

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	5b
Date of Meeting	August 6, 2013

DATE: July 24, 2013
TO: Tay Yoshitani, Chief Executive Officer
FROM: Craig J. Kerr, Treasury Manager
SUBJECT: Banking Services Contract

Amount of This Request:	\$9,700,000	Source of Funds:	Non operating budget for basic banking services. Credit card fees are budgeted as operating expense by the affected departments.
Est. Total Project Cost:	\$9,700,000		

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer 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.

SYNOPSIS

The Port of Seattle intends to issue a request for proposal (RFP) for banking services. The contract term will be for five years with the option to extend for two additional one-year periods. It is the intent of the Port to select one banking institution to provide Port banking services. The Port's selected bank will receive deposits and disburse Port funds and process the Port's debit and credit card transactions. Only the approximately 80 financial institutions that have been determined to be qualified public depositories by the Public Deposit Protection Commission (PDPC) are eligible to compete for the Port's business. All qualified public depositories will be notified that the Port is soliciting proposals for banking services. Due to PDPC requirements along with the Port's need for a robust electronic banking platform with controls, the number of banks interested in and able to handle the Port's business will likely be quite small.

BACKGROUND

In 2009, staff bid for banking services for five years with the right to extend for two additional one-year periods. The current banking contract expires on July 31, 2014. The Port has hired a consultant, Vizant Technologies, to monitor debit and credit card fees. Over 96% of the Port's banking fees result from processing debit and credit card payments. Vizant's fee is based on a percentage of savings experienced by the Port as a result of their card acceptance savings

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recommendations. Given the opportunity to reduce banking fees based on Vizant's review and the ongoing technology changes in banking, including increased utilization of electronic and mobile commerce, staff felt it was an opportune time to rebid for banking services at this time and not exercise the extension provisions of the current contract.

Banks and the Port have significant costs to implement a banking contract on an electronic platform and significant savings result with longer duration contracts. The Request for Proposal for banking services will provide a competitive selection process for all qualified banks. The selection will be based on a combination of fees and the quality of service offered by the bank and will be made by a team of internal and external experts.

STRATEGIES AND OBJECTIVES

The Port intends to select one banking institution to provide Port banking services. The selected bank must be a technologically strong banking partner with an internet banking solution capable of meeting the Port's current and future electronic banking demands. In addition, Washington State Public Treasurers, by statute, can only deposit money with a State "qualified public depository" and the PDPC further limits the amount of public deposits at each bank based on a bank's net worth. This results in a limited pool of banks the Port can utilize for its banking services. A bank must apply to the State's Public Deposit Protection Commission for approval to become a qualified public depository and provide 100% collateralization of all public funds on deposit.

The Port intends to have a new contract signed by March 1, 2014, and implementation completed by August 1, 2014.

Breakdown of Banking Fees:

The majority of Port banking fees result from accepting debit and credit cards. Airport parking accounts for 78% of all Port debit and credit card receipts. Card acceptance provides four (4) advantages over alternative payment modes. Those advantages are: immediate receipt of funds, no credit analysis efforts, no collection efforts and a higher degree of security over cash and checks. Set out below is a breakdown of Port banking fees for 2012:

Credit Card Fees	\$1,256,735	96%
All Other Banking Fees:	\$133,634	04%
Total Banking Fees	\$1,390,369	

Implementation:

The successful bidder will need to implement and test all aspects of the electronic internet banking solution to ensure every function of receiving and disbursing Port money is fully operational before implementation takes place. Some examples of banking functions that would be affected if a new bank is selected are as follows:

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Electronic Money -The Federal Government, State of Washington and various large customers pay the Port with electronic transfers (i.e. wires, and ACH Credits). Various notifications must be made to all electronic payers.

Direct Deposit of Payroll - All bank account numbers in the payroll and accounting system must be changed and Payroll files reformatted to ensure the Direct Deposit of Payroll can be accepted by the bank for all employees selecting direct deposit (approximately 97% of all Port employees).

Fraud Control (Positive Pay) -For every accounts payable and payroll check written, Port staff must change the bank account numbers and ABA numbers in the Payroll and Accounts Payable system as well as program the format to fit the bank's system to accomplish fraud control functions.

IRS Tax and Social Security Deposits – Port staff must coordinate with the IRS through the appropriate Federal Reserve Bank, change bank account numbers and ABA numbers so these moneys can be deducted from the Port's bank account by the IRS on paydays.

Due to these requirements, staff estimates that there will need to be a four to five month transition period if a new bank is selected. The cost of internal staff time for a conversion is estimated to be between \$75,000 and \$90,000 but should be recaptured through the use of new technology and high quality service.

Source of Funds

All banking services are budgeted annually with the basic banking services budgeted in the non-operating budget and credit card fees budgeted as operating expense by the affected departments.

ATTACHMENTS TO THIS REQUEST

- None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None.