



Office of the City Manager

ACTION CALENDAR
May 29, 2012

To: Honorable Mayor and Members of the City Council

From:  Christine Daniel, Interim City Manager

Submitted by: Robert Hicks, Director, Finance

Subject: Banking Services Request for Proposal

RECOMMENDATION

1. Discuss and give direction to the City Manager on the banking services RFP, including but not limited to allowing participation of Community Banks, membership-based Credit Unions or Community Development Financial Institutions (CDFI) in the RFP process for the City's banking services.
2. Adopt a Resolution approving the Banking Services RFP for release that includes Community Investment and Responsible banking language and selection criteria.

SUMMARY

This report contains information relating to current City banking services, Community Investment and Social Responsibility, how financial institutions are being classified, FDIC member banks and Credit Unions and their market share in deposits within Berkeley, what is CDFI and how it works, what neighboring cities are doing in terms of responsible banking, and resource requirements to implement a change in financial institutions.

FISCAL IMPACTS OF RECOMMENDATION

Should the City, after its RFP process, decide to change to a new financial institution, significant staff resources will be required for the conversion. The last conversion in 2004 required approximately twenty (20) City staff, and took almost eight months to complete. In addition, the City had to operate with two banks at the same time for several months. Since the current technical environment and banking service requirements have become more advanced and complex in nature, it is safe to say that the resource impact will exceed that experienced in 2004. More detailed information about the impact a change will have can be found in Attachment 3.

CURRENT SITUATION

City Banking Service Needs

The City of Berkeley's banking service requirements are far reaching in detail, scope and complexities. With an average of \$350 million in annual cash inflows and outflows (excluding investment settlement) through its commercial banking relationships, the City requires a financial institution that will partner with the City to effectively manage and safeguard taxpayer money. Besides the day-to-day banking requirements, another critical component of banking needs is investment service. Any financial institution the City enters into an agreement with will need to have the latest technology solutions so that the City can obtain needed reports throughout the day, and in real time. These reports are critical for the City to maximize its return on investments. Also, in order to protect public funds, and as required by government code, the financial institution will need to be adequately capitalized to fully collateralize all public funds that are deposited. There are times when very large deposits are received after the investment time deadline (e.g. property taxes, proceeds from debt issues). These funds could total over \$40 million dollars. Collateralizing these funds is critical for any financial institution and it is required by California Government Code.

The City collects approximately 20,000 checks and about \$700,000 in currency and coins per month from multiple locations. Armored car services are required to transport and to pick up the high volume of cash from these locations to be deposited at the bank. These locations include: the Finance Customer Service counter, Treasury, the Transfer Station, Planning, Corp-yard meter coin collections, the Libraries and City Garages. There are deposits from other remote sites transmitted to the City's bank accounts via deposit scanner(s). Other deposits include electronic deposit transactions via ACH, the daily credit card payments accepted by City operations. These deposits amount to about \$19 million each year and are deposits from merchant card accounts to the City's main operating account when the City accepts credit card payments. In addition to the above, the City receives wires and other ACH remittances from organizations and other governmental agencies.

The City also maintains summer camping facilities: Tuolumne Camp in Groveland, California, and Echo Lake Camp near South Lake Tahoe, California. Currently only the Tuolumne Camp location needs a bank nearby for currency deposits. Another infrequent requirement is that the City receives checks in foreign currency that need to be deposited and accepted by the bank. For disbursement processing, the City issues about 3,000 checks per month from three (3) Zero-Balance Accounts (ZBA), and one (1) 3rd party administered account. In addition to checks, the City has bi-weekly payroll direct deposits, payroll tax payments and payments by wire and ACH transmissions. There are also 15 corporate credit cards that staff members use that are issued by the current bank.

The purpose of this report is to identify the banking service needs that will be covered in the RFP process. At a minimum, the financial institution the City enters into a contract with will need to provide the general banking requirements to meet the day to day needs of

the City. General Banking includes but is not limited to: compliance with regulations in safeguarding City assets and public funds (taxpayer money,) deposit processing, check processing, account reconciliation and check cashing, positive pay, wires, ACH, payroll direct deposit, daylight overdrafts, armored car services, cash management, reporting and investment, sweep and custodial services, corporate credit cards, merchant (credit card acceptance) services and other fraud detection programs to protect City accounts against any fraudulent activity. In the event of a City disaster, the bank is required to partner with the City to help in the continued operations through the recovery process.

The City requires advanced technological solutions that will improve its banking, cash management, and customer service capabilities, especially in the areas of cash flow, account reconciliation, direct deposit, positive pay, lockbox remittance services, online bill payment, fraud detection, timely and accurate online information reporting and electronic data exchange between products residing in the banking system and other 3rd-party financial systems. Any financial institution considered will need to be technologically innovative, financially stable and has excellent customer service that responds to inquiries in a timely manner.

Community Investment and Responsible Banking

The City also seeks a financial institution that can commit to Community Investment, and is socially responsible. Finance-General Services is in the process of identifying banks - large and small, Community Banks, Credit Unions and Community Development Financial Institutions (CDFI's) located in Berkeley to participate in the RFP process. The City has a responsibility to its citizens to seek the best solution, while also protecting public funds and be efficient and effective. All financial institutions that have one or several branches located in Berkeley will be sent a notice when the RFP is released. Selection of the City's financial institution will take into consideration all the general banking and investment requirements in this report. In addition, the City has included Community Investment and Reinvestment as part of the selection criteria. The draft RFP has a section that asks the responding financial institution to report and to address the following:

- The number of and total value of home loans given to the citizens of Berkeley
- The number of and total value of small business loans within the City of Berkeley
- Information relating to the number of foreclosure prevention and home loan principal deduction programs within the City of Berkeley
- Community reinvestment activity within the City of Berkeley. What are the institution's reinvestment goals for the next five years within the City of Berkeley
- Information relating to loans or cash grants to nonprofit organizations offering services in the City of Berkeley
- A description of any other leadership activities that its institution participates in and its commitment to the Berkeley Community.

Options Other Cities Are Using to Include Community Banks' Participation in Banking Contracts that the City of Berkeley can consider:

While most cities that participated in the survey are still using large or regional banks, it appears that there is a consensus that they too are exploring solutions to include smaller and community banks within their cities. Solutions that a few other cities are currently using include: investing in Certificates of Deposit and contracting out lock box services. By contracting out some services, more small banks, community banks, and credit unions will be able to participate and do business with the City in which they reside.

