



August 30, 2018

Mr. Eric Cannon, CPA, CGFO
Chief Financial Officer
City of Allen
305 Century Parkway
Allen, Texas 75013

Dear Mr. Cannon:

We sincerely appreciate and welcomed the opportunity to assist the City of Allen, Texas (the “City”) with this Primary Depository Bank Services and Merchant Bank Services Request for Applications (the “RFA”) project.

The objective of this engagement was to select a primary depository bank following the expiration of the current contract which ends October 31, 2018. This agreement, when approved, will commence on November 1, 2018 and terminate on October 31, 2020. Upon the option of the City, the contract may be extended for three (3) additional 12-month periods under the terms and conditions mutually agreed upon by both parties.

The Merchant Bank Services solicitation was incorporated into the scope of the RFA project with the City’s expectation that having a single source for both services would be advantageous.

Procedure

The project began with the establishment of a calendar of events to ensure that the required project steps were performed in a timely and sequential manner.

The process for selecting a Primary Depository Bank is governed by the State of Texas Local Government Codes: Chapter 105 Municipal Depository Act; Chapter 176 Conflict of Interest Act; Chapter 2256 Public Funds Investment Act; and Chapter 2257 Public Funds Collateral Act.

In addition to complying with these State statutory requirements, it was necessary to understand and comply with the City’s financial and purchasing policies and Investment Policy.

The RFA project was conducted as follows:

1. Analyzed historical bank service usage and balance records.
2. Reviewed merchant accounts and statements.
3. Reviewed the minimum banking services including merchant bank services and potential additional services.

4. Developed a list of eligible financial institutions within the City's municipal boundaries:
 - a. American National Bank of Texas (incumbent)
 - b. Bank of America, N.A.
 - c. Bank of the Ozarks
 - d. Bank of Texas
 - e. BBVA Compass Bank
 - f. Branch Banking and Trust Company
 - g. Comerica Bank
 - h. Commercial Bank of Texas, N.A.
 - i. Happy State Bank
 - j. JPMorgan Chase Bank, N.A.
 - k. LegacyTexas Bank
 - l. Origin Bank
 - m. Regions Bank
 - n. Wells Fargo Bank, N.A.
 - o. Woodforest National Bank
5. Contacted the financial institutions to confirm distribution information, describe the process, and identify the designated recipient.
6. Drafted the RFA for City review and approval.
7. Posted the notice and advertised the RFA.
8. Distributed RFA's to the identified and receptive financial institutions.
9. Held a non-mandatory pre-application conference that was attended by representatives of:
 - a. American National Bank of Texas
 - b. Bank of America, N.A.
 - c. BBVA Compass Bank
 - d. Comerica Bank
 - e. Eliot Management Group
 - f. Fitech Payments
 - g. JPMorgan Chase Bank, N.A.
 - h. LegacyTexas Bank
 - i. Wells Fargo Bank, N.A.
10. By the closing deadline, applications were received from:
 - a. American National Bank of Texas
 - b. Bank of America, N.A.
 - c. Comerica Bank
 - d. JPMorgan Chase Bank, N.A.
 - e. LegacyTexas Bank
11. No additional RFA responses were received as a result of the advertisement.

The evaluation of the applications was based on, but not limited to, the following criteria, in no particular order of priority:

1. Ability to perform and provide the required and requested services;
2. Reputation of applicant and quality of services;
3. Cost of services;
4. Funds availability;
5. Interest paid on interest bearing accounts and deposits;
6. Earnings credit calculation on account balances;
7. Completeness of application and agreement to points outlined in the RFA;
8. Convenience of location(s);
9. Previous service relationship with the City or any related governmental entity;
10. Financial strength and stability of the institution; and
11. Retention/transition incentives and offers.

Application Analysis

As seen in the attached analysis, the analysis began with an overall review of each financial institution's general financial strength and ability to provide the services necessary to meet the City's current and future service needs. Each of the financial institutions exhibited acceptable financial strength and the ability to provide services the City requested.

The analysis of depository bank services proposed fees, earnings credit, and investment income potential is summarized below. The analysis of merchant services is also included.

Net Income/(Cost)

All financial institutions' fee schedules for both depository bank services as well as merchant services were analyzed based on the City's service needs and estimated activity levels. Where quantifiable and appropriate, the estimated service fees were adjusted for any incentives (including waived fees and transition allowances).

American National Bank of Texas offered the City the option to maintain all balances in interest bearing checking accounts and pay for all banking services directly without the use of an Earnings Credit.

All other responding financial institutions each priced their banking services with fees offset by earnings credit and/or hard interest earnings offered by various investment options.

