



Bank Service Contract Extensions

Cash, Risk & Capital Funding

Finance and Governance Committee
December 8, 2020

Agenda

- Council Requests
- City Banking Overview
 - Structure
 - Services
- Bank Contract Extensions
 - RFP Development
 - Timeline and Next Steps
- Banking Requirements
 - State and local requirements and standards
 - Public banking FAQ

Council Request

The Department of Finance requests authorization for two actions:

- Amends a contract with JPMorgan Chase Bank, Merchant Services by adding \$30,000,000 for a new total of \$80,000,000, two years for a new end date of 12-31-22, adding gateway services to the contract and maintaining the City's credit card processing services (FINAN-202055923).
- Amends a contract with JPMorgan Chase Bank, N.A. by adding two years for a new end date of 12-31-22 to maintain the City's banking services. No change to contract amount (FINAN-202055953).

The proposed actions would maintain the City's banking services while the competitive RFP process is issued in 2021.

City banking structure

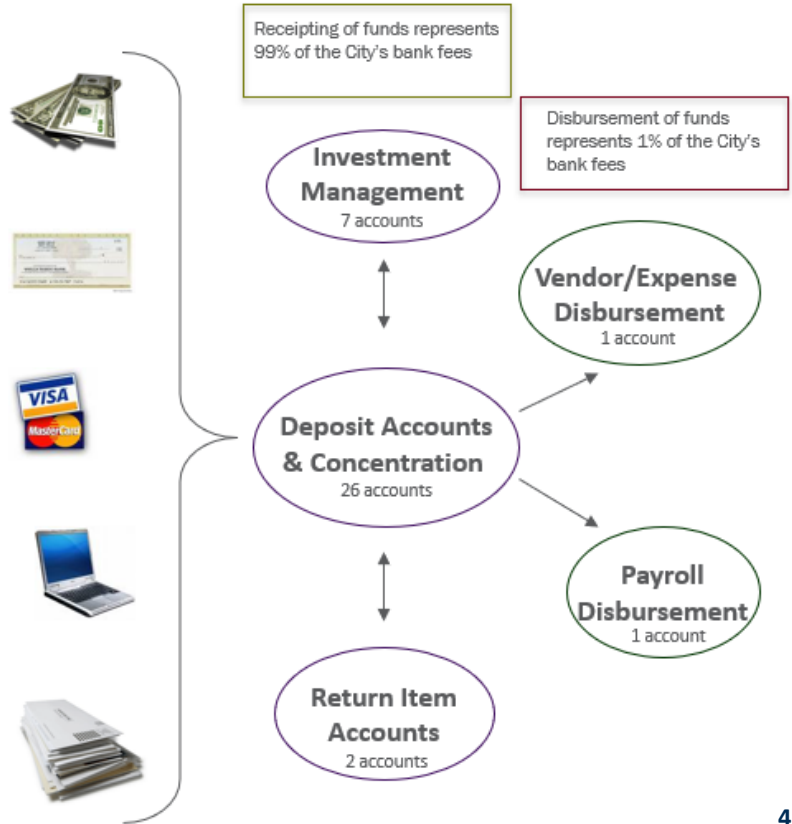
\$10 billion flows through the City bank accounts annually.

JPMorgan is the City's primary bank service provider. The City's banking structure provides secured revenue processing, managed disbursement, custodial, reconciliation and reporting services, requiring a robust set of bank services to support daily operations including:

- File transfer management
- High volume payment processing equipment/support
- Electronic funds transfers
- Reconciliation
- Fraud and risk controls

The City also works with:

- *US Bank*: Certain DOTI, Safety, and Human Services functions
- *Vectra Bank*: Certain Photo Traffic, County Court, and DEDO functions