From the survey results of neighboring cities (Attachment 5) and other cities staff contacted, local governments like the City of Fremont and the City of Oakland are investing in the Certificate of Deposits with small banks. The City of Oakland passed a "Linked Banking Ordinance", and its objective is to encourage financial institutions to provide services to low income communities and to the City communities in general through its lending practices. Depositories doing business with the City of Oakland must provide annually, information to establish whether they have provided sufficient levels of Community Credit Lending. In addition to lending, financial institutions seeking to do business in the City of Oakland under this program must certify that neither they nor their affiliates engage in predatory lending practices. For more information on "Linked Banking" refer to the following websites:

www.oaklandnet.com/government/hcd/policy/docs/linkedbankord.pdf
www.oaklandnet.com/government/ceda/revised/housing/linked.DOC

The City and County of San Francisco currently uses four banks. Its primary bank is Bank of America. Two banks, Wells Fargo Bank and Union Bank provide lock box services, and Citi Bank is used for custodial services. San Francisco is in the process of drafting a RFP with the help of a consultant, and it is expected to be released in mid-April. Conversations with San Francisco staff suggest that there will be a section about Responsible Banking in its RFP; however, until it is approved for release, details were not given. City of Berkeley staff was told that the RFP release date is on schedule and it will be released in mid-April. City of San Francisco staff will notify City of Berkeley staff when it is released so that its contents can be reviewed.

BACKGROUND

Currently the City has a banking service contract with Wells Fargo Bank which was entered into in November of 2004 for an initial three year period with options to extend. On December 15, 2009, Council approved amending the contract and extending its term to December 31, 2012, by way of Council Resolution 62, 575-N.S.

Wells Fargo Bank was selected through a competitive process based upon a number of factors, which included a full range of banking and depository services to be provided, pricing, and technology capabilities that it offered. Because of the complexities of the City's banking activities, the City only received 4 RFP responses back in 2004.

RATIONALE FOR RECOMMENDATION

The City's current contract with Wells Fargo Bank will expire in December 31, 2012. The Berkeley community, like other municipalities across the United States is frustrated by the continuing economic crisis that threatens our community's quality of life. The City of Berkeley supports doing business with a financial institution that will support the Berkeley community by investment and re-investment. City staff has included as part of the selection criteria a responsible banking section. In this way the City can evaluate which financial institution best serves the citizens and businesses of Berkeley.

ALTERNATIVE ACTIONS CONSIDERED

None

CONTACT PERSON

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Attachments:

- 1: Resolution
- 2: City's Banking Services Requirements
- 3: Resource Requirements to Implement A Change in Financial Institution
- 4: CDFI (Community Development Financial Institution) and How It Works
- 5: What Is Happening In Neighboring Cities?
- 6: Financial Institutions Classification by Federal and State Regulators
- 7: FDIC (Federal Deposit Insurance Corporation) Bank Market Share in Berkeley, June 30, 2011
- 8: NCUA (National Credit Union Administration) Credit Union Market Share in Berkeley, December 2011
- 9: Glossary of Terms

RESOLUTION NO. ~~##,###~~-N.S.

BANKING SERVICES REQUEST FOR PROPOSAL

WHEREAS, the City of Berkeley contract with Wells Fargo will expire on December 31, 2012; and

WHEREAS, the prolonged economic downturn has hurt Americans, and citizens and businesses of Berkeley; and

WHEREAS, many are struggling to obtain loans and loan adjustments; and

WHEREAS, the City of Berkeley must have a way of assessing financial institutions' commitments to the Berkeley community; and

WHEREAS, the City needs to release a Banking RFP in a timely manner that addresses community investment and select a financial institution that can meet the City's banking needs, while making a commitment to the Berkeley community.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the Council approves a Banking Services RFP for release that includes Community Investment and Responsible banking language and selection criteria, and allows the participation of community banks, membership-based credit unions and community development financial institutions.

CURRENT BANKING INFORMATION

Over the past several weeks inquiries have been made regarding the City of Berkeley's banking relationships and the criteria the City will use to make banking decisions. This information report will try to provide some clarity about the current City of Berkeley's banking operations and policies and the general context in which it operates.

Services described below include:

- General banking services
- Accounts structure
- Compliance with collateralization of public fund deposits requirements
- Daylight overdrafts
- Check processing, account reconciliation and check cashing
- Positive pay (check positive pay)
- Wires, ACH and direct deposits
- Armored car services
- Cash management, reporting and investment
- Sweep services and custodial services
- Corporate credit cards
- Merchant (credit card acceptance) services
- Disaster contingency plan
- Online banking information systems, security and data exchange

1. GENERAL BANKING SERVICES

- The City averages over \$350 million annual cash inflow and outflow (excluding investment settlement) through its commercial banking account. The City collects approximately 20,000 checks and about \$700,000 in currency and coins per month from multiple locations, including remote sites via deposit scanner(s). The City accepts credit card payments averaging \$19 million each year and the merchant card accounts send multiple ACH transactions daily to the City's main operating account. In addition, the City receives wires and other ACH remittances from organizations and other governmental agencies.
- The City also maintains summer camping facilities: Tuolumne Camp in Groveland, California, 95321 and Echo Lake Camp near South Lake Tahoe, California. Currently only the Tuolumne Camp location needs a bank nearby for currency deposits. Another deposit requirement, although it seldom happens, is that the City receives checks in foreign currency that need to be deposited and accepted by the bank. For disbursement processing, the City issues about 3,000 checks per month from three (3) Zero-Balance Accounts (ZBA), and one (1) 3rd

party administered account. In addition to checks, the City has bi-weekly payroll direct deposits, payroll tax payments and payments by wire and ACH transmissions. There are about 15 corporate credit cards that staff members use and are issued by the current banking institution.

- The City needs timely cash flow data for cash management and investment, and a sweep account linked to its main operating account. The City is especially interested in various technical solutions that could improve its banking, cash management, and customer service capabilities especially in the areas of cash flow, account reconciliation, direct deposit, positive pay, lockbox remittance services, online bill payment, fraud detection, timely and accurate online information reporting and electronic data exchange between products residing in the banking system and other financial system. It is critical that the financial institution provide web-based on-line banking services for added convenience and efficiency.

