



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: May 31, 2022

Approved

Date

6/9/2022

**SUBJECT: AMEND AGREEMENTS WITH WELLS FARGO BANK, NATIONAL
ASSOCIATION FOR BANKING SERVICES**

RECOMMENDATION

Adopt a resolution authorizing the Director of Finance to negotiate and execute amendments to extend the terms of the current agreements with Wells Fargo Bank, National Association for general banking, lock box services, and merchant card services from July 1, 2022 to June 30, 2024, subject to the appropriation of funds.

OUTCOME

Approval of a two-year extension of the current agreements with Wells Fargo Bank, National Association (Wells Fargo) will allow staff to complete a request for proposal (RFP) process, negotiate new agreements for banking services, and complete a transition of service to a new provider, if necessary, without interrupting critical banking and financial services.

BACKGROUND

On June 1, 2009, the City of San José (City) executed agreements with Wells Fargo to provide banking and financial services including general banking and lockbox services, merchant card processing services, and securities custodial services for an initial term of July 1, 2009 to June 30, 2012 with three two-year options for extending the agreements at the City's sole discretion through June 30, 2018.

On June 20, 2016, the City executed the third option extending the agreements through June 30, 2018. On June 19, 2018, the City Council approved extending the agreements for an additional one-year term through June 30, 2019, in order to ensure vital banking services that would have expired on June 30, 2018 would continue uninterrupted through the banking services RFP process, contract negotiations, and if necessary, through the transition period to a new bank.

On March 19, 2019, the City Council voted to reject all proposals for RFP 17-18-05 based on the City's then current adopted Wage Theft Prevention Policy (0-44), approved extending the banking services agreements for another one-year term through June 30, 2020, and directed staff to explore the feasibility of an alternative delivery model for banking services and to report back to the City Council before the issuance of the next RFP.

On June 16, 2020¹, the City's Department of Finance staff presented its analysis on the exploration of the feasibility of alternative delivery models and recommended issuing a single RFP for general banking, lockbox, and merchant card services and issuing a separate RFP for investment custodial services as outlined in the memorandum. Additionally, on June 5, 2020, an information memorandum was released addressing questions raised by the City Council related to public banks.² Concurrently, the City Council approved staff's analysis and approved the extension of the agreements for a two-year period through June 30, 2022.

On February 22, 2022, the City's securities custodial services account with Wells Fargo was fully transitioned to Principal Financial Services, Inc. as part of the Wells Fargo divestiture of its institutional trust and custody business line, and the subsequent acquisition of that business line by Principal Financial Services, Inc. As the annual expense for securities custodial services is well within the City Manager's authority, future agreements for these services will be entered into under that authority.

ANALYSIS

A successful banking relationship for a large, complex organization such as the City is integral to the smooth, efficient operation of the City's finances. Finance staff – including the Procurement and Treasury Management units – have been coordinating the preparation of a detailed RFP package to seek providers for general banking, lockbox services, and merchant card processing services. Such an RFP has not been issued since 2018, as the circumstances that prompted the City Council rejection of the last solicitation of bank proposals at that time have not fundamentally changed.

Responding to a lengthy and complex banking services RFP is an expensive and time-consuming undertaking for potential respondents and the review of the responses is an equally time-consuming process for City staff. While staff still expects a robust response to a new RFP, absent a resolution of the wage theft policy issue, it is highly probable that potential respondents would not invest the time or expense in responding if the conditions resulting in the rejection of the proposals in 2019 remain the same.

¹ *Extension of Banking Services Agreements with Wells Fargo Bank*, June 16, 2020, item 3.6
<https://sanjose.legistar.com/View.ashx?M=F&ID=8594924&GUID=516C7557-8E3D-413E-8EF1-D3A32C3054B1>

² *Public Banking Review Information Memo*, June 5, 2020
<https://sanjose.legistar.com/View.ashx?M=F&ID=8594924&GUID=516C7557-8E3D-413E-8EF1-D3A32C3054B1>

The current two-year extension of the agreements for general banking, lockbox services, and merchant card processing services expire on June 30, 2022. Extension of the Wells Fargo agreements for general banking, lockbox, and merchant card processing services is necessary to continue smooth financial operations for the City. Even if the wage theft policy issue is resolved, an extension would be necessary to complete the RFP process, contract negotiations and, if necessary, a transition period should a new provider be selected.

CONCLUSION

Approval of a two-year extension of the current agreements with Wells Fargo will allow staff to complete an RFP process, negotiate new agreements for general banking, lockbox services, and merchant card processing services and complete a transition of services to a new provider, if necessary, without interrupting critical banking and financial services.

EVALUATION AND FOLLOW-UP

This memorandum will not require any follow-up from staff.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City Council Agenda website for the June 21, 2022 City Council meeting.

COORDINATION

This report was coordinated with the City Manager's Budget Office and City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

COST SUMMARY/IMPLICATIONS

The FY 2022-2023 Proposed Operating Budget for Banking Services is \$957,000, inclusive of general banking, lockbox services, and merchant card processing services, with approximately \$20,000 for securities custodial services which are not included in this recommendation. The funding source is the General Fund from a City-wide appropriation.

BUDGET REFERENCE

Fund #	Appn #	Appn Name	Total Appn	Amt. for Contract	2022-23 Proposed Operating Budget Page	Last Budget Action (Date, Ord. No.)
001	TBD (Citywide)	Banking Services	\$712,000	\$692,000	803	N/A
423	TBD	Banking Services	\$95,000	\$95,000	894	N/A
515	TBD	Banking Services	\$170,000	\$170,000	940	N/A
		Total	\$977,000	\$957,000		

* The 2020-2021 Proposed Operating Budget was released on May 4, 2022 and is scheduled to be reviewed on June 14, 2022 and adopted on June 21, 2022 by the City Council.

CEQA

Not a project, Public Project Number PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/
JULIA H. COOPER
Director of Finance

For questions, please contact Luz Cofresi-Howe at luz.cofresi-howe@sanjoseca.gov or (408) 535-7041.