



**TO:** Mayor and Council Members

**FROM:** Belinda Erwin, Assistant Treasurer *BE*

**THRU:** Greg Canally, Interim Chief Financial Officer *gdc*

**DATE:** April 5, 2017

**SUBJECT:** Depository Service Contract

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The State of Texas municipal depository law, Local Government Code Chapter 105, provides the general provisions for depositories of municipal funds. State law requires that a municipal depository contract does not exceed a term of five years. The City of Austin's current depository service contract with JP Morgan Chase, which began June 1, 2012, is set to expire May 31, 2017. A new contract award is on this week's April 6<sup>th</sup> City Council agenda.

Due to the complexity of this contract and the associated contractual requirements, staff began the Request for Application (RFA) process for depository services in January 2016. The solicitation was issued on August 8, 2016 and closed on September 29, 2016. The RFA was published on Austin Finance Online and advertised in the local Austin American Statesman newspaper. Additionally, the solicitation was provided to the 94 vendors registered for banking services through the City's Vendor Connection website. The City received responses from four applicants for this RFA: Bank of America, Frost, JP Morgan Chase, and Wells Fargo.

The wide range of services provided by the City to our citizens requires a highly complex banking services structure. The volume of our depository activity illustrates this complexity for the City's 33 separate bank accounts:

**Approximate Annual Banking Statistics:**

**Electronic Funds Transfer (EFT):**

- 2.4 million Automated Clearing House (ACH) transactions
- \$3.25 billion in ACH transactions
- 4,000 wire transactions
- \$5.5 billion in wire transactions

**Deposits:**

- 1 million checks deposited
- 13,000 branch deposits
- \$1.25 billion in deposit transactions

Disbursements:

- 160,000 checks issued
- \$770 million in checks issued
- 475,000 payroll checks/ACH transactions
- \$620 million in payroll checks/ACH transactions

The primary objective of municipal banking is to ensure that taxpayer funds are safe and secure. To achieve this goal and ensure that the complex depository needs of the City are met, specific requirements, based on State law and best practices, are detailed for financial institutions interested in providing depository services:

- **Collateral Requirements** – all City funds must be collateralized by the depository in accordance with State law (Chapter 2257 – Collateral of Public Funds), the City Code, and the City's Investment Policy. By requiring our depository to hold collateral in our name, this protects the City's funds in case of a bank default or failure. The City has determined that the minimum level of permanent depository collateral to be pledged at all times at the relationship level will be \$10 million, regardless of the City's collected or ledger balances on deposit.
- **Daylight Overdrafts** – due to the complex nature of debt service requirements and timing of payments, the City requires a daylight overdraft policy; this allows the City to meet debt service payments in the morning and liquidate short term investments during the day to fund those payments, with the bank covering the overdraft between the transactions.
- **Deposit Services** – the City has numerous deposit methods to assist with timely and accurate recording of revenues; the depository is required to have the ability to accept an X9.37 Cash Letter or X9.100 formatted Cash Letter (Image Cash Letter), to receive/process National Automated Clearing House Association (NACHA) formatted ACH files, and to provide sequentially encoded deposit slips for each departmental location depositing into City accounts in order to assist with deposit confirmations and for accounting purposes.
- **EFT (Electronic Funds Transfer) Services** – the City requires an Internet product for ACH and wire initiation; online repetitive, semi-repetitive, and non-repetitive initiation capability for both ACH and wire transactions, as well as confirmation; the ability for NACHA formatted ACH direct file transmissions for both ACH debit/credit transactions; password security and secondary authorization for all online ACH and wires.
- **Zero Balance Accounts (ZBA)** – an extensive ZBA account structure is necessary in order to minimize idle bank account funds; a primary, concentration ZBA account and multiple sub-ZBA accounts are required.
- **Securities Clearance** – the City's depository is required to serve as transfer agent for security transactions (buying/selling of long-term investments) initiated by the City of Austin.
- **Safekeeping** – the City's depository is required to be safekeepers of City of Austin securities; receipt of assets requires the issuance of safekeeping receipts within two business days; interest payments and redemptions of securities must be posted on the due date; all securities are required to be listed at the Federal Reserve under the depository's customer account, such securities shall not be commingled with the depository's assets.
- **Specialized Fraud Prevention Services** – multiple fraud prevention services are required of the depository, to include ACH debit blocks, ACH debit filters, Positive Pay (Positive Pay is a cash management service used to reduce the risk of check fraud) with Full Reconciliation, and Post No Checks.

- **Online Requirements** – dual security administration is required for user set up and various entitlements needed to transact banking online; online submission and decisioning of Positive Pay files; online reporting requirements include current and prior day reporting to assist with cash flow analysis, as well as the ability to download (in CSV and Excel formats) prior day closing ledger, prior day closing collected balance, one and two day float, and prior day debits and credits.
- **Disaster/Pandemic Requirements** – a detailed plan to be in place to deliver banking services in the event of a disaster or pandemic.
- **Other Requirements** – the depository must have a branch within the City limits; be a member of the Federal Reserve and federally insured; be a direct member of NACHA.
- **Community Reinvestment Act (CRA) Rating of Satisfactory or Better** – CRA, enacted by Congress in 1977, 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, consistent with safe and sound operations.