Accounts Structure

- The City needs an operating account for its general depository with three zero balance accounts (ZBA). There is a zero balance at all times in the ZBAs and they are established for the processing of checks in (1) Payroll, (2) Accounts Payable and (3) Shelter Plus Care Program disbursements. As checks are cleared through the banking system, funds are automatically being transferred from the main operating account.
- The City needs about fifty (50) sub-accounts and one (1) sweep account. The sub-accounts are necessary to identify deposit locations for tracking and resolving deposit discrepancies. The sweep account is set up to allow the automatic transfer of excess funds for overnight money market fund investing, a feature usually offered by larger financial institutions.
- The City needs one other stand alone account such as a third-party administered account, established to manage the workers compensation cash position.
- The City needs other interest-bearing accounts to meet funding agency requirements or needs. Examples are HUD loan accounts that require loan repayment deposits, loan payments, related expenditures and balance to stay in the accounts, and not be part of the City's operating accounts. Bank balance also serves as partial security to loans being funded. Other examples include four Police Department accounts holding state funds or other funds temporarily entrusted to the Police.
- The City needs about fifty (50) merchant credit card accounts to account for credit card payments received at multiple City locations and via the internet. These funds are sent directly to the City's main operating account.

Compliance With Collateralization of Public Fund Deposits Requirements

- The City needs its bank or financial institution to be able to collateralize public deposits in accordance with federal and state laws (110% in federal and municipal securities or 150 % of mortgage notes). However we understand that most, if not all, banks are investing in federal and municipal securities to fulfill their collateralization obligations.
- Besides the daily high volume of deposits, there are times when very large deposits are received after the investment deadline (e.g. property taxes, proceeds from debt issues) these funds could be over \$40 million and the depository bank is required to collateralize these public funds. This requirement may be challenging to small banks that have small asset base.

Daylight Overdrafts

- The City needs about \$10 million for daylight overdrafts. This requires the financial institution to be sufficiently capitalized to handle the overdraft amount.

Check Processing, Account Reconciliation and Check Cashing

The City issues about 3,000 checks per month from these accounts. The City has a bi-weekly payroll and a high volume of direct deposits. Funds are available to employees the next banking day after the file is transmitted to the bank. The financial institution needs to fund the employee account on pay day after 7:30 am even though the actual cash outlay by the City occurs at midnight on pay day.

- The bank offers full and partial account reconciliation and its online system is able to receive check data from the City's financial system. In addition, City staff can download the bank reconciliation file to the City's financial system. 'Stop payment', 'Void checks' and 'Paid checks' are coded in the bank's reconciliation file. Through this integration, accounting staff can then produce the outstanding check list in the City's accounting system in order to complete the bank reconciliation for all checking accounts.
- Prior to completing the monthly bank reconciliation, on an ongoing basis, City staff needs to be able to verify online, the status of checks issued from the ZBA accounts. This is particularly important when responding to vendor and employee inquiry about lost or uncashed checks.
- The bank needs to have an effective system for customers to cash City-issued checks at their branches, and for its system to be able to ascertain that the City's account has sufficient funds.

Positive Pay (Check Positive Pay)

Positive Pay is a bank service that ensures payment of valid City checks issued from City's accounts. Positive Pay captures pertinent information (payee name, check number and amount) and saves it into a "Cash Handling File." At a pre-set time (before checks are mailed and cashed) data from the City's financial system is sent to the bank to populate its Automated Cash Handling File. By this process, a bank is only authorized to process those checks included on the Positive Pay Report.

- Fraudulent checks, alterations to City checks and forged checks trigger an exception. When there is an exception, the bank notifies City staff of the discrepancy. After viewing the check image online, City staff can then validate the payment or reject it online. Positive Pay has been effective in protecting City funds. By utilizing the bank's online Positive Pay feature, City staff has been able to stop the cashing of fraudulent checks drawn from the Payroll and Accounts Payable accounts. Thus far, the City has not sustained any financial loss resulting from fraudulent checks being cashed.
- Using Positive Pay, the bank is also able to detect exceptions at the teller windows and to safeguard City account funds.

Wires, ACH and Direct Deposits

The bank needs to provide online wire transmission from the City's bank account to 3rd party accounts; e.g. other banks for debt service payment and for employee benefit payments. The City also processes bi-weekly payroll direct deposits via Automated Clearing House (ACH) transactions. ACH is an electronic network for financial transactions in the United States which processes large volumes of credit and debit transactions in batches. Banks providing the ACH product must comply with the rules and regulations that govern the ACH network, which are established by the National Automated Clearing House Association (NACHA) and the Federal Reserve.

- The current bank has been providing wire, individual ACH and payroll direct deposit transmission services via its online banking system. In addition, reporting for these services are available online.
- Through the current online banking system, the Finance Director is able to manage internal controls by assigning different task to authorized staff to enforce financial controls.

Armored Car Services

On a daily basis the City requires an Armored Car transport to pickup cash (about \$700,000 in currency and coins per month) and about 20,000 checks per month from different City locations to be deposited at the bank. This service can only be provided by

a vendor that has adequate insurance coverage. The current financial institution provides this service through a third party. Armored Car service pick up is scheduled for the six (6) City locations and details are presented in the table below.

Please note that the current high volume of coin collection is the result of some area parking meters accepting only coins and garages operated with an old system. Armored car service pick up at the Corporation Yard facility then requires dollies and lift gates. In the areas of parking meters, there are plans to replace the old single meters with smart chips that allow these meters to accept credit cards. More recently, all three City garages transitioned to new management and are implementing state of the art equipments along with operational changes. Although, it is too soon to project the impact of customer payment preference using credit cards rather than currency and coins for parking, it is anticipated that coin collections will decrease in the future. The change in customer payment preference will inevitably affect armored car services and its pick up schedule.

List of City Locations Requiring Pick Up is below.

| Department | Location |
|---------------------------|--------------------------------------|
| Transfer Station | 1201 2 nd Street |
| Corporation Yard | 1326 Allston Way |
| Treasury | 2180 Milvia St 3 rd floor |
| Telegraph Channing Garage | 2450 Durant Street |
| Oxford Garage | 2265 Kittredge Street |
| Center Street Garage | 2025 Center Street |

During holidays and VTO days (every second Friday of the month when City offices are closed as a cost saving measure), pick up times will be arranged on an as needed basis. These exceptions apply to the Corporation Yard and Treasury locations.