CCD banking services

Bank Service	Description	Processed Annually
Depository	A financial institution, in which collected currency is deposited and held for future use and/or reallocation.	\$792 million (cash & checks) 700,000 items
Automated Clearing House (ACH)	An electronic funds transfer system that can direct receipts and disbursements from authorized bank accounts. Usually used with payroll, receivables or payables. Can take 1-2 days to transact. Dispute capability. (minimal fees)	\$2.7 billion 653,000 items
Fed Funds Wire (Wire)	A federal electronic funds transfer system where funds are sent from an individual or entity to another, domestically or internationally. Funds are guaranteed and can be transmitted within minutes.	\$4.3 billion (incoming) 1,000 items
Controlled Disbursement	Service provided to the City stating the dollar amount of checks that will clear their account that day and provides the amount needed to fund check transactions.	\$600 million 80,000 items
Positive Pay (Fraud mitigation)	A file sent to the bank detailing which checks have been issued/authorized by entity including verification details. (ONLY these checks will be paid)	\$600 million (outgoing) 80,000 items

CCD banking services (Cont'd)

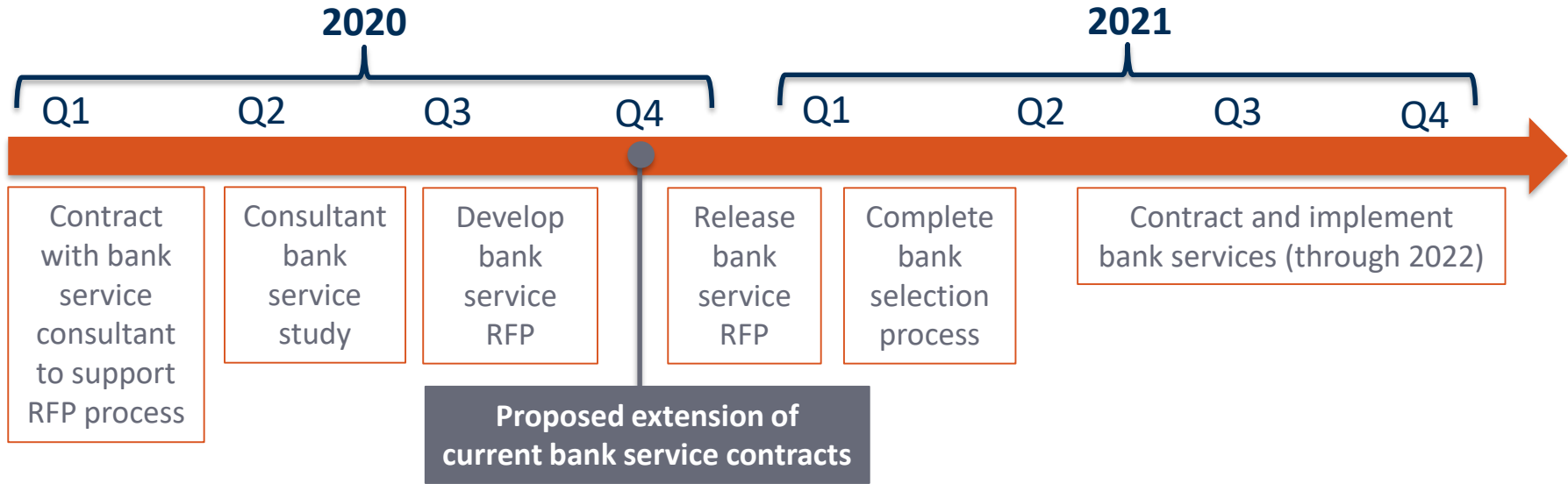
Bank Service	Description	Processed Annually
Lockbox	A bank operated mail box to which payments are mailed (in the form of checks) in order for the bank to process and deposit.	\$883 million 676,000 items
Receivables Edge (Proprietary to Chase)	Receivables scanned at lockbox location with the search ability of PDF image. Includes digital copies of bill and payment info. Allows for workflow functionality.	Volume corresponds with lockbox volume
Reporting and Reconciliation	The ability to access reporting and receive file data electronically via download or file exchange to reconcile and report financial activities. Allows for transaction automation.	1,500 items
Custody Services	Bank-provided safekeeping for securities. The bank buys, sells, receives, and delivers securities at customer's request.	\$4.8 billion 550 trades
Merchant Services	A service provider that allows entities to accept payment cards; processes payments and settles funds to the entity.	\$551 million 11,000,000 items

