



Board Report

File #: 2024-0408, File Type: Program

Agenda Number: 23.

FINANCE, BUDGET AND AUDIT COMMITTEE JULY 18, 2024

SUBJECT: CUSTODIAL BANKING SERVICES

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to execute Modification No. 3 to Contract No. PS133590000 with U.S. Bank N.A. in the amount of \$500,000 to continue to provide custodial banking services, increasing the contract value from \$1,100,370 to \$1,600,370 and extending the period of performance from December 31, 2024 to March 31, 2025.

ISSUE

The Contract Modification will ensure uninterrupted custodial banking services for Metro through March 31, 2025. The action will allow staff sufficient time to procure these services through a competitive procurement process, expanding participation opportunities for small businesses and local community banks. This also allows for a three-month transition period.

The existing contract with US Bank N.A. will expire on December 31, 2024.

BACKGROUND

Metro's Investment Policy requires that securities purchased for the investment of operating funds be maintained in the trust department or the safekeeping department of an established bank. Staff uses the services of a custodial bank, in compliance with the Board approved Investment Policy. Custodial banking charges are a combination of asset-based fees and transaction fees. Asset-based fees apply a fixed percentage based on the market value of investments. Transaction fees are fixed amounts charged per transaction on trading activity.

The current contract, inclusive of a three-year base term and two, one-year renewal options, was awarded in July 2019 to U.S. Bank Institutional Trust & Custody in the amount of \$1,000,370. It was subsequently modified to increase the contract value by \$100,000 and extend the term by three months through December 31, 2024.

DISCUSSION

Metro's operating funds, the pool of revenue used to pay expenses such as project costs, payroll, fuel, and supplies must comply with the Board approved Investment Policy. The Investment Policy requires an external trust bank to provide custodial services of operating funds, compliance reporting, and performance measurement services.

The original contract was based on a lower estimated total of assets under custody. Metro experienced a significant increase in investment holdings and trade volume since the contract's inception in late 2019. As of March 31, 2024, the number of accounts has grown from nine to fifteen, and the market value of investments has increased from \$1.2 billion to \$3.1 billion (a 158% increase). This increase is primarily due to federal fund receipts due to COVID-19 along with strong sales tax performance post pandemic. In FY21, Metro received \$862 million in CARES funds and \$776 million in CRRSAA funds. In FY22 and FY23, Metro received \$1,269 million in ARPA funds. Although the custodial fee rates have not changed, the increase in funds from CARES, CRRSAA, and ARPA resulted in higher fees which required the additional contract authority.

Additionally, since the custody contract was executed in 2019, five new investment manager accounts and two special purpose accounts have been opened. The combination of increased investment holdings, new accounts, and trading activity has led to higher than estimated custody fees.

The contract modification will provide funding to support the custodial banking services in the amount of \$500,000 for FY25 and extend the contract to March 31, 2025. Treasury understands the importance of completing contract extensions and renewals promptly to avoid service disruptions. There are inherent challenges in forecasting future account fluctuations, particularly during unforeseen circumstances. For the new custodial banking services contract, Treasury will utilize all the resources to better estimate the fluctuations due to the timing of receipt of revenues from Federal and State grants, especially in light of potential Olympic funding programs in process.

DETERMINATION OF SAFETY IMPACT

Approval of this item will not have an impact on safety standards for Metro operations.

FINANCIAL IMPACT

Funding for this Contract Modification is included in the FY25 budget in the amount of \$500,000 under 50316 - Service Professional and Tech Services in cost center 5210 Treasury Department. The funds are divided among three projects: 4% to Project 100002, Task 30.02; 43% to Project 300076, Task 30.02; and 53% to Project 610340, Task 30.02.

Impact to Budget

The sources of funds for this action are Proposition A, Proposition C and TDA Administration funds, which are Operating eligible.

EQUITY PLATFORM

This action provides custodial banking services to Metro's internal and external portfolio accounts. Metro has eight external investment manager accounts custodied at US Bank. Five of the eight firms are small business firms, minority owned, women owned or employee-owned firms.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports Metro's Vision 2028 Goal#5: Provide responsive, accountable, and trustworthy governance within the Metro Organization.

ALTERNATIVES CONSIDERED

Since Metro's Investment Policy mandates the use of an external custody bank to safekeep operating fund securities or cash, no alternatives are recommended.

NEXT STEPS

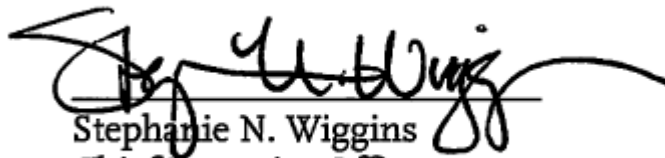
Upon Board approval, staff will execute Modification No. 3 to Contract No. PS133590000 with U.S. Bank N.A. to continue to provide custodial banking services.

ATTACHMENTS

- Attachment A - Procurement Summary
- Attachment B - Contract Modification/Change Order Log
- Attachment C - DEOD Summary

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