Cash Management, reporting and Investment

The City manages an investment portfolio of approximately \$201 million of City funds and an additional \$22.4 million of trust funds. The City's investment manager requires daily cash balance reporting information for all accounts, for both prior day and current day (intraday) information. Prior day information is available by 7:00 a.m. Pacific Standard Time the following working day to facilitate the daily cash management of funds. The City requires at a minimum bank reconciliation, and online monthly bank statement showing summaries, reconcilements and relevant detail.

- Current bank provides online reporting that allows City staff to reconcile portfolio activities to transactions confirmed during the month.

Sweep Services and Custodial Services

- The City currently uses sweep services. The bank needs to offer an overnight sweep service for collected balances at the end of the day with automatic fund transfer. This fund is then automatically invested for money market fund.
- The bank needs to provide safekeeping/custodian service for trades that require physical delivery of the securities purchased on behalf of the City and held in the City's pooled fund portfolio. The bank custodian needs to be familiar with the public sector and the investment of public funds.

Corporate Credit Cards

Currently, about 15 City employees are authorized to use the Elite credit card issued by the financial institution. Total City credit line for all card holders is about \$90,000 and individual account activity reports are available online.

Merchant (Credit Card Acceptance) Services

The City's annual credit card receipts amount to about \$19 million and is expected to increase every year. Approximately fifty (50) merchant credit card accounts are established to track credit card payments from multiple City locations and via the internet. The City currently accepts credit card payments for Visa and Master Card, and may accept other payment brands in the future.

- The bank needs to provide online reports tracking credit card transaction sales amount fees charged, card type and locations.
- Credit card sales are pre-funded by the bank the next day before collections are submitted by the payment card institutions. This arrangement provides cash float to the City.
- The merchant card account manager needs to be very efficient, knowledgeable and provide excellent customer service support and quick turnaround.
- Payment Card Industry (PCI) compliance - The bank provides contractor service from Trustwave, free of charge to assist the City to meet its merchant account credit card compliance requirements.

Disaster Contingency Plan

- The bank needs to have a disaster contingency plan and a backup system to allow the City to continue operations in the event of systems breakdowns or other emergencies.

- The bank needs to agree to provide a cash order on demand in the event of an emergency.

2. ONLINE BANKING INFORMATION SYSTEMS, SECURITY AND DATA EXCHANGE

The City needs web-based, on-line banking services that have sophisticated features for improved customer service, asset protection and efficiency. Some of these services include, but are not limited to the following:

- Online bank service delivery in the form of balance inquiry and reports, monthly bank statements, stop payments, image view, wire transfer, currency order, deposit history for all general bank service accounts.
- Fraud prevention tools to protect funds in City accounts:
 - Fraud filter allows City staff to review ACH debits to City accounts to pay valid transactions and to reject unauthorized ones;
 - Positive Pay allows City staff to validate city checks and to reject those that have been altered. The review process also allows city staff to reject checks that are not issued by the city.
- User access administration allows City staff to monitor user access to enforce internal controls.
- Secured web portal to safeguard the City's bank information
- Electronic data exchange:
 - Downloading of bank reconciliation files from the bank's online system to the City's financial system.
 - Uploading of payroll direct file from the City's system to the bank's online system.
 - Uploading of selective vendor payment file from the City's system to the bank's online system.
 - Uploading of payroll and accounts payable check data from the City's system to the bank's online system.
 - The City's bank information. Data from the bank's online system to Excel worksheet or PDF.

| RESOURCE REQUIREMENTS TO IMPLEMENT A CHANGE IN FINANCIAL INSTITUTION | | | |
|--|--|--|---|
| Description | Reasons, Needs and Comments | Estimated Additional Cost Outlay | |
| General Fund Budget | 1. Maintain checking accounts in two banks to allow time for checks to clear through the banking system. 2. Due to extensive resource requirements and staffing condition due to budget cuts, affected departments may need to first extend existing banking contract and may even implement account changes in phases when possible; therefore requiring a longer transition time for a change in financial institution. | 1. Additional 6 months of bank service fees 2. New bank supplies such as deposit slips, new endorsement stamps for deposit processing, new signature stamps for Payroll and Accounts Payable checks. May need to buy new deposit scanners and credit card terminals if existing equipment are not compatible with the new banking system. The estimated conversion cost for supplies and additional bank fees is approximately \$50,000. | |
| Departments Affected: | Reasons, Needs and Comments | Impact on Other Projects | Staff Time |
| City Auditor/Payroll | 1. Learning curve and invest time to test payroll direct deposits banking services - failure has severe consequences as employees must be paid on time. 2. Test payroll related online banking services like garnishment and benefit payments. 3. Work with IT to ensure (a) new specimen signature is properly installed and tested, FUND\$ check print software and check printer function properly printing checks according to new bank specification; (b) bank reconciliation program meets spec to integrate with FUND\$ check run program. | This may take time from staff who currently works on CALPERS, using their new system. | All staff in Payroll will be impacted. 3 staff will be working on new print check requirements and direct deposits. Another 3 staff will need to test benefit payments are working properly. 1 staff will work with COBRA-dental regarding remote deposits and reconciliation. |
| City Manager | 1. Sign new contracts. 2. Authorize new bank accounts. 3. Provide authorized specimen signatures for Payroll, Accounts Payable and Shelter Plus Care accounts. | | |
| Finance | Very resource intensive for the Dept. and its involvement is described in two major phases: A and B. Phase A. 1. RFP preparation and posting. 2. Vendor response evaluation and selection. Phase B. Implementation. 1. Learn/set up/test new online banking services and their user access administration, all banking services including deposit preparation, deposits via scanner, wire, ACH, direct deposit, electronic date upload and download, positive pay and other fraud detection tools, online reporting and account reconciliation. 2. Set up/test all new accounts in general banking and in merchant services and their reporting tools. 3. Work with IT to ensure (a) specimen signature installed, check print software and check printer function properly printing checks according to new bank specification; (b) bank reconciliation program meets spec to integrate with FUND\$ check run program. 4. Coordinate with departments and online vendors for setting up/testing of new merchant service accounts (about 50 accounts) amongst citywide credit card payment acceptance locations. 5. Learn merchant service online reporting. 6. May need to work with another PCI compliance provider as contracted by the bank for merchant services. 7. Process new corporate credit cards for existing credit card holders. 8. Learn the new corporate credit card reporting and billing system. 9. Learn services re Cash Management, and online reporting. 10. Work with armored car service employees as needed for the transition. 11. Learn cash management and investment reporting, custodial account services, etc. 12. For merchant services that are processing credit payments via their online payment gateway, there will be testing and monitoring of initial implementation activities to ensure all payments come through the system and are recorded in the City's accounts. | There are competing demands for same staff working on mission critical projects improving system efficiency and directly impacts revenue generation and customer service. Examples include: Business license replacement software, online payment, customer service, use tax, parking citations, etc. | Staff in all Finance Department Divisions will be impacted: Administration, Accounting, Accounts Payable, Customer Service, General Services, Revenue Collection and Treasury are all impacted for a minimum of six months. Key stake holders such as those in Administration and Treasury are being impacted more than others. The impact of changing a financial institution will be felt in Finance beyond the initial year; for example, external auditors will inquire about the new financial institution services, and the updating of relevant internal control procedures. |
| FUND\$ Module Leaders-Citywide | 1. Set up changes are required in almost all modules 2. System testing is required to ensure financial transactions are correctly recorded. 3. Need training for citywide accounting staff and 4. Update procedures. | Improvement project reprioritized-Affect some of the same staff for software improvement or replacement projects. | About 12 staff. |

