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City Administrator's Office

# MEMORANDUM

**TO:** HONORABLE MAYOR &  
CITY COUNCIL

**FROM:** Joseph T. Yew, Jr.

**SUBJECT:** SEE BELOW

**DATE:** January 10, 2012

Approval

Date

1/14/12

**SUBJECT:** BANKING SERVICES AND INVESTMENTS

## INFORMATION

Over the past week, several inquiries have been made regarding the City's banking relationships and the criteria in which the City makes banking and investment decisions. This Information Memo provides a clarification of the City's policy.

### **What is the City's banking relationship with Wells Fargo Bank?**

Currently, the City has a banking depository agreement with Wells Fargo Bank which was entered into in December 2009 for an initial three-year period, with two renewals of one year each at the City's option. The initial term of the agreement will expire in December 2012. However, the City has the option to renew the two one-year extensions, which can be executed by the City Administrator per Resolution No. 82060 C.M. S. Wells Fargo Bank was selected through a competitive process based upon a number of factors, which included a full range of banking and depository services it could provide, in addition to pricing, and technology capabilities.

### **What are the City's operational needs associated with its required banking services?**

The City and the Oakland Redevelopment Agency each maintain one general depository account for its general depository and banking services. Together, they also maintain sub accounts, representing a wide range of depository volume activity. Some of the specific services the City receives from our general banking relationship with Wells Fargo Bank are shown below. Many of these services include but are not limited to:

- The banking institution must provide web-based on-line banking services that provide added convenience and cost savings. These web-based on-line banking services include such services as: image inquiry, image on demand, information reporting, business statements, image lockbox, stop payments, wire transfer, positive pay, account balance inquiry, transaction inquiry, deposit history and other on-line web-based applications.
- The banking institution must have the ability and capacity to process Automated Clearing House (ACH) transactions. ACH is an electronic network for financial transactions in the

United States which processes large volumes of credit and debit transactions in batches. One example of an ACH credit transfer is the City's direct deposit payroll. Banks we are engaged with must comply with the rules and regulations that govern the ACH network, which are established by the National Automated Clearing House Association and the Federal Reserve.

A critical service provided by Wells Fargo is their ability to be in the ACH Network and executing our direct deposit program for over 3,346 enrolled employees and 1,173 retirees. **Small banks may not be able to accommodate the customer service requirements of a city the size of Oakland.**

- The City and State Government Code requires the accounts to be interest-bearing.
- The City also has a lock box program which allows for the more efficient processing of depositing checks received by the City. Through this system, our commercial bank receives checks and remittances them on behalf of the City, reconciles them, deposits the funds into the appropriate fund/account and then electronically transmits the financial data to the City on a daily basis for our reconciliation with our financial system (through Oracle).
- The accounts must be 110% collateralized at all times pursuant to Government Code Section 53652(a). This means that banks must have collateral, held in the city's name, at 110% of the deposited funds, with Federal securities (investments issued by the US Government or a US Govt. Agency (Agency bonds are issued by two types of entities— 1) Government Sponsored Enterprises (GSEs), usually federally-chartered but privately-owned corporations; and 2) Federal Government agencies which may issue or guarantee these bonds).

**Many small banks do not want to or do not have the asset capacity to provide this level of collateral.**

- The depository bank also provides safekeeping/custodial Services for trades that require physical delivery of the securities purchased on behalf of the City and held in the City's pooled fund portfolio. Small banks may not have the appropriate licenses to facilitate custody services.

### **Can we engage with banks other than Wells Fargo?**

The nature of our contract is that the depository services must be with Wells Fargo Bank. The structure is set that we cannot have multiple checking accounts with multiple depository banks. However, we can invest in banks through instruments such as Certificates of Deposit. Such investments have limitations that are set forth by the State Government Code and the City's Investment Policy which determines what instruments we may invest our funds in, based upon the following objectives: safety, liquidity, diversity, and return. It should also be noted, per the City's most recent investment report that we do not have much "invested" through Wells Fargo Bank. Wells Fargo Bank generally provides services related to our daily operational banking needs. Other than our daily cash flow needs to cover disbursements, on a daily basis we "sweep" funds from our bank account and invest them in accordance with the City's investment policy.

Our latest investment report shows that the majority of the City's investment portfolio is with US Government Securities such as US Treasuries and through US Agencies.

**How can we work with other banks to meet the City's needs?**

In order to do business with any local bank, they must meet the requirements of the City's Linked Banking Ordinance. The Linked Banking Ordinance (Resolution No. 82075 C.M.S.) was passed in June 16, 2009 and set forth a process for assessing a bank's performance in providing community credit and for determining its eligibility to act as a banking service provider for the City.

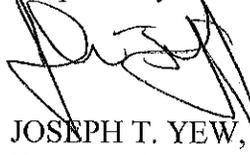
The following banks are achieved their "Fair Share" community lending goals for 2008, and are authorized to do business with the City:

- Alta Alliance Bank (now Torrey Pines Bank)
- Bank of America
- Bank of the West
- JPMorgan Chase & Company
- Far East National Bank
- Metropolitan Bank
- Wells Fargo Bank

The Community and Economic Development Agency (CEDA) is in the process of updating the approved linked banks for 2012. Due to the low response in 2008, the new survey has been stream lined to make it much easier for small/local/community banks to participate in the survey. The report is scheduled for the CEDA committee on February 28, 2012.

The City will continue to look for ways to work with banks that not only service the City's financial needs, but banks that serve the Oakland Community as a whole.

Respectfully submitted,



JOSEPH T. YEW, JR.  
Finance Director/City Treasurer