With the exception of American National Bank of Texas, each financial institution's potential earnings credit rates earned on the target Compensating Balance were considered as "soft-dollar" earnings credit to be netted against the estimated service charges. Historic balances of \$10,000,000 have been maintained by the City with \$6,000,000 required as compensating balances to offset fees with the incumbent financial institution. For the analysis, total balances of \$4,000,000 were utilized as a more appropriate future average balance. A target balance of \$1,000,000 was utilized for Bank of America, JPMorgan Chase and LegacyTexas with remaining non-compensating balances invested in "hard" interest deposit option. With the rising investment interest rate environment, cash management targets should continue to be reviewed by the City.

The analysis shown below of depository bank services is for both the two (2) year initial contract term, and the full five (5) year term allowing for the three (3) possible one-year extensions at the option of the City.

BANKING SERVICES:

Two-Year Term	ANBTX	Bank of America	Comerica	JPMorgan Chase	LegacyTexas Bank
Proposed fees (net of incentives)	(\$135,291)	(\$104,412)	(\$59,347)	(\$12,082)	(\$144,252)
Earnings Credit and Hard Interest	152,000	100,000	75,608	96,082	132,000
Estimated Safekeeping fees	(22,900)	N/A	(33,000)	(15,600)	(12,720)
Net Income/(Cost)	(\$6,191)	(\$4,412)	(\$16,739)	\$68,400	(\$24,972)

Five-Year Term	ANBTX	Bank of America	Comerica	JPMorgan Chase	LegacyTexas Bank
Proposed fees (net of incentives)	(\$338,228)	(\$261,029)	(\$152,868)	(\$60,409)	(\$360,631)
Earnings Credit and Hard Interest	380,000	250,000	189,022	270,409	330,000
Estimated Safekeeping fees	(57,250)	N/A	(82,500)	(39,000)	(31,800)
Net Income/(Cost)	(\$15,478)	(\$11,029)	(\$46,346)	\$171,000	(\$62,431)

Recommendation (Depository Bank Services)

After review of the applications received, the City extended an invitation to JPMorgan Chase Bank, N.A. to present a demonstration of their banking services and provide further detail of the full range of services JPMorgan could offer the City. Once this demonstration was completed, the City requested a Best and Final Offer from the incumbent, American National Bank of Texas, and JPMorgan Chase Bank, N.A. The City staff considered JPMorgan's offering of extensive depository bank service capabilities at a lower monthly cost and the ability to provide the City competitive merchant services. JPMorgan also provided the City up to fifteen (15) months of waived monthly bank service charges not to exceed \$70,000, twelve (12) remote deposit scanner machines at no cost, a waiver on all cost associated with deposit slips and tamperproof bank bags, as well as a waiver of \$4,000 in setup fees involved in the depository transition process.

Based on the analysis results, it was determined that the terms offered by JPMorgan Chase Bank, N.A. provide the "best value" to the City of Allen. Therefore, we concur with staff recommendation that the City Council award the Primary Depository Bank Services contract to JPMorgan Chase Bank, N.A. and

authorize the City Manager to execute the agreements necessary to beginning a new depository banking relationship.

Upon approval, the new depository bank services contract will commence on Thursday, November 1, 2018.

Recommendation (Merchant Services)

The Merchant Services solicitation was incorporated into the scope of the RFA project with the City's expectation that having a single source for both services would be advantageous. Applications included responses for merchant services and all responding financial institutions are capable of providing merchant services.

The following table summarizes the estimated fees related to the merchant services applications from each of the responding financial institutions:

MERCHANT SERVICES:

ANNUAL	ANBTX	Bank of America	Comerica	JPMorgan Chase	LegacyTexas Bank
Estimated Processing Fees	(\$96,265)	(\$228,000)	(\$27,808)	(\$30,336)	(\$41,590)
Estimated Interchange and Service Fees*	(256,819)	(256,819)	(256,819)	(256,819)	(256,819)
Total Estimated Fees	(\$353,084)	(\$484,819)	(\$284,627)	(\$287,155)	(\$298,409)

**Estimated Interchange and Service Fees are based upon prior annual cost. Interchange and Service Fees are set by card providers rather than merchant banks, therefore the banks are assumed to have the same cost.*

It is our recommendation that the City consider awarding the Merchant Services contract to Paymentech, L.L.C., a wholly owned subsidiary of JPMorgan Chase Bank, N.A., pending a more in-depth review of the services proposed and a satisfactory demonstration of the proposed merchant system.

Please contact Emily Upshaw, Bill Koch, Tom Ross, Dick Long, or me to discuss any questions or additional information needs.

Thank you for this opportunity to serve the City of Allen.

Sincerely,



E. K. Hufstader, III
Valley View Consulting, L.L.C.