| Departments Affected: | Reasons, Needs and Comments | Impact on Other Projects | Staff Time |
|---|--|--|--|
| Information Technology | 1. Work with Payroll and Finance to ensure (a) both check print software and check printer function properly printing checks according to new bank specification; (b) bank reconciliation program meets spec to integrate with FUNDS check run program. 2. Work with Housing and Finance staff to ensure check printing functions work properly with the Housing Elite software. 3. A partner with Finance to support that all connections between gateway and other software containing bank codes are appropriately adjusted and tested prior to implementation. | Again, it is the same staff that are working on new software implementation. The banking service project may be in lower priorities or may negatively impact the other deliverables. | 4-6 staff. |
| Housing | 1. Learn/test related banking services while transitioning to new accounts. 2. Work with IT to ensure (a) both check print software (Elite), new specimen signature and check printer function properly printing checks according to new bank specification; (b) bank reconciliation program meets spec to integrate with Housing Elite check run program. | In the worse case, resouce may be diverted from fiscal monitoring of grants to the bank project. At a minimum, the bank project will trigger additional audit inquiry to Housing operations. | 2 - 3 staff. |
| Police Department | Transition to new bank accounts. | | minimal impact. |
| Public Works/Parking Meter Op. | 1. Work with Finance to transition to new merchant service accounts. There is a pending contract to expand IPS implementation which enables single parking meters to accept credit card payments. 2. Will need to coordinate with vendors such as IPS and Cale Parking systems re new account set up and testing. | May delay related projects to move forward. | 1 to 2 staff. |
| Public Works/Garage Operations | 1. Work with Finance to transition to new merchant service accounts. The garages recently implemented new software and hardware for their credit card payment acceptance. 2. Will need to coordinate with garage contractors re new account set up and testing. | May delay other garage projects to move forward. | 2 City staff, 1 to 2 contractor employees and software vendor. |
| Citywide Locations and Online Service Provider accepting credit card payments | There are about 50 merchant service accounts. 1. Managers and staff will work with Finance to transition to new merchant service accounts. 2. Staff may need to learn the online reporting tools in future. | Affects almost all departments. | Some impact on operator staff time. |
| All corporate credit card holders | Transition to new credit card accounts. Support staff will learn new online reporting as needed to pay credit card bills. | | 15 card holders |

Definition of CDFI

A certified Community Development Financial Institution (CDFI) is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. CDFIs provide a unique range of financial products and services in economically distressed target markets, such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers, flexible underwriting and risk capital for needed community facilities, and technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.

CDFI certification is a designation conferred by the CDFI Fund and is a requirement for accessing financial and technical award assistance from the CDFI Fund through the CDFI Program, Native American CDFI Assistance (NACA) Programs, and certain benefits under the BEA Program to support an organization's established community development financing programs.

CDFI is described on this website:

http://www.cdfifund.gov/what_we_do/programs_id.asp?programid=9

To obtain the relevant banking contract information, Finance contacted neighboring cities via the Internet and survey telephone calls. The surveyed organizations included governmental entities in the neighboring areas: cities in Alameda County, cities in Contra Costa County, the City and County of San Francisco, Marin County and the City of Davis. In addition, Finance also conducted Internet research relating to Responsible Banking.

Following the survey section, Finance also collected additional data relating to 'What Some Local Governments in California and Neighboring States Are Doing to Accommodate Community and Small banks?'

Survey Regarding Bank Contracts

Cities in Alameda County:

All the cities in Alameda County were contacted, six cities responded to the City's banking inquiry. The City of Fremont and the City of Pleasanton contract with Bank of America. The City of Fremont has been with Bank of America for about 50 years and the City of Pleasanton has been with Bank of America for the last 20-25 years. The City of Fremont has Certificate of Deposits and time deposits with Bank of Fremont, Heritage and a small amount with East West Bank. The City of Oakland and Emeryville both bank with Wells Fargo Bank. The City of Albany has been with Mechanics Bank for 20 years, and City of Livermore has been with Union Bank for 6 years.

| City | Bank(s) | Years in Contract | City's Annual Budget |
|------------|------------------|-------------------|----------------------|
| Albany | Mechanics Bank | 20+ | 22million |
| Emeryville | Wells Fargo Bank | 10+ | 28million |
| Fremont | Bank of America | 50 years | 131million |
| Livermore | Union Bank | 6+ yrs | 72million |
| Oakland | Wells Fargo Bank | 3yrs | 400million |
| Pleasanton | Bank of America | 20+ | 90million |

