



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** December 10, 2013

**TO:** Mayor and Councilmembers

**FROM:** Treasury Division, Finance Department

**SUBJECT:** Extension of Banking Services Agreement

### **RECOMMENDATION:**

That Council authorize the Finance Director to negotiate and execute a second amendment to banking services agreement, in a form acceptable to the City Attorney, with Union Bank, to provide banking services on the same terms and conditions as Agreement No. 22,312 and the First Amendment dated December 14, 2011, for an additional two months through February 28, 2014.

### **DISCUSSION:**

Banking services for the City are currently provided by Union Bank. Previously, the City had a long term banking relationship with Santa Barbara Bank and Trust (SBB&T) which officially became part of Union Bank on December 1, 2012. Since that time, Union Bank has honored the City's existing two year contract which is scheduled to expire on December 31, 2013.

Union Bank is recommending an extension of the current contract with essentially the same terms and conditions for a period of two months through February 28, 2014. The extension will allow the Bank to further analyze the banking services that best match the City's needs. Union Bank had originally planned on providing the City with a banking proposal in October of 2013 but their ability to provide the City with comprehensive analysis of banking services has been delayed primarily as a result the City's current financial software implementation. The new software has had an impact on various banking and cash management processes which in turn affects bank services and fees. The implementation to the new financial management software is expected to be finalized on January 6, 2013.

Union Bank anticipates providing the City with a proposal of fees at the end of January 2014 that best matches the city's needs while considering greater efficiencies and cost savings opportunities provided by the new financial management software. Staff would

anticipate bringing forward a recommendation on the banking services agreement in late February 2014 for City Council consideration.

### **ADDITIONAL BACKGROUND**

The City's banking requirements are extensive and affect customer service, cash processes, and accounting functions in all City departments. The City maintains twelve bank accounts with over \$500 million deposits processed annually. Each month, over 28,600 items are deposited; 12,500 lockbox utility payments are processed; 3,100 payroll direct deposits are made to employees; 1,500 accounts payable checks are cleared; and 11,500 utility and waterfront accounts are charged through "auto-pay" services. Union Bank is also the depository for credit card transactions for the fifteen merchant accounts used at various City locations and provides electronic data transfer of the daily checks issued and cleared which is loaded both from and to the City's financial management system each morning. In addition, the City uses armored transport services at six City locations.

Banking services may be paid by the City in one of two ways: hard dollar costs or utilizing a compensating balance. A hard dollar cost arrangement is one in which the City is directly charged for actual banking services, either as a debit to the City's bank account or payment by City check. A compensating balance is one in which the City deposits and maintains an agreed upon amount in the bank and the City earns no interest on this deposit; the bank is then compensated by their ability to invest these funds and retain the interest earnings. The agreement with Union Bank is on a compensating balance basis, and staff recommends continuing this same arrangement, which is generally the least costly option to the City. The current compensating balance requirement is \$4.3 million.

Aside from the City's demand deposit relationship with Union Bank, the City also has a trustee relationship with the bank. Union Bank serves as the City's custodian for its fixed income securities in the City's investment portfolio. In January 2006, the bank offered to provide these services at no additional cost to the City insofar as the City maintains its depository arrangement with Union Bank. Since the City is also satisfied with the bank's trustee performance, this no-cost arrangement is an added benefit to continuing the banking services agreement.

### **BUDGET/FINANCIAL INFORMATION**

No appropriation is required because all hard costs would continue to be waived by Union Bank through February 28, 2014 insofar as the minimum compensating balance is maintained. However, since the City does not earn interest on the \$4.3 million compensating balance, there is an imputed cost to the banking services agreement, estimated at \$13,330 each year based on the current yield on a comparable two-year Treasury note investment.

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