to comply with the City's RBO and all banks currently have existing service agreements with the City and have complied with the RBO in the past. Additionally, as Council adopted changes to the RBO (C.F. 09-0234) in 2018, all three banks affirmed their ability to comply with the revised RBO.

Environmental Sustainability

The evaluation committee reviewed and evaluated each proposer's participation in building a sustainable future by directing resources to industries and efforts that help improve the health of the natural environment, pursuant to the guidelines and requirements set forth in the RFP.

Bank of America reported that since 2007 it has provided more than \$70 billion in financing for low-carbon and sustainable business activities. Bank of America has committed to providing \$125 billion in capital to develop solutions to climate change and environmental challenges by 2025. Also notable is that Bank of America established a Global Environmental, Social and Governance Committee to routinely report to its Corporate Governance Committee and Board of Directors on environmental and social issues.

JPMC reported that since 2003, it has been a leading investor in renewable energy in the United States and has raised approximately \$16.8 billion in financing for wind, solar, and geothermal

projects. JPMC underwrote more than \$5 billion of green, social, and sustainability bonds in 2016 for municipal, corporate, and multilateral clients. The proceeds of these bonds are designed for environmentally and socially beneficial projects. JPMC has committed to facilitate \$200 billion in clean financing by 2025.

Union Bank reported that it has committed to providing \$25 billion in environmental financing and investments over the next five years. In the past two years, Union Bank has financed over 100 clean-energy and energy-smart technology projects totaling \$7.2 billion.

Community Lending, Investing and Banking Services

In order to be considered for this contract award, respondents to the RFP needed a minimum overall Community Reinvestment Act (CRA) rating of at least "Satisfactory", both nationally and in the State of California. Bank of America has a national CRA rating of "Satisfactory", having received a "High Satisfactory" rating in the Lending Test and an "Outstanding" rating in the Investment and Services Tests. In California, the bank has an "Outstanding" rating, having received a "High Satisfactory" rating in the Investment and Services Tests. JPMC was rated "Satisfactory" nationally, and "Outstanding" for the State of California on its most recent CRA performance evaluation. Union Bank has an "Outstanding" rating in the State of California and nationally.

Responsible Banking

Respondents to the RFP were required to describe any successful programs which the bank would propose and commit to partner with the City to bring financial education to the citizens of Los Angeles and help make their communities better. The City expressed interest in community financial education and literacy programs targeted toward underserved populations such as teens, college students, minorities, and seniors in low- and moderate-income communities of the City. Such programs may include financial basics, teaching children and teens how to save, paying for college, buying a home, building credit, banking for seniors, and planning for retirement.

As part of the agreement between the City and the banks, the City will require that banks provide no-cost public workshops regarding personal banking pursuant to instructions from the City Council (CF17-0831). Bank of America, JPMC, and Union Bank all demonstrated a commitment and ability to work with local government agencies and non-profit organizations to provide successful community financial education and literacy initiatives.

As reported by Bank of America on its proposal, it has delivered a variety of educational, career readiness and financial literacy programs in the City of Los Angeles. It has been a longtime supporter of the Junior Achievement of Southern California, providing funding to support financial literacy training to youth throughout Los Angeles Unified School District. Additionally, Bank of America participates in the State of California Bank On Program and served as one of the program's original sponsors. Bank of America has financially supported the Bresee Foundation which provides comprehensive after school programs and family services that equip young people with the tools to pursue their education, achieve their full potential, and serve others. The bank has provided over \$20 million to help non-profit organizations address issues fundamental to community sustainability. Additionally, Bank of America sponsors an employee donation program

in which \$3 million was contributed by bank employees to local charitable organizations of their choice, and matched by the Bank of America Charitable Foundation. Finally, Bank of America sponsors an employee volunteer initiative that has provided 245,334 volunteer hours contributed by local bank employees.

As reported by JPMC in its proposal, it has participated in several Los Angeles area Community financial education initiatives. In 2017, JPMC Bank was selected as the City's Summer Night Lights financial education partner wherein the bank provided financial education to "at risk" youth. JPMC also participates in Los Angeles County's newly formed Center for Financial Empowerment (CFE). The CFE's mission is to coordinate efforts to build economic stability and household wealth for low to moderate income residents in Los Angeles County and empowering them to make informed financial decisions. Through the CFE, JPMC is also coordinating a new Bank On Los Angeles initiative. JPMC also participates in a partnership with the City of Los Angeles Family Source Center network and has provided credit, financial coaching, and program development training in Los Angeles. JPMC provided 65 financial and first time homebuyer workshops to low-moderate income adult households in South Los Angeles, Koreatown, the San Fernando Valley, and East Los Angeles.