Cities in Contra Costa County

All the cities in Contra Costa County were contacted, and seven cities responded. The City of Richmond and City of Pinole contract with Mechanics Bank. Both Cities have banking relationship with Mechanics Bank for as long as the contacted staff can remember. City of Walnut Creek and City of Orinda contract with First Republic Bank. The City of Orinda is going to release an RFP in the future. The City of Concord has contracted with Bank of America for a very long time. It went out for an RFP 3 years ago but decided to stay with Bank of America, with no plans to change. The City of Martinez and the City of Oakley both contract with Wells Fargo Bank; City of Martinez for over 10 years and City of Oakley for 7 years, with no plans to change.

| City | Bank(s) | Years in Contract | City's Annual Budget |
|----------|---------------------|-------------------|----------------------|
| Martinez | Wells Fargo Bank | 10+ yrs | 29million |
| Oakley | Wells Fargo Bank | 7 yrs | 25-30 million |
| Orinda | First Republic Bank | 8 yrs | 10million |
| Pinole | Mechanics Bank | over 15 yrs | 27million |
| Richmond | Mechanics Bank | over 15 yrs | 175 million |

| City | Bank(s) | Years in Contract | City's Annual Budget |
|--------------|---|-------------------|----------------------|
| Concord | Bank of America | Very long time | 158 million |
| Walnut Creek | (Bank of Walnut Creek) which is now First Republic Bank | | \$60 million |

City and County of San Francisco

City and County of San Francisco use four banks, Bank of America, Wells Fargo, Citi, and Union Banks. They have used Bank of America for over 20 years. Ten years ago, they released a RFP and Bank of America was selected to continue as the primary depository bank, and Wells Fargo Bank was selected for lock box services. They also use Citi Bank for custodial/investment services, and their Public Safety department has an account with Union Bank for lock box services. Last year, The Office of the Treasurer-Tax Collector hired a consultant to review their Treasury needs and assist the City in drafting an RFP for Banking Services. City of Berkeley staff has reached out to San Francisco staff for information on their RFP process and what criteria they are including as it relates to Responsible Banking. Because their RFP is still in draft form and has not yet been approved, they could not give us any information. As of April 3, 2012, however, the RFP is scheduled to be released in two (2) weeks. They said that they will call us when it gets released so we can review and see what they have included. While we couldn't get definitive information, our understanding is that it will include questions relating to Responsible Banking.

Marin County

Marin County contracts with Bank of America for their primary banking operations and has small accounts with West America Bank and Wells Fargo Bank. Wells Fargo Bank is also the custodian for their investments. They have had a relationship with Bank of America for almost 50 years and there is no immediate plan to switch over to another institution.

What Some Local Governments in California Are Doing to Accommodate Community and Small banks?

City of Fremont

The City has investment Certificates of Deposits (CD's), time deposits with three small banks, Bank of Fremont, Heritage Bank and East West bank.

City of Oakland

The City of Oakland invests in Certificate of Deposits with small banks. The City of has a Linked Banking Ordinance No. 12066, passed by City Council on July 14, 1998, that sets forth guidelines for eligible depositories. In order for the City of Oakland to do business with any local bank, the bank must meet the requirements of the City's amended "Linked Banking Ordinance No. 12066 passed by Oakland's City Council on July 14, 1998. The objective of the Linked Banking Ordinance is to encourage Financial Institutions to provide services to low income communities and to the city communities in general. Ordinance 12066 established a "Linked Banking Services Program" that sets forth guidelines that eligible depositories must meet in order to provide banking services to the City of Oakland. Further information can be found at the following website:

<http://www.oaklandnet.com/government/hcd/policy/docs/linkedbankord.pdf>.

<http://www.oaklandnet.com/government/ceda/revised/housing/linked.DOC>

How are banks rated in terms of small, medium and large?

State of California Department of Financial Institutions (“DFI”) does not make any formal distinction between small, medium and large banks. For statistical analysis, they divide banks into the following asset size peer groups:

- Under \$100 million
- \$100 million to \$500 million
- \$500 million to \$2 billion
- \$2 billion or more.

The Federal Financial Institution Examination Council (FFIEC) divides commercial banks into 15 peer groups for the Uniform Bank Performance Report (UBPR), based on asset size, number of offices and location. The UBPR ratios are:

- 1 – Insured commercial banks greater than \$3 billion
- 2 – Insured commercial banks between \$1 billion and \$3 billion
- 3 – Insured commercial banks between \$300 million and \$1 billion
- 4 – Insured commercial banks between \$100 million and \$300 million with 3 or more offices and located in a standard metropolitan statistical area
- 5 – Insured commercial banks between \$100 million and \$300 million with 3 or more offices and not located in a standard metropolitan statistical area
- 6 – Insured commercial banks between \$100 million and \$300 million with two or fewer offices and located in a standard metropolitan statistical area
- 7 – Insured commercial banks between \$100 million and \$300 million with two or fewer offices and not located in a standard metropolitan statistical area
- 8 – Insured commercial banks between \$50 million and \$100 million with 3 or more offices and located in a standard metropolitan statistical area
- 9 – Insured commercial banks between \$50 million and \$100 million with 3 or more offices and not located in a standard metropolitan statistical area
- 10 – Insured commercial banks between \$50 million and \$100 million with two or fewer offices and located in a standard metropolitan statistical area
- 11 – Insured commercial banks between \$50 million and \$100 million with two or fewer offices and not located in a standard metropolitan statistical area

12 – Insured commercial banks less than \$50 million with two or more offices and located in a standard metropolitan statistical area

13 – Insured commercial banks less than \$50 million with two or more offices and not located in a standard metropolitan statistical area

14 – Insured commercial banks less than \$50 million with one office and located in a standard metropolitan statistical area

15 – Insured commercial banks less than \$50 million with one offices and not located in a standard metropolitan statistical area

There are additional peer groups for insured savings banks divided along similar lines.

For the purposes of the Community Reinvestment Act, a small bank is defined by 12 CFR 228.12 as:

(u) Small bank (1) Definition. Small bank means a bank that, as of December 31 of either of the prior two calendar years, had assets of less than \$1.122 billion. Intermediate small bank means a small bank with assets of at least \$280 million as of December 31 of both of the prior two calendar years and less than \$1.122 billion as of December 31 of either of the prior two calendar years. (2) Adjustment. The dollar figures in paragraph (u)(1) of this section shall be adjusted annually and published by the Board, based on the year-to-year change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, for each twelve-month period ending in November, with rounding to the nearest million.