Bank Contract Extensions: JPMorgan Chase Bank

Vendor	Date Commenced	Date Term Expires	New Term Expiration	Existing Contract Total \$	Additional Contract \$	New Contract Total \$	Additional Contract Term	Ordinance Required	Proposed Additional Services
JPMorgan Chase Bank, N.A.*	1/1/2014	12/31/20	12/31/22	\$12 million	-	\$12 million	24 months	Y	-
Chase Merchant Services*	1/1/2014	12/31/20	12/31/22	\$50 million	\$30 million	\$80 million	24 months	Y	Gateway Services
US Bank, N.A.	1/1/2014	12/31/21	12/31/22	\$400,000	\$30,000	\$430,000	12 months	N	Stored Value Card
UMB Bank, N.A.	1/1/2014	12/31/20	12/31/22	\$75,000	-	\$75,000	24 months	N	-

*Council action required

Timeline and Next Steps



To assist with the complexities of bank service selection and implementation, the City hired consultant PFM Asset Management for advisory services to conduct a bank services study and support with RFP development, selection and implementation.

State and Local Banking Requirements

STATE REQUIREMENTS	CITY AND COUNTY REQUIREMENTS	INDUSTRY STANDARDS <i>MUNICIPALITIES THE SIZE OF DENVER</i>
Public Depository Protection Act (PDPA)	Denver Charter § 2.5.3 and Technology Services Requirements	High-volume processing capabilities for municipalities
<ul style="list-style-type: none"> Requires public deposits be held at an eligible depository and collateralized by readily marketable assets with a market value of or exceeding 102% of the deposits Credit unions do not qualify to hold public funds in the State of Colorado This collateralization requirement is financially prohibitive for some smaller and community banks 	<ul style="list-style-type: none"> (C) Bank Depository; Investment of funds. The Manager of Finance shall, with the approval of the Mayor, select one or more banking or savings and loan institutions for deposit of public funds. Before any deposit shall be made, the bank or savings and loan institution shall pledge sufficient collateral as required by law. Banks must meet security and new technology requirements (i.e., SOC1, SOC2, PCI reporting) through Technology Services 	<ul style="list-style-type: none"> Member of the Federal Reserve system to send and receive wire transfers Strong market capitalization, allowing up to \$500 million in intra-day overdraft funds for settlement

Department of Finance Banking Requirements

The City requires bank service providers to meet community, environmental, social and governance standards, including:

- Community Reinvestment Act (CRA) Ratings
 - Assessed and rated by federal regulators (FDIC, FRB, OCC), encourages depository institutions to meet the credit needs of the communities they serve including low- and moderate-income (LMI) neighborhoods
- Environmental, Social and Governance (ESG) Approach
 - Assessed through the City's consulting partner PFM and utilizes Sustainalytics, an independent ESG and corporate governance research and analytics firm
- The Division of Small Business Opportunity's (DSBO)
 - The upcoming banking RFP will follow all of DSBO's Minority/Women, Disadvantaged Business and/or Small Business Enterprise ordinance and program analysis process

Examples:

JPMorgan Chase, the City's current provider, achieved a CRA rating of Satisfactory in its most recent performance exam

JPMorgan Chase completed an inaugural issuance of \$1 billion in green bonds, the proceeds from which will be used to fund eligible green projects

JPMorgan Chase pledged \$30 billion toward addressing racial inequity over the next 5 years through loans, equity and direct funding to expand homeownership for communities of color

Banking Requirements and Public Banking: FAQ

Q: Could the City institute a public bank, a concept that has been presented to states and municipalities locally the last several years?

A: *No, currently the creation of a public bank is prohibited by the State of Colorado constitution.¹*

Q: Why is public banking impermissible?

