



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 6d

**ACTION ITEM**

**Date of Meeting** February 26, 2019

**DATE:** January 16, 2019  
**TO:** Stephen P. Metruck, Executive Director  
**FROM:** Diane Campbell, Treasury Manager  
**SUBJECT:** Banking Services Contract

**Amount of this request:** \$5.0 million  
**Total estimated contract cost:** \$14.7 million

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to increase the amount of the Port’s banking services contract by an additional \$5,000,000 (from \$9,700,000 to \$14,700,000).

**EXECUTIVE SUMMARY**

This request is to add additional funds to the banking services contract. Because of significant growth in the number of transactions and revenues at the Airport’s public parking facility and certain marinas, banking fees have increased at a faster rate than originally projected for the contract amount.

**DETAILS**

In 2014, Port staff completed a competitive banking services procurement that was approved by Commission on August 6, 2013. Wells Fargo Bank was ultimately selected as the Port’s new banking partner, which for the Port resulted in enhanced services and a lower fee schedule. The banking services contract amount of \$9,700,000 was intended to cover 7 years, (5-years with the option to extend for 2 additional 1-year periods), effective August 1, 2014.

The existing banking contract amount was estimated using the actual banking services fees incurred in 2012. Since 2012, annual banking services fees have grown from \$1.4 million to \$2.0 million in 2018, a 45 percent increase, as follows:

	2012		2018		change 2012 to 2018	
	\$	% total	\$	% total	\$	% total
Banking Fees:	133,634	10%	176,859	9%	43,225	32%
Credit\Debit Card Fees	1,256,735	90%	1,833,424	91%	576,689	46%
Total Banking Fees	<u>\$ 1,390,369</u>		<u>\$ 2,010,283</u>		<u>\$ 619,914</u>	45%

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A high percentage of total banking fees, 91 percent, result from accepting payment cards (credit and debit). Further, most of the payment card fees, 96 percent, paid to the card brands (Visa and Mastercard), and card-issuing banks, are not negotiable for the Port. Only 4 percent is paid to the Port’s banking partner:

<b>Merchant (Credit/Debit Cards) Services Fees</b>	<b>2018</b>	
	<b>\$</b>	<b>% total</b>
Card Brands (Visa & Mastercard)	150,520	8%
Card Issuing Banks	1,615,740	88%
Bank's Payments Cards Processor	67,164	4%
	<u>1,833,424</u>	

The rate of increase in banking fees can be primarily attributed to the significant growth experienced at the Airport’s public parking facility and certain marinas. The Airport’s public parking facility alone accounted for 98 percent of payment card transactions and 86 percent of revenues paid with payment cards in 2018.

Included in the Aviation division’s long-term planning for the Airport public parking facility are goals to maximize capacity, increase revenues, and improve the operational efficiency of the facility. Noted efforts have included moving the rental car companies to the new consolidated rental car facility freeing up two floors of parking spaces, directing cash paying parking customers to use payment cards instead at the pay-by-foot booths, offering competitive parking packages, selecting a new parking revenue control system and vendor, and in the future introducing new valet services and web-based pre-booking reservations system. Accordingly, since 2012, public parking revenues have grown cumulatively by approximately 54 percent, or more than \$30 million, due to increases in the number of transactions and higher tariffs.

Port-wide, revenues paid with payment cards have grown similarly, up 44 percent since 2012, and the accelerated increase in associated banking fees have followed. As of January 2019, approximately 4.5 years into the existing contract, \$7.5 million has been spent, and only \$2.2 million remains, enough to cover approximately 11 months through November 2019. Additional funds, \$5 million, will be required to fund the banking contract services through the end of the 7-year contract term. As described earlier, most of the fees are for merchant services and are paid to Visa, Mastercard and card issuing banks, and not to the Port’s banking partner.

The Port’s contract is approaching the end of the initial five-year period, July 31, 2019, and the Port must provide 90 days’ notification to exercise the one-year optional period commencing August 1, 2019 (notification must be provided no later than April 30, 2019.) Port staff is satisfied with the performance of the Port’s banking partner, and it is their intention to execute the optional years which were included in the commission authorization dated August 6, 2013 and do not require further authorization. That said, in order to have sufficient funding to

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exercise the optional periods, Commission authorization for additional funding is necessary. The Port may terminate the contract with 180 days' notice.