FDIC (Federal Deposit Insurance Corp) Bank Market Share in Berkeley

| CALIFORNIA | Head Office / Location | Class / ZIP Code | Total Deposits (in thousands) as of June 30, 2011 | Berkeley Market Share % as of June 30, 2011 |
|-------------------------------------|-------------------------------|-------------------------|--|--|
| Alameda County | | | | |
| BANK OF AMERICA NA | Charlotte, NC | N | | |
| 2546 San Pablo Avenue | Berkeley | 94702 | 116,678 | |
| 2129 Shattuck Avenue | Berkeley | 94704 | 324,726 | |
| 2347 Telegraph Avenue | Berkeley | 94704 | 186,750 | |
| 1516 Solano Avenue | Berkeley | 94707 | 212,643 | |
| 1536 Shattuck Avenue | Berkeley | 94709 | 229,835 | |
| Totals for Certificate Number 3510 | 5 Office(s) | | 1,070,632 | 35% |
| | | | | |
| BANK OF THE WEST | San Francisco, CA | NM | | |
| 1480 Shattuck Avenue | Berkeley | 94709 | 41,848 | |
| Totals for Certificate Number 3514 | 1 Office(s) | | 41,848 | 1% |
| | | | | |
| CITIBANK NATIONAL ASSN | Las Vegas, NV | N | | |
| 2000 Shattuck Avenue | Berkeley | 94704 | 261,079 | |
| Totals for Certificate Number 7213 | 1 Office(s) | | 261,079 | 8% |
| | | | | |
| JPMORGAN CHASE BANK NA | Columbus, OH | N | | |
| 2150 Shattuck Avenue | Berkeley | 94704 | 171,756 | |
| 1870 Solano Ave. | Berkeley | 94707 | 168,548 | |
| Totals for Certificate Number 628 | 2 Office(s) | | 340,304 | 11% |
| | | | | |
| MECHANICS BANK | Richmond, CA | NM | | |
| 2301 Shattuck Avenue | Berkeley | 94704 | 106,192 | |
| 1801 Solano Avenue | Berkeley | 94707 | 83,654 | |
| 755 Hearst Avenue | Berkeley | 94710 | 26,259 | |
| Totals for Certificate Number 1768 | 3 Office(s) | | 216,105 | 7% |
| | | | | |
| MISSION NATIONAL BANK | San Francisco, CA | N | | |
| 2855 Telegraph Avenue | Berkeley | 94705 | 29,279 | |
| Totals for Certificate Number 23749 | 1 Office(s) | | 29,279 | 1% |
| | | | | |
| UNION BANK NATIONAL ASSN | San Francisco, CA | N | | |
| 2333 Shattuck Avenue | Berkeley | 94704 | 96,807 | |
| Totals for Certificate Number 22826 | 1 Office(s) | | 96,807 | 3% |
| | | | | |
| WELLS FARGO BANK NA | Sioux Falls, SD | N | | |
| 2460 Bancroft Way | Berkeley | 94704 | 15,942 | |
| 2144 Shattuck Avenue | Berkeley | 94704 | 354,469 | |
| 2959 College Avenue | Berkeley | 94705 | 249,193 | |
| 1800 Solano Avenue | Berkeley | 94707 | 298,504 | |
| 1095 University Avenue | Berkeley | 94710 | 89,744 | |
| 2929 Seventh Street | Berkeley | 94710 | 19,083 | |
| Totals for Certificate Number 3511 | 6 Office(s) | | 1,026,935 | 33% |
| | | | | |
| Total Deposits - City of Berkeley | | | 3,082,989 | 100% |

| NCUA (National Credit Union Administration) Credit Unions Market Share Report for Deposits in Berkeley as of December 2011 | | | | | | | |
|---|---------------------------|-------------|--|--|--|--|---|
| CALL REPORT DECEMBER 2011 CITY OF BERKELEY CALIFORNIA CREDIT UNIONS | HEAD OFFICE / LOCATION | ZIP CODE | CASH ON HAND (COIN AND CURRENCY) | CASH ON DEPOSIT (AMOUNTS DEPOSITED IN FINANCIAL INSTITUTIONS) | | | CASH EQUIVALENTS (INVESTMENTS WITH ORIGINAL MATURITIES OF THREE MONTHS OR LESS) |
| | | | | a. Cash on Deposit in Corporate Credit Unions | b. Cash on Deposit in Other Financial Institutions | c. Total Cash on Deposit (Amounts Deposited in Financial Institutions) | |
| 1st United Services Credit Union | Pleasanton, CA | | 2,637,921 | 16,335,270 | 83,627,222 | \$ 99,962,492 | 0 |
| 2175 Milvia Street | Berkeley, CA | 94704 | | | | | |
| | | | | | | | |
| Cooperative Center Federal Credit Union | Berkeley, CA | | | | | | |
| 2001 Ashby Avenue | Berkeley, CA | 94703 | 764,169 | 3,682,861 | 183,758 | 3,866,619 | 3,528,000 |
| 2475 Bancroft Way Lower Sprout Plaza, UC | | | | | | | |
| Berkeley Campus | Berkeley, CA | 94720 | | | | | |
| | | | | | | | |
| INOVA Federal Credit Union | Elkhart, IN | | | | | | |
| 800 Dwight Way | Berkeley, CA | 94710 | 2,231,093 | 6,457,545 | 16,335,639 | 22,793,184 | 0 |
| | | | | | | | |
| | | | | | | | |
| Patelco | Pleasanton, CA | | | | | | |
| 2033 Shattuck Avenue | Berkeley, CA | 94704 | 8,296,486 | 271,402,223 | 26,757,036 | 298,159,259 | 0 |
| | | | | | | | |
| University State Employees Credit Union | San Diego, CA | | | | | | |
| 2350 Shattuck Avenue | Berkeley, CA | 94704 | 3,626,607 | 32,024,668 | 19,714,213 | 51,738,881 | 0 |
| | | | | | | | |
| Berkeley Total | | | | | | \$ 476,520,435 | |

Activity Reports

Reports that list deposit and payment history for a specific period of time.

