



**COMMISSION
AGENDA MEMORANDUM**

Item No.

8c

ACTION ITEM

Date of Meeting

June 25, 2019

DATE: June 18, 2019
TO: Stephen P. Metruck, Executive Director
FROM: Diane Campbell, Treasury Manager
Dan Thomas, Chief Financial Officer
SUBJECT: Banking Services Contract RFP

Estimated request amount: \$48,200,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute contracts for banking services for up to ten years, a five-year base term with option(s) to extend for up to five additional years. The estimated contract amount is \$48,200,000 over ten years.

EXECUTIVE SUMMARY

Banking services included are detailed in the “Banking services to be procured” section of this memo. The Port has two years remaining under its current banking services contract (five-year initial term, with two one-year extensions). Given the long lead time and amount of effort required to competitively procure, and the significant systems integrations required for implementation, Port staff plans to issue a request for proposals (RFP) for banking services in Q4 2019, with a longer contract term of up to ten years, including the right to cancel with 180 days’ notice, and continuing the current practice of annual reviews of performance and services updates. The actual contract costs will vary depending on the growth of credit and debit card transactions, which generate the largest component of banking services fees.

Since 2016 the Port’s banking services fees have increased by 9 percent per year. Projecting a similar average growth rate in credit and debit card transactions, the maximum contract value would be \$48.2 million over ten years. The total cost estimate includes all services – some costs will be determined through the RFP process, but the majority are estimates based on credit and debit card fees. The Port intends to develop a solicitation that allows the Port to award one or more contracts for the four types of banking services described below, depending on what is in the Port’s best interest.

Social Responsibility

There may be financial and operational impacts in implementing an unbundled approach to banking services. However, separating the services facilitates the Port’s goals to provide

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greater opportunities to a broader range of providers including women and minority- owned businesses. A social responsibility section will be included in each of the services out for bid. Sources internal and external to the Port will be included to help draft questions and criteria during the RFP development phase, while being mindful of the Port’s authority. Examples of sub-groups within the broad topic of social responsibility may include environmental, social responsibility and governance.

JUSTIFICATION

A new procurement is necessary because the current Wells Fargo banking contract cannot be extended beyond July 2021. Staff anticipates a two-year time frame to accommodate both the competitive selection and implementation of any new provider(s) and services, so plan to initiate the process in 2019. A contract term of 10 years has benefits such as the potential to lock in lower annual pricing over a longer time period and will not only align with recent industry trends and best practices, but also supports the longer-term nature of the Port’s existing, new and upcoming platforms and information systems with interfaces connected to the Port’s vendors and banking partner’s systems and technologies. Staff will seek Commission authorization for a technology implementation project once the scope of the selected proposal is known.

DETAILS

Port of Seattle’s banking requirements

The Port’s options for banking partners is limited for two primary reasons that mitigate the Port’s exposure to bank risk: (i) the Port may only use banks and credit unions that are Qualified Public Depositories (QPD) approved by the State of Washington (the “State”), see **Appendix A**, and (ii) due to the Public Deposit Protection Commission (PDPC) depository limitations, most QPDs do not qualify to provide banking services to the Port. Additionally, the types of services the Port requires to handle the volume and size of transactions, to support operational efficiency, and especially those that mitigate fraud (e.g. fake checks being drawn against or unauthorized debits from bank accounts), are not offered by other QPDs that do meet PDPC ‘s depository limitations.

To operate on sound business principles, the Port requires its banking partner to have a depth and commitment of resources both financially and technologically. These requirements further narrow the list of QPDs who have the capacity to handle the Port’s business. Since 2012, the Port’s two largest single deposits were \$681 million and \$621 million. With the PDPC deposit limitations along with the Port’s requirements, see **Appendix B**, only five QPD’s responded to the Port’s 2013 RFP.

The importance of the technologies of the banking partner

While the Port is limited in the number of banks it can contract with and in its ability to negotiate only 11 percent of total fees, (the bulk of the fees, merchant services, are non-negotiable) the most important areas the Port can select for are services and technological

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capabilities. While this procurement covers banking services, the most critical aspects relate to the Port's systems and technologies involved in receiving and disbursing Port monies, and how they interface with those of the banking partner.

The Port's last banking procurement began in 2013, with the entire process taking two (2) years and more than 4,500 staff hours from multiple departments: Treasury, Accounting and Financial Reporting's (AFR) Revenue Services, Disbursements and Business Technology teams, Information Communication and Technology (ICT), the Airport Public Parking team, Recreational Marinas and Commercial Operations, and Central Procurement Office's Senior Purchasing Manager. Approximately 60 percent of the Port's resources came primarily from ICT and AFR. More than a dozen ICT team members participated from several disciplines including project management, software development and testing, systems engineering, Enterprise Resource Planning's (ERP) management and development/programming, and information security.

More than 95 percent of the ICT resources were dedicated to the evaluation of the bank's systems and technologies, testing all Port systems, tools and technologies with those of the selected banking partner, to ensure every function and interface connected with receiving and disbursing Port funds were fully operational, safe and secure, before and after the transition. Authorization for a technology implementation project will be sought when the scope of the selected proposal is known.

Accordingly, the Port's banking partner must (i) have a secure, user-friendly electronic banking platform providing a wide range of utility for multiple users and departments, (ii) have state-of-the-art technological capabilities, providing products, services, reporting, platforms with traditional, e-commerce and emerging solutions that easily integrate safely and securely with the Port's financials and vendors systems, (iii) be capable of meeting the Port's current and future growing banking needs, and (iv) contribute to improving the Port's operational efficiency.

