



Agenda Item No. \_\_\_\_\_

File Code No. 210.03

# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** June 28, 2011  
**TO:** Mayor and Councilmembers  
**FROM:** Treasury Division, Finance Department  
**SUBJECT:** Banking Services Agreement

### **RECOMMENDATION:**

That Council authorize the Finance Director to negotiate and execute an agreement, in a form acceptable to the City Attorney, with Santa Barbara Bank & Trust National Association, to provide banking services on the same terms and conditions as Agreement No. 22,312 for an additional two years with an increase of \$2 Million in the compensating balance.

### **DISCUSSION:**

Banking services for the City are currently provided by Santa Barbara Bank & Trust (SBBT) and the City's long-term relationship with SBBT has functioned extremely well. Over the years, SBBT has provided a broad range of comprehensive and customized banking services of the highest quality and exceptional customer service.

The City's banking requirements are extensive and affect customer service, cash processes, and accounting functions in all City departments. The City maintains 12 bank accounts with over \$400 million deposits processed annually. Each month, over 26,000 items are deposited; 13,600 lockbox utility payments processed; 3,100 payroll direct deposits made to employees; 2,500 accounts payable checks cleared; and 6,500 utility and waterfront accounts charged through "autopay" services. SBBT is also the depository for credit card transactions for the 15 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 6 City locations.

The current 4.75 year contract expires on December 31, 2011 and SBBT has indicated its willingness to extend the current contract with essentially the same terms and conditions for a period of two years. Staff believes that both customer service and the efficiency of City operations would suffer with a change in banks, as well as create additional financial burden on the City.

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 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 SBBT 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 \$2.3 million, which would be increased to \$4.3 million during the two-year extension. This increase will help compensate the bank for their increased costs for services over the extension period, especially given the current low interest rate environment.

Aside from the City's demand deposit relationship with SBBT, the City also has a trustee relationship with the bank. SBBT 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 SBBT. 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.

At its June 21, 2011 meeting, the Finance Committee reviewed the banking services agreement and voted unanimously to recommend that Council approve the two-year extension.

#### **BUDGET/FINANCIAL INFORMATION**

No appropriation is required because all hard costs would continue to be waived by SBBT through December 31, 2013 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 \$18,500 each year, given the current yield on a comparable two-year Treasury note investment.

**PREPARED BY:** Jill Taura, Treasury Manager

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

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