A: *There are a few reasons:*

- *Under Colorado Constitution Article XI, public responsibility for private debt is not permissible.*
- *Currently only the state can approve public depository eligibility.²*
- *C.R.S. 11-10.5-102 requires public deposits be housed in a qualified financial institution and protected by the Public Depository Protection Act (PDPA)³, which requires public deposits be collateralized by readily marketable assets with a market value of or exceeding 102% of the deposits.*

Q: Have there been attempts to create a public bank in Colorado?

A: *Yes, organizations have attempted to add legislation to amend the State constitution but the ballot initiatives have failed.*

Q: What other considerations would a public bank need to consider?

A: *A public bank would require substantial capital needs, as well as significant infrastructure to adhere to banking regulations. There could be risk to a public entity if funds are not FDIC/PDPA insured.*

¹ Colorado Constitution Article XI, Section 1, State Bank Commissioner's Office

² Colorado Revised Statute 11-10.5-106

³ Colorado Revised Statute 11-10.5-102

Council Request

The Department of Finance requests authorization for two actions:

- Amends a contract with JPMorgan Chase Bank, Merchant Services by adding \$30,000,000 for a new total of \$80,000,000, two years for a new end date of 12-31-22, adding gateway services to the contract and maintaining the City's credit card processing services (FINAN-202055923).
- Amends a contract with JPMorgan Chase Bank, N.A. by adding two years for a new end date of 12-31-22 to maintain the City's banking services. No change to contract amount (FINAN-202055953).

The proposed actions would maintain the City's banking services while the competitive RFP process is issued in 2021.

QUESTIONS?

Appendix

Prior bank selection

The City conducted a competitive RFP process to select banking services in 2011-2012, involving internal stakeholders and external professionals in the selection process. RFP issuance to contract takes approx. 18 months, and includes vendor demonstrations, site tours, reference checks, evaluations, and complex contract negotiations, all prior to migration of existing services to new services which can take an additional 18 months.

AWARD CRITERIA:

- | | |
|--|-----|
| 1. Experience and commitment to customer service | 25% |
| a. Knowledge level | |
| b. Local representation | |
| c. Overall effectiveness | |
| d. Accessibility | |
| e. Understands client's business and industry | |
| f. Active problem resolution | |
| g. Prompt call follow-up | |
| h. Anticipates needs regarding new services | |
| 2. Ability to provide requested services | 25% |
| 3. <i>Demonstrated commitment to residents of Denver</i> | 15% |
| 4. Financial strength | 15% |
| 5. Demonstrated commitment to new technologies | 10% |
| 6. Overall Cost of Services | 10% |
| a. Commercial Banking and Treasury Management Services | |
| b. Merchant Services | |
| c. Earnings Credit Rate | |
| d. Deposit availability schedules | |

MINIMUM QUALIFICATIONS:

- a. Be a Federal or State of Colorado chartered bank, a member of the Federal Reserve System, and Federal Deposit Insurance Corporation insured.
- b. Have branch banking facilities located within the City and County of Denver.
- c. *Maintain a "Satisfactory" or higher rating under the Federal Community Reinvestment Act (CRA)¹.*
- d. Be established as an eligible public depository and in compliance with the capital standards established by the State Banking Board and their regulatory directives, reporting requirements, examination requirements, and other criteria established for the administration and enforcement of the provisions and purposes of Title 11, Article 10.5, C.R.S.
- e. Must have market capitalization of no less than \$10,000,000.

¹In each rating category, at time of contract

Prior bank selection (Cont'd)

Selected banks (during the 2011-2012 bank RFP cycle) commitment to the residents of Denver include:

JPMorgan Chase

- Provided \$126 million in Community Development loans originated or purchased in Colorado 2008-2011 with \$80 million in the Denver Metropolitan Statistical Area (MSA)
- Contributed \$1.8 million in charitable donations in Denver with \$360,000 specifically for education between 2008-2011
- Provided financial education and supported the Colorado Foreclosure Hotline
- Employed 527 people in the Denver MSA in 2012

US Bank

- Supported Denver's 10-year plan to end homelessness and provided \$245k in grants between 2006-2011
- Provided financial education and supported the Colorado Foreclosure Hotline
- Participated in Bank on Denver
- Employed 1070 people in Denver in 2012