Banking services to be procured

This RFP will allow for the four services listed below to result in contract(s) with one or multiple vendors and provide the opportunity for Proposers to offer on one, multiple or all services.

1. Banking (funds deposit and disbursement services)
2. Merchant Services (debit and credit cards payments processing and deposits)
 - a. Point-of-sale (in-person, card-present, payments at terminals)
 - b. E-Commerce/Payment Gateway (online, card-not present, payments)
3. Lock Box (central receipt and deposits of checks from customers)
4. Commercial Credit Cards - P-Card (Purchasing) and T&E Card (Travel & Expense)

For services related to commercial credit cards, staff may also consider the State's commercial card program, in addition to opportunities for Women and Minority Business Enterprise banks

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to participate. In addition, staff is assessing whether evaluation criteria may be included to promote diversity and inclusion.

FINANCIAL IMPLICATIONS

Projected fees for 10 years between 2021 to 2031

Cost Estimate/Authorization Summary

	Expense	Total
COST ESTIMATE		
Original estimate	\$48.2 million	\$48.2 million
AUTHORIZATION		
Previous authorizations	0	0
Current request for authorization	\$48.2 million	\$48.2 million
Total authorizations, including this request	\$48.2 million	\$48.2 million
Remaining amount to be authorized	\$0	\$0

Breakout of banking services fees

Banking services fees can be divided between (i) direct costs, fees paid to Wells Fargo Bank and Wells Fargo Merchant Services for general banking services and credit and debit cards processing services, respectively, and (ii) indirect costs, merchant fees collected by the card issuing banks and the card brands Visa and MasterCard. The direct costs, approximately 11 percent, are negotiable, the indirect costs approximately 89 percent, are not. Estimates for this procurement are outlined in the table below.

	2021 - 2031 \$	Annual Average	% Total	% Merchant
Banking Fees:	3,616,653	361,665	8%	
Wells Fargo Merchant Services ⁽¹⁾ (or Processor)	1,575,308	157,531	3%	4%
Direct subtotal	5,191,961	519,196	11%	
Merchant Services ⁽¹⁾ Fees:				
Card Brands (Visa & Mastercard)	3,666,755	366,676	8%	8%
Card Issuing Banks	39,341,284	3,934,128	82%	88%
In-Direct subtotal	43,008,039	4,300,804	89%	
Merchant Services total:	44,583,347	4,458,335	92%	
Total Fees:	\$48,200,000	\$ 4,820,000	100%	100%

⁽¹⁾ Merchant Services (Credit/Debit Cards) Fees

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Annual Budget Status and Source of Funds

Fees are budgeted annually; banking services in the non- operating budget and merchant services as operating expense to the affected departments.

ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

February 26, 2019 – Commission authorized the Executive Director to increase the amount of the Port's existing banking services contract by an additional \$5,000,000 (from \$9,700,000 to \$14,700,000).

August 6, 2013 – Commission authorized the CEO to execute a contract for banking services for five years with the option to extend for two additional one-year periods at an estimated cost in banking fees of \$9,700,000.

Appendix A**Who can the Port of Seattle bank with?****State law (Chapter 39.58 RCW) dictates who the Port can bank with.**

The Office of the State Treasurer lists the financial institutions in Washington State who are authorized to accept public deposits

- https://www.tre.wa.gov/wp-content/uploads/pdpc_CH39-58RCW.pdf

Qualified Public Depository (QPD)

Financial institutions (banks and credit unions) who want to bank public entities moneys, must apply to the State to become a Qualified Public Depository (QPD).

- Financial institutions apply for qualification and among other things, agree to post collateral to cover deposits.
- As of January 2019 the QPDs list has 61 banks and 18 credit unions
- the number of QPDs vary over time, due to mergers, new qualifiers, or QPDs who choose to withdraw
- WA State PDPC QPD listing as of January 2019
 - Banks: <https://www.tre.wa.gov/wp-content/uploads/BT-2018-nov-dec-2019-Jan.pdf>
 - Credit Unions: <https://www.tre.wa.gov/wp-content/uploads/CU-2018-oct-nov-dec-2019-jan-2.pdf>

Public Deposit Protection Commission (PDPC)

- <https://www.tre.wa.gov/partners/public-deposit-protection-commission-pdpc/>
- The PDPC (State Finance Committee) is comprised of:
 - the State Treasurer (Chair),
 - Governor and Lieutenant Governor
- The PDPC ensures public funds deposited in banks are protected if a financial institution becomes insolvent
- PDPC determines which financial institutions qualify
- PDPC performs quarterly reviews and publishes the list and updated status

PDPC Deposit Limitations:

- Governmental entities may deposit funds in any Washington State branch of public depositories listed.
- Banks - Total deposits by any one depositor may not exceed the depository's Washington Proportional Net Worth per RCW 39.58.130.
- Credit Unions - Total deposits by any one depositor in any one credit union may not exceed the maximum amount insured by the national credit union share insurance fund per RCW 39.58.240

Appendix B

Port of Seattle’s Banking Requirements:

- The Port’s selected bank must at all times during the banking contract comply with all PDPC requirements related to the services it provides the Port, including the ability to accept large deposits (PDPC deposit limitations).
- For the Port to operate on sound business principles the Port requires its bank to have adequate net worth, as published by PDPC, ensuring the Port is not in violation of PDPC statutes.
- The Port’s banking partner must have:
 - a strong electronic banking platform that could safely and securely integrate and operate efficiently with the Port’s financials and vendors systems;
 - depth in financial and technology resources to meet and enhance the Port’s growing needs