There are certain major projects in either the update or implementation stages, e.g., PeopleSoft upgrade, the upcoming airport parking pre-booking reservation system, the new airport parking revenues controls system implementation, and the marine management system replacement. The Airport's public parking revenue control system's transition to the new vendor is ongoing and coupled with the upcoming new pre-booking reservations system is at a critical stage. This project's schedule expands into the middle of 2020. Part of the process requires certifications between the vendor's and Port's systems with the payments cards processor. To potentially change banking partners in the middle of this project's schedule would be disruptive. For this reason, the recommended alternative is for additional funding of the banking services contract through the end of the full contract term of seven years, to July 2021. Staff plans to initiate a procurement for a new banking services contract this year and will return to the Commission for contract authorization mid-year 2019.

**ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1** – Undertake a new procurement for banking and merchant services before the current contract amount is depleted.

Cost Implications: At minimum 18 to 24 months' time frame and +/- 5,000 staff hours, estimated \$250,000 to \$400,000

Pros:

- (1) Opportunity to review other qualified banks services, prices and technologies sooner than under the other alternatives.

Cons:

- (1) A new banking service procurement would need to begin immediately. Based on the Port's experience of needing two years for the prior procurement and complete transition to the new banking partner, it would be challenging to complete a procurement and transition by the time the contract amount is depleted.
- (2) Given the time and complexity of selection and transition, time and employees' resources may be insufficient to ensure the best results from a banking procurement before the contract amount is depleted. Many of the required Port participants are engaged in other projects that are undergoing updates or being implemented.
- (3) Could add complexities to other major Port projects in update or transitioning status that are tied to current bank and bank technologies.
- (4) Would need to update or change existing Port platforms to new selected bank platforms/technologies.

This is not the recommended alternative.

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**Alternative 2** – Increase the contract’s approved amount to fund through the end of the first one-year optional extension, July 31, 2020.

Cost Implications: \$2,300,000 required; increases the contract total value to \$12,000,000 from the original approved amount, \$9,700,000.

Pros:

- (1) Staff (Treasury, Accounting, ICT) are satisfied with the performance of the current banking partner
- (2) Accommodates unprecedented growth in banking fees

Cons:

- (1) A new banking service procurement would need to begin immediately. Based on the Port’s experience of needing two years for the prior procurement and complete transition to the new banking partner, it would be challenging to complete a procurement and transition in this time frame.
- (2) Does not support certain major projects in either update or implementation stages, e.g., PeopleSoft upgrade, the upcoming airport parking pre-booking reservation system, the new airport parking revenues controls system implementation, the marine management system replacement. Potentially changing the banking partner at the critical timeframe of these projects schedules would be disruptive.
- (3) Many of the required Port participants are engaged in other projects that are undergoing updates or being implemented.

This is not the recommended alternative.

**Alternative 3** – Increase the contract’s approved amount to fund through the full seven-year term, July 31, 2021.

Cost Implications: \$5,000,000 required; increases the contract total value to \$14,700,000 from the original approved amount, \$9,700,000.

Pros:

- (1) Staff (Treasury, Accounting, ICT) are satisfied with the performance of the current banking partner
- (2) A new banking service procurement would need to begin this year, based on the Port’s experience of needing two years for the prior procurement and complete transition to the new banking partner.
- (3) Accommodates increased growth in banking fees due to growth in Port businesses.
- (4) More supportive of certain major projects in either update or implementation stages, e.g. PeopleSoft upgrade, the upcoming airport parking pre-booking reservation system, the new airport parking revenues controls system implementation, the marine management system replacement.

Cons:

- (1) Many of the required Port participants are engaged in other projects that are undergoing updates or being implemented.

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*This is the recommended alternative.*

**FINANCIAL IMPLICATIONS**

***Cost Estimate/Authorization Summary***

	Capital	Expense	Total
<b>COST ESTIMATE</b>			
Original estimate	\$0	\$9,700,000	\$9,700,000
Revised estimate	0	14,700,000	14,700,000
<b>AUTHORIZATION</b>			
Previous authorizations	0	9,700,000	9,700,000
Current request for authorization	0	5,000,000	5,000,000
Total authorizations, including this request	0	14,700,000	14,700,000
Remaining amount to be authorized	\$0	\$0	\$0

***Annual Budget Status and Source of Funds***

Basic banking services fees are budgeted annually under non-operating expenses, and payment card fees are budgeted as operating expenses to the appropriate departments.

**ATTACHMENTS TO THIS REQUEST**

- (1) August 6, 2013, Commission memo and minutes.

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

August 6, 2013 – The Commission authorized the Chief Executive Officer to execute a banking services contract.