



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** February 25, 2014

**TO:** Mayor and Councilmembers

**FROM:** Treasury Division, Finance Department

**SUBJECT:** Banking Services Agreement

### **RECOMMENDATION:**

That Council authorize the Finance Director to execute, a banking services agreement, in a form acceptable to the City Attorney, with Union Bank to provide banking services in an amount not to exceed \$78,000 for the period of March 1, 2014, through December 31, 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. Union Bank has honored the City's existing contract which is scheduled to expire on February 28, 2014. The City's current contract with Union Bank essentially provides the City with banking services with a waiver of all hard dollar costs and requires that the City maintain a minimum daily bank balance of \$4.3 million, referred to as a "compensating balance". Over the past few years, the monthly banking services are valued at approximately \$12,000. The compensating balances maintained have generated approximately \$2,500 per month based on a 0.63% interest earning rate allowance to offset the monthly costs. So, the net monthly banking costs of approximately \$9,500 represents the hard dollar costs that the bank has waived each month and on an annual basis, this figure is \$114,000.

Union Bank has now provided the City with a proposal of banking services and fees for the 10 month period of March 1, 2014 through December 31, 2014. The bank has proposed that they provide the same level of banking services that the City is currently receiving while continuing to waive fees for the months of March and April of 2014, and also waive all transportation-related costs, such as armored car and courier services. The proposed costs for these services are \$78,000 for the remainder of the 2014 calendar year, which are still below the full value of services as determined by the bank.

During the next few months, City staff will reevaluate overall banking service needs and costs after considering the efficiencies provided by the new financial management software. Once this assessment is completed, staff would be in the position to initiate a Request for Proposal (RFP) for banking services or to renegotiate a contract with Union Bank for continued banking services well before the expiration date of December 31, 2014.

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 with the bank in the City's checking account 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 and staff would propose increasing the compensating balance to a maximum of \$20 million since the interest earnings rate allowance offered by the bank of .40% is higher than the current LAIF rate of .24%, and comparable to the 2 year Treasury rate of .33%.

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:**

Since Union Bank is waiving the banking fees for the month of March and April, the monthly banking service fees will commence at a rate of approximately \$9,750 per month, thereafter, from May 1, 2014 until December 31, 2014. These fees will be offset by the compensating balance interest earnings allowance of approximately \$6,750 per

month for a net hard dollar cost of \$3,000 per month. These costs will be charged to the various City funds based on an allocation method similar to the interest earnings allocation. The allocation cost impact to the General Fund would be approximately \$2,000 in Fiscal Year 2014 and approximately \$6,000 in Fiscal Year 2015.

**PREPARED BY:** Genie Wilson, Treasury Manager

**SUBMITTED BY:** Robert Samario, Finance Director

**APPROVED BY:** City Administrator's Office