As reported by Union Bank in its proposal, Union Bank is committed to empowering youth and strengthening communities through financial education. Union Bank has opened five student-run bank branches in California that provide high school students with real-world financial skills, two of which are within the City: Abraham Lincoln High School Branch and Crenshaw High School Branch. Union Bank also established a Financial Center at Magnolia Place in South Los Angeles as a resource center for the community's financial needs and concerns. Additionally, Union Bank is a partner of the Bank On California Program. Finally, Union Bank partners with Operation HOPE and Junior Achievement to provide financial literacy training to youth.

IMPLEMENTATION

The task of migrating the City's account structure from the current one bank structure with Wells Fargo bank to a multiple bank structure will be complex and require a methodical and well-coordinated effort between the banks, City departments, and the City's vendors that support the technology used to facilitate the City's cash financial transactions and reporting infrastructure. Finance will be the principal lead agency in migrating the City to new bank platforms, but will require the support and coordination from the Controller, the Information Technology Agency (ITA), and other City departments. There will be a considerable amount of work to be performed in migrating and establishing accounts to new bank platforms, testing file transfers between the City and bank financial systems, establishing and testing security protocols, and training City staff on new bank systems. Employee and contractual resources will be expended by not only Finance, but by every individual department utilizing banking services. The first task is to negotiate with the banks. Once the service agreements are finalized Finance and the banks will establish a timeline for testing and migrating bank services.

Finance met with the Controller, and they are committed to expediting the implementation of the proposed banking structure, however, they have expressed that implementation would require

changing interfaces between the Banks and various City systems such as FMS, PaySR, Grand Central Disbursement, Ivos, CashWiz, and the Proprietary department systems, such as the Harbor's Oracle ERP. It may also require some complex programming depending on the flow of transactional data between the City's and the banks' systems. The Controller will need to engage the services of system vendors such as CGI to determine the scope, timeline and resource needs for the migration of accounts. This process will commence after the award is finalized and needed personnel and financial resources have been designated. Based on preliminary estimates, the Controller's team has submitted a tentative budget request and expects the implementation to take 9-12 months from the date the banks are selected. Once they have met with the banks and all the details of the changeover have been considered - both the cost estimates and timeline will be further refined.

Transition Funding

Finance anticipates that there will be one-time costs associated with the implementation and transition to the new bank platforms. Finance anticipates the following expenses as part of the implementation: 1) Technical and programming costs to ensure the secure and efficient data file transfer of financial transactions and information between the City's and the banks' financial systems; 2) Purchase of new equipment, such as remote check deposit readers for various City department locations; 3) Printing services (deposit slips, check stock, cash handling supplies); and, 4) Staff support for Finance, ITA, and the Controller to interact with City departments and the banks to help migrate accounts to the new bank platforms.

Additionally, Finance anticipates a temporary increase in bank service fee expenditures resulting from contemporaneously operating with three bank platforms during the migration and testing phases of the implementation.

Finance is estimating that bank fees will increase annually by about \$50,000 based on the difference between bank fees paid in FY 2017-18 and proposed fees in the proposals from the recommended banks. It should also be noted that the current bank fees are from 10 years ago. However, Finance will be working with the new bank providers to help the City identify cost efficiencies that could result in lower expenses.

In light of the aforementioned anticipated implementation costs, Finance and the Controller submitted budget requests as part of their respective Fiscal Year 2019-20 Proposed Budget Submission to address the anticipated costs associated with the implementation and transition to fund the bank transition and will work with the Office of the Mayor and the Office of the City Administrative Officer (CAO) on Finance's bank transition funding needs.

Finally, all three banks proposed implementation allowances as part of their respective bank compensation and pricing response. The allowances could help offset some of the anticipated implementation costs. The implementation allowances would be applied as a credit to the City's bank service fee charges in the first year of service.

