

**TOWN OF FAIRFAX
STAFF REPORT**

To: Mayor, Members of the Town Council

**From: Michael Rock, Town Manager
Michael Vivrette, Finance Department**

Date: October 5, 2011

Subject: Request for direction to staff to prepare a Request for Proposals for banking services for the Town's finances

RECOMMENDATION

Discuss and consider directing staff to prepare an RFP (Request for Proposal) for banking services.

DISCUSSION

There has been interest expressed in opening the Town's banking services to allow local banks an opportunity to do business with the Town. Several months ago, staff was directed to survey local banks to see if they would be interested in the Town's banking business. One bank, Mechanic's Bank of San Rafael responded and expressed interest. While this method of soliciting responses is informal and inexpensive, we may be precluding responses from qualified financial institutions by not defining the scope of our financial service needs and creating a process for choosing between respondents.

State and local governments use a wide variety of banking services for the deposits, disbursement, and safekeeping of public monies. Prudent procurement practices necessitate the reevaluation of banking services on a periodic basis. Typically, governments will put their banking out to bid every five years. A common scenario involves a three-year contract with two one-year renewals, totaling five years. An RFP process creates a very competitive environment among the banks, resulting in the most favorable pricing and terms and conditions for the government. In addition, continual changes in technology, cash management practices, and banking industry structure offer public cash managers opportunities to reevaluate banking services and costs.

The GFOA recommended practice on procuring banking services recommends that state and local governments should undertake the following practices to receive effective banking services at reasonable costs:

1. Periodically initiate competitive-bidding and negotiation processes, in accordance with the state and local laws and regulations, for major banking services. The processes should include requests for proposals and should cover services, fees, earnings credit rates, and availability schedules for deposited funds.
2. Have contracts for banking services that specify services, fees, and other components of compensation.
3. Establish a relationship manager who will best understand the needs of the entity and be able to provide service improvement recommendations as well as cohesive communications.
4. Evaluate the relative benefits and costs of paying for services through direct fees, compensating balances, or a combination of the two. Factors to consider in this evaluation are the earnings credit rate, reserve requirements and insurance fees on deposits.

5. Evaluate their needs against the costs and benefits of specific banking services, including but not limited to:

Electronic (Balance and transaction-reporting services, Stop payments, Payment capabilities, Transmitted analysis and statements, Digitized storage of paid checks and statements, Stale date check management, Access to safekeeping/custodial information, Access to investment performance reporting)

Accounts (Controlled disbursement, Zero-balance, Interest-bearing, Investment sweep account)

Security features (Positive pay services, Reconciliation services, ACH blocking/filtering capabilities, Check to ACH conversion, NSF/ACH conversion for representation of NSF check, Collateral requirements, check scanning)

Cash management services (Lock-box services, Credit card receipt merchant services, Safekeeping custody arrangements, Procurement cards, Payroll/value cards, Web links for Internet payment for services)

6. A cash management review and comprehensive evaluation should be performed prior to the issuance of a RFP to ensure that the cash manager asked for all required and optional banking services. This preliminary work is necessary periodically to take advantage of changes in banking services and technology as new services become available.

The Town may also wish to include such additional non-financial factors as:

- customer service
- involvement in the community
- branch distance from Townhall (for making deposits, wires)
- whether the bank is convenient for LAIF, county and state transfers.

The Finance Committee has offered to participate in establishing criteria for comparing banks and selecting from the respondents to an RFP.