

CITY COUNCIL AGENDA REPORT



MEETING DATE: JANUARY 19, 2016

ITEM NUMBER: CC-9

SUBJECT: SELECTION OF FINANCIAL INSTITUTION TO PROVIDE BANKING AND MERCHANT SERVICES FOR THE CITY OF COSTA MESA

DATE: JANUARY 11, 2016

FROM: FINANCE DEPARTMENT

PRESENTATION BY: STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR

FOR FURTHER INFORMATION CONTACT: STEPHEN DUNIVENT, (714) 754-5243

RECOMMENDED ACTION

1. Award RFP No. 16-09 for a five (5) year contract with two (2), one-year renewal options with J.P. Morgan Chase as the financial institution to provide banking and merchant services for the City; and
2. Authorize the Chief Executive Officer to execute an agreement with J.P. Morgan Chase in a form approved by the City Attorney's office; and
3. Authorize the Chief Executive Officer to execute the renewals of the approved agreements.

BACKGROUND

The City of Costa Mesa has contracted for banking services with Bank of America since 1992. In October 2015, Bank of America notified the City that they would no longer provide accounts, deposit, cash management or treasury services for the City. The City needs to transition the existing accounts with Bank of America to another financial institution by April 8, 2016.

Bank of America has also provided merchant services to the City over the past twenty years. In recent years, the increase in credit card fraud in America has prompted the implementation of EMV payment system (EMV stands for EuroPay, MasterCard and Visa), also known as the chip-and-PIN payment system. Organizations that accept payment cards have a lot to consider about the security of the system handling the card information and minimize risks against data compromise. Staff feels that the City should review its current merchant service contract to ensure the City continues to receive the best possible services at a fair price.

ANALYSIS

The Treasury Management Division of the Finance Department conducted an informal RFP with the assistance of the Purchasing Division for banking and merchant services. The City's Municipal Code allows for exemption from the formal bidding process for professional services that fall under CMMC 2-165(b)(4), (citing Government Code section 37103). With the approval of the Interim Finance Director, staff prepared and sent out an informal Request for Proposal to seven financial institutions and two merchant service providers.

Financial Institutions:	Bank of the West
	Citizen's Business Bank
	J.P. Morgan Chase
	Orange County Business Bank
	Union Bank
	US Bank
	Wells Fargo
Merchant Services Providers:	Atlantic Pacific Processing Systems
	Merchant Services

During the week of November 30, 2015, staff invited the interested proposers to City Hall for a live demonstration of their respective online banking platform.

Proposals were due to the Finance Department by December 8, 2015. Staff received proposals from the following entities:

Banking Services Proposals	Merchant Services Proposals
Bank of the West	Bank of the West
J.P. Morgan Chase	J.P. Morgan Chase
US Bank	US Bank
Wells Fargo	Wells Fargo
	Atlantic Pacific Processing Systems

The proposers were required to submit proposals which detailed their qualifications, ability and costs to deliver the required services. They were also asked to describe any innovative approaches to provide services that would allow additional efficiency or enhanced performance.

An evaluation team consisting of pertinent Department representatives and one outside evaluator performed independent evaluations of each proposal submitted. The four criteria used in the evaluations were: a) qualifications of entity and key personnel, b) approach to providing the requested services, c) price proposal, and d) innovative and/or creative approaches.

Upon submittal and ranking of the evaluations, the four highest ranking proposers from the combined banking and merchant services were determined. The evaluation team submitted a question and answer form to the four highest ranking proposers to obtain additional information regarding unclear items discovered during the evaluation process of the submitted proposals.

Of the proposals submitted, US Bank had the overall highest ranking, while J.P. Morgan Chase was ranked 2nd when combining the banking and merchant services. US Bank presented a deposit ceiling in their proposal which was confirmed during the Q&A portion of the evaluation. This vendor is unable to support an average deposit balance in excess of \$705,000. This information forced the committee to deem US Bank as a non-responsive bidder as they are unable to provide the City's required banking services.

J.P. Morgan Chase does not place a ceiling on the City's deposit balance. Additionally, J.P. Morgan Chase's online banking platform provides a robust system that enables the City to perform all treasury management functions in one system and was ranked #1 cash management portal by Greenwich Associates in 2014. The online banking system is easy to navigate and designed with strong security protocol to reduce the risk of fraud or compromised data. The evaluation panel determined that J.P. Morgan Chase provided the best overall banking and merchant service solution.

Attachment 1 provides the ranking results of the proposals reviewed by the evaluation committee.

ALTERNATIVES CONSIDERED

Qualified staff members have invested numerous hours independently evaluating and determining the best solution for banking and merchant services for the City. The process was fair and thorough, reviewing the many aspects of the services to be provided. Due to the time and effort put into the selection process and the clear consistency in the evaluation results, no other alternatives were considered.

FISCAL REVIEW

The monthly charge proposed by J.P. Morgan Chase to provide banking services to the City of Costa Mesa is approximately \$2,100 per month. It should be noted that this is an approximate charge, as the actual charge will be reduced by any earnings credit on idle funds. Traditionally, these earnings credit, also known as compensated balances, have reduced the bank charge by 40% to 50%. With earnings credit, staff estimates the actual bank charge will be approximately \$1,050 per month, which is comparable to what the City is currently paying Bank of America for banking services.

The monthly charge to provide merchant services is approximately \$200 per month plus Brand Assessments and Issuing Bank interchange fees, which are assessed by MasterCard and Visa, and pass through to the City. These Brand Assessments and interchange fees can range from \$2,000 to \$5,000 per month depending on volumes of payment card transactions processed.

LEGAL ANALYSIS

Legal has reviewed this report and will review any agreement to be entered into with J. P. Morgan Chase. Public Contract Code section 22175 *et seq.* does not apply to this agreement because the contract value is below the threshold set forth in Public Contract Code section 22178(a). Additionally, the agreement does not fall within the contract areas specified in Public Contract Code section 22178(a).

CONCLUSION

It is recommended that the City Council awards RFP No. 16-09 for banking and merchant services to J.P. Morgan Chase, authorizing the City Chief Executive Officer to execute an Agreement with J. P. Morgan Chase and the renewals of said agreement.

THOMAS HATCH
Chief Executive Officer

STEPHEN DUNIVENT
Interim Finance Director

Attachments:

- 1) [Ranking Evaluation Summary](#)
- 2) [J.P. Morgan Chase Banking Services Proposal](#)
- 3) [J.P. Morgan Chase Merchant Services Proposal](#)