TIMELINE

The timeline on the following page illustrates the anticipated timeframe and major milestones to complete the RFP, award review and approval, contract negotiation, and implementation and testing to transition to the new banks:

BANK IMPLEMENTATION TIMELINE		
MILESTONE	ESTIMATED START DATE	ESTIMATED COMPLETION DATE
<u>Award approval - 1 Month</u> ♦ Council Consideration and Approval	4/15/2019	4/30/2019
<u>Contract Negotiation and Execution - 4 Months</u> ♦ Finance and Banks review Terms and Service Level Agreements ♦ Banks' Counsel and Office of the City Attorney Review ♦ Office of the Mayor Executive Directive No. 3 Review ♦ Office of the City Administrative Officer Review ♦ Council Consideration and Approval	5/1/2019	8/30/2019
<u>Implementation Plan Roll-Out & Testing - 9 Months</u> ♦ Relationship reviews with City Departments to review Account Structures, establish new accounts, review lockbox instructions, establish EFT templates and protocols ♦ Map data exchange, test file transfers, establish disbursement activity ♦ Program systems as necessary ♦ Evaluate and update internal controls, operating policies, procedures and guidelines	9/1/2019	5/31/2020
<u>Migration to New Bank Platforms - 4 Months</u> ♦ Begin and complete migrating services to new banks	3/1/2020	6/30/2020

The timeline factors in the reviews by the necessary City departments. As Finance has limited control over the approval review processes, we have estimated the length of time based on prior banking contract review timeline.

Contract negotiations with the selected proposers will commence once the authority to award and negotiate an agreement is finalized by the Council. Finance and the banks' respective relationship teams will make every effort to complete negotiations quickly, however, it is difficult to determine at this time if contract negotiations will be protracted due to unforeseen service agreement conditions. Finance's experience in negotiating contractual agreements with financial institutions indicate it may take anywhere from three (3) to six (6) months to complete the contract negotiations. Accordingly, Finance included about four months in the timeline for these negotiations.

It should be stressed that the timeline are assumptions based on what information is available to the City at the moment. The expediency for migrating to a new service provider depends a number of items. As noted earlier, Finance will now be coordinating with two banks. The extent to which the respective bank and City systems can quickly resolve any issues on the file transfers will be an important step in the implementation. Finally, the ability of City departments to be available and responsive to Finance and the banks during the testing and implementation process will also add to the complexity of the implementation as some departments have a large footprint in the banking operations.

Finance anticipates it can complete testing the new bank platforms by June, 2020. Finance also anticipates it can begin migrating accounts from the Wells Fargo platform to Bank of America and JPMC as early as March, 2020 and complete the process by June 30 2020.

FISCAL IMPACT

Finance will monitor the fiscal impact to the General Fund as the implementation progresses and will monitor the monthly service charges and any additional funding that may be required beyond the department's appropriation in its Bank Service Fees account. Finance will report through the annual budget preparation cycle and the monthly Financial Status Reports on any significant changes in the expenditures from its Bank Service Fees account.

RECOMMENDATIONS

Finance respectfully requests that the Council:

1. Approve, and authorize the Director of Finance, or designee, to negotiate a service agreement with Bank of America to provide general banking services for a period of five years effective upon the date of the execution of the agreement, with an option to extend the agreement for this purpose, for an additional five year term;
2. Approve, and authorize the Director of Finance, or designee, to negotiate a service agreement with J.P. Morgan Chase Bank, N.A. to provide general banking services for a period of five years effective upon the date of the execution of the agreement, with an option to extend the agreement for this purpose, for an additional five year term;
3. Approve, and authorize the Director of Finance, or designee, to negotiate a service agreement with MUFG Union Bank, N.A. to provide banking services to support the Neighborhood Council Funding Program for a period of five years effective upon the date of the execution of the agreement, with an option to extend the agreement for this purpose, for an additional five year term;
4. Authorize the Director of Finance, or designee, to enter into a Letter of Credit agreement with Bank of America, N.A., for an amount not to exceed \$4 million, to support the City's Contractor Bonding Assistance Program, subject to review and approval by the City Attorney as to form and legality.

General Bank Services Agreements

April 11, 2019

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

Sincerely,



Claire Bartels

Director of Finance / City Treasurer

cc: Miguel Sangalang, Office of the Mayor
Andrew Kaplan, Office of the Mayor