



## Board Report

File #: 2024-0842, File Type: Contract

Agenda Number: 10.

### FINANCE, BUDGET AND AUDIT COMMITTEE NOVEMBER 21, 2024

**SUBJECT: CUSTODIAL BANKING SERVICES**

**ACTION: APPROVE CONTRACT AWARD**

#### **RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to award a firm fixed unit rate Contract No. PS124467000 to US Bank National Association (U.S. Bank N.A.) for custodial banking services in an amount Not-to-Exceed (NTE) \$1,193,550 for the three-year base term and \$397,850 for each of the two, one-year option terms, for a total NTE amount of \$1,989,250, effective April 1, 2025, subject to the resolution of any properly submitted protest(s), if any.

#### **ISSUE**

Operating funds are the pool of revenue used to fund expenses for projects, programs and services. Metro's Investment Policy requires that securities purchased for the investment of operating funds and collateral be maintained in the trust department or the safekeeping department of a qualified bank that offers institutional custody services. The Treasurer is required to provide a quarterly report to the CEO and Board detailing investment compliance and performance information. The record keeping and pricing services provided by the custody bank are the basis for all reporting and accounting practices at Metro. The existing five-year banking custodial services contract with U.S. Bank N.A. will expire on March 31, 2025.

#### **BACKGROUND**

Custody banks provide safekeeping of the securities as required by the California Government Code. The institutional accounts they manage often exceed billions of dollars. As a result, custody banks tend to be large and reputable banks. The top custody banks have trillions of dollars in global assets. Staff analyzed the minimum qualifications of large government agencies for similar services. It was determined that the minimum qualifications of eight years of experience providing custody services and current custody of one trillion dollars of assets are consistent with best practices for the safety and security of public assets. Furthermore, there are several large financial institutions that qualify by size, but many no longer offer custody services in the municipal space due to a lack of profitability and high cost of infrastructure investment. Lowering the minimum requirement might attract more custody banks, but they will still be large financial institutions with multiple product lines.

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Community banks, as defined by the Federal Reserve as having less than \$10 billion in assets, provide traditional banking services rather than institutional custody services. The latter requires a costly and sophisticated infrastructure, as well as a highly trained professional staff capable of providing reporting, real-time trade services, daily compliance monitoring, online access, and data collection. These services are the foundation of all accounting and recordkeeping at Metro. This is crucial as it also is the basis for staying in compliance with Generally Accepted Accounting Principles and passing Metro's annual audit.

The current contract was awarded through a competitive procurement in September 2019 to U.S. Bank N.A. As of June 30, 2024, Metro Operating Funds held in custody at U.S. Bank N.A. totaled \$3.1 billion.

## **DISCUSSION**

The RFP notification was posted on Metro's Vendor Portal and was publicized through four publications in order to broaden awareness. Three of the four publications, which included the Asian Journal (Filipino-American), La Opinión (Hispanic-American) and the Los Angeles Sentinel (African-American), were ethnic media publications. In addition, the RFP was sent via e-mail to 27 financial institutions.

Only one proposal was received from U.S. Bank N.A., the current custodial banking services provider. U.S. Bank N.A. proposed lower fee components from its current fee structure. The reduction produces approximately \$537,500 in lower fees for the three-year base and two, one-year option terms of the five-year custodial banking contract.

## **DETERMINATION OF SAFETY IMPACT**

The approval of this item will have no negative impact on the safety of Metro employees or passengers.

## **FINANCIAL IMPACT**

Total proposed fees of \$1,989,250 over five years are based on a firm fixed rate applied to an estimated market value of assets under custody, the number of transactions applied to a unit price, and the number of accounts subject to compliance monitoring and performance reporting services.

Funding of \$370,000 for this service in FY25 is included in the budget 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. Since this is a multi-year contract, the Treasurer will be accountable for budgeting its costs in future years.

### **Impact to Budget**

The source of funds for this contract is Prop A, Prop C, Measure R, Measure M and TDA Administration. Administration funds are not eligible for bus and rail operations.

## **EQUITY PLATFORM**

Since the primary contractor will perform all peripheral and ancillary work, an SBE/DBE goal for this procurement was not established. However, U.S. Bank N.A. will service eight external investment managed accounts, five of which are managed by firms that are classified as either small business firms, minority owned, women owned or employee-owned firms. In addition, U.S. Bank N.A. is a large U.S. based financial institution that is committed to diversity and inclusion, and has policies instituted for seeking and promoting diverse talents, partnering with diverse suppliers as well as strengthening local communities. In 2023, U.S. Bank N.A. was ranked No. 11 on the overall DiversityInc Top 50 list. Additionally, U.S. Bank remains committed to its five-year \$100 billion community benefits plan, which focuses on supporting equitable access to capital for low- and moderate-income communities and communities of color. This includes: Small Business Access to Capital & Technical Assistance, Community Development Lending & Investment, Philanthropy & Community Service, Advancing a Diverse & Equitable Workforce, Diverse Segment Outreach, and Supplier Diversity.

## **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

The recommendation supports Metro Vision 2028 Strategic Plan Goal 5 as follows:

Goal 5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

Goal 5.2: Metro will exercise good public policy judgment and sound fiscal stewardship.

## **ALTERNATIVES CONSIDERED**

Metro's Investment Policy mandates the use of an external custody bank to safekeep operating fund securities or cash.

## **NEXT STEPS**

Upon Board approval, staff will execute Contract No. PS124467000 to U.S. Bank N.A. effective April 1, 2025, to provide custodial banking services.

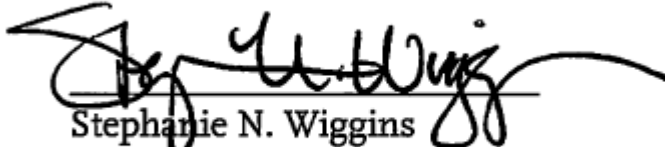
## **ATTACHMENTS**

Attachment A - Procurement Summary

Attachment B - DEOD Summary

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