Automated Clearing House (ACH):

ACH is an electronic network for financial transactions in the United States which processes large volumes of credit and debit transactions in batches. Banks providing the ACH product must comply with the rules and regulations that govern the ACH network, which are established by the National Automated Clearing House Association (NACHA) and the Federal Reserve. Examples include direct deposit of customers' salaries and government benefit payments (i.e., social security, welfare, and veterans' entitlements), and preauthorized transfers

Certificate of Deposit

A negotiable instrument issued by a bank in exchange for funds, usually bearing interest, deposited with the bank.

CDFI

A certified Community Development Financial Institution (CDFI) is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. CDFIs provide a unique range of financial products and services in economically distressed target markets, such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers, flexible underwriting and risk capital for needed community facilities, and technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.

Community Reinvestment Act (CRA)

The Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. It was enacted by Congress in 1977.

Federal regulators rate banks' involvement in the community. The assessment areas are lending, service and investments. The ratings are high satisfactory, low satisfactory, needs to improve, and substantial noncompliance. Governmental entities should not deposit funds in institutions that are not rated high with regard to community reinvestment.

Compensating Balances

Compensating balances are minimum balances that may be maintained in an account and still meet the requirements for a loan or a line of credit. The account where the funds are held is typically non-interest bearing, and the bank is free to use the money in other investment opportunities. The individual or business organization receiving the loan or line of credit must have accounts already in place with the bank, and agree to maintaining a minimum account balance for the loan period.

The compensating balances are often used to offset a portion of the cost that a bank faces when extending a loan or credit to an individual or business, and is usually calculated as a percentage of the loan outstanding. Bankers often offer 'compensating balances' as a means of obtaining a more favorable interest rate on loans extended to existing bank customers. By allowing the funds to remain in the non-interest bearing account for the duration of the loan, the bank is free to make use of those funds as part of their investment strategies. In this manner, the cost for providing loans is reduced, and both the bank and the borrower benefit from the transaction. In the event that the compensating balance drops below the minimum required, the interest rate applied to the loan will rise accordingly and usually does not drop back down, even if the minimum balance to the account is restored.

Daylight Overdraft

A scenario in which a debit balance occurs in a customer's account in the course of the banking day and is expected to be repaid by a credit to the account prior to the end of the banking day.

Direct Deposit:

A payment that is electronically deposited into a customer's account at a depository institution like a bank via the Automated Clearing House (ACH). This is generally used by employers to electronically transfer employee salary payment to their bank accounts.

Electronic Banking:

A service that allows an account holder to obtain account information and manage certain banking transactions through a personal computer via the financial institution's Web site on the Internet. Electronic banking is also known as Internet or online banking.

Electronic Check Conversion:

Electronic check conversion is a process in which your check is used as a source of information-for the check number, your account number, and the number that identifies your financial institution. The information is then used to make a one-time electronic payment from your account-an electronic fund transfer. The check itself is not the method of payment.

Electronic Funds Transfer (EFT):

EFT can be an ACH product in the banking industry. In general, it is the transfer of money between accounts by the consumer electronic systems. Examples, include ACH transmission, transactions using automated teller machines (ATMs) and electronic payment of bills-rather than by check or cash. It should be noted that wire transfers, checks, drafts, and paper instruments do not fall into this category.

Federal Reserve Requirement

Banks' current Federal Reserve requirement (10 percent) as applied to the positive collected balance maintained in a demand deposit (transactions) account. In other words, your available collected balance is reduced by the 10 percent that must be maintained, and is not available for investment.

Financial Regulatory Agency

An organization authorized by statute for ensuring the safe and sound operation of financial institutions chartered to conduct business under that agency's jurisdiction.

The primary regulators are the following:

- OCC (Office of the Comptroller of the Currency)
- FDIC (Federal Deposit Insurance Corporation)
- FRB (Federal Reserve Board)
- NCUA (National Credit Union Administration)
- State regulatory agencies

Float

The time that elapses between the day a check is deposited and the day it is presented for payment to the financial institution on which it is drawn.

Forgery

The fraudulent signing or alteration of another's name to an instrument such as a deed, mortgage, or check. The intent of the forgery is to deceive or defraud.

Fraud Filter, Generally Mean ACH Fraud Filter

The ACH Fraud Filter is a fraud detection tool from financial institutions. It extends the Positive Pay System to include 'Electronic Transactions,' enables clients to control the level of fraud detection at the account level and tailors fraud detection services to the specific needs of the client. For example, one account may be setup for only ACH fraud detection, while another account could have both check positive pay and ACH fraud detection. In addition, the system is highly automated. It includes email notification to clients, enables clients to make pay/return decisions on potential fraudulent checks or

suspicious electronic transactions via the web by pre-defining their business rules and creating exceptions for suspect activity.

Mark To Market

The recording of the price or value of the security, portfolio, or account on a daily basis, to calculate profits and losses or to confirm that margin requirements are being met. When an investment is marked to market, its value is adjusted to reflect the current market price. With mutual funds, for example, marking to the market means that a fund's net asset value (NAV) is recalculated each day based on the closing prices of the fund's underlying investments.

Money Market Deposit Account:

A savings account that offers a higher rate of interest in exchange for larger than normal deposits. Insured by the FDIC, these accounts have limits on the number of transactions allowed and may require higher balances to receive the higher rate of interest.

Positive Pay (Check Positive Pay)

An electronic process by which companies and banks can mutually increase their level of security to an organization's check printing process. Positive Pay captures pertinent information (payee name, check number and amount) and saves it into a "Cash Handling File." At a pre-set time (before checks are mailed and cashed) data from the Automated Cash Handling File is sent to the client bank. By this process, a depository bank is only authorized to process those checks included on the Positive Pay Report.

Sweep Account

An account set up at a bank or other financial institution where the funds are automatically managed between a primary cash account and secondary investment accounts.

In banking, sweep accounts are primarily used as a legal workaround to the prohibition on paying interest on business checking accounts. In this system, the funds are described as being "swept overnight" into an investment vehicle of some kind. Often, the sweep investment is in money funds as it is short-term for overnight only.

Zero Balance Account

An account set up at a bank or other financial institution where the funds are automatically managed between a primary cash account and secondary accounts issuing checks.

These accounts do not maintain an account balance. As checks are cleared through the banking network, the financial institution sweeps the required fund to pay for these checks. Therefore, their account balance has a zero balance at all times.