Staff is recommending award of the new depository contract to JP Morgan Chase. JP Morgan Chase received the highest overall ranking by the evaluation team based on their comprehensive banking services, cash management experience, implementation plan, and competitive pricing. JP Morgan met all requirements of the depository services RFA, including a “Satisfactory” Community Reinvestment Act (CRA) rating. The CRA rating was attributable to the bank’s promotion of affordable housing, economic development, revitalization of low to moderate income communities, and assistance in small business lending in the Austin area. Additional factors in JP Morgan Chase’s CRA evaluation included contributions to nonprofit, civic and philanthropic organizations within the Austin community.

### ***City’s Use of Regional / Local Banking Institutions***

In March 2012, City Council passed resolution 20120301-048 related to City’s Depository Services. Attached for your reference is the resolution, and staff’s response to the resolution.

Credit unions are primarily consumer focused financial institutions and historically have not responded to the City’s depository services RFA due to the complex banking needs of the City. Specifically, the City’s depository collateral requirement of \$10 million (in the City’s name) has been an obstacle for local financial institutions, due to capital reserve requirements and their inability to justify allotting funds for collateralization that would be otherwise used for member services.

Opportunities for local banks and credit unions to participate with various aspects of specialized City functions, continues to be a priority. Examples include Velocity Credit Union’s contract for the City’s \$10 million Clean Energy Accelerator energy efficiency lending program and two private placement loans with Prosperity Bank for the Town Lake Venue and the Airport totaling roughly \$85 million. In addition, Frost Bank is the capital partner for the development team negotiating with the City for the new Planning & Development Center, and their inclusion was a key element to why that team was selected.

The City currently has regional providers for both investment and debt management services. For example the regional firm of Hilltop/First Southwest Securities, serves as a broker/dealer for the City’s investment purchases, as well as a bank underwriter for the City’s debt issuances. Estrada Hinojosa is another regional institution who provides underwriting services for various financing

projects for the City. Additionally, the viability of purchasing Certificates of Deposits within the collateralized amount of \$250,000 from local banks and credit unions continues to be explored. As the City remains committed to pursuing alternate financing methods for a variety of City needs, we believe it will provide even further opportunities to partner with regional and local banks in the future.

Please don't hesitate to contact us if you have any questions.

xc: Elaine Hart, Interim City Manager  
Art Alfaro, Treasurer

**RESOLUTION NO. 20120301-048**

**WHEREAS**, investment practices and subprime lending policies by major national banks contributed to a global downturn in the economy and influenced a massive wave of foreclosures throughout the country, including in Austin; and

**WHEREAS**, foreclosures affect the stability of Austin's neighborhoods and place strain on a student's opportunity for academic success when families are forced to move throughout the school year; and

**WHEREAS**, it is in the interest of the City of Austin to ensure public funds are invested in financial institutions that support our local community; and

**WHEREAS**, the City of Austin has a long-standing tradition of supporting local businesses, which fosters sustainability of our economy; **NOW**

**THEREFORE,**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:**

That the City Manager is directed to evaluate and report back to the City Council within 60 days regarding the following:

1. The current status of the city's depository contract, including information on renewal options and the timing for the solicitation process; and
2. Fiscal and operational impacts of terminating the current depository contract and contracting with an alternative local or regional bank, including the feasibility of a credit union; and

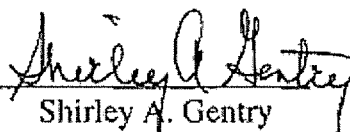
3. An assessment of the capacity of alternative banks, such as credit unions, to maintain and manage the city's banking needs.

**BE IT FURTHER RESOLVED:**

The City Manager is directed to review the city's current banking policies and make recommendations on changes to give preference to banks that support community reinvestment goals, such as the stabilization of the housing market, provision of loans to local homeowners and businesses, establishment of local branches in low-income communities, and opportunities for local employment.

ADOPTED: March 1, 2012

ATTEST:

  
Shirley A. Gentry  
City Clerk



**TO:** Mayor & Council Members

**FROM:** Elaine Hart, Chief Financial Officer *Elaine Hart*

**DATE:** April 25, 2012

**SUBJECT:** Follow-up to Response to March 1<sup>st</sup>, 2012 Item from Council  
on City's Depository Contract

On March 1, 2012 the City Council directed the City Manager to evaluate and report back on several aspects of the City's depository contract. A memo was provided on March 19 which served as a response to that item from council and an update on a new depository contract. On March 22, the City Council approved a new depository contract with JP Morgan Chase in order to ensure a timely transition of the City's banking services on or before June 1, 2012.

Following Council's approval of the new depository contract, we have continued to explore opportunities for local banks and credit unions to assist with the City's depository needs. In addition, we are exploring the possibility of utilizing local financial institutions for future consumer focused grant administered programs. A recently approved City grant program, although not finalized, is currently in the process of partnering with a local credit union for its depository needs.

In accordance with State law, the City requires permanent depository collateral in an amount of \$10 million. A local credit union indicated that they are not able to offer collateral over \$250,000, which is the National Credit Union Administration (NCUA) amount. Given this collateral limitation, we are considering the feasibility of purchasing Certificates of Deposits from local financial institutions within the collateralized amount of \$250,000.

We remain committed to identifying opportunities for local banks and credit unions to assist with the City's depository needs.

xc: Marc A. Ott, City Manager  
Greg Canally, Deputy Chief Financial Officer  
Jeff Knodel, CPA, Deputy Chief Financial Officer  
Art Alfaro, Treasurer  
Belinda Erwin, Assistant Treasurer  
Georgia Sanchez, Assistant Treasurer