



# City of Pompano Beach

## Banking RFP Analysis

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# Analysis Summary

PFM Group Consulting LLC (“PFM”) has been engaged by the City of Pompano Beach (the “City”) to review the City’s existing banking arrangements and conduct an analysis to help the City determine if it should undergo a competitive banking RFP or directly establish a new contract with its existing providers. Below is a summary of PFM’s analysis.

## Conclusions

- Below are the major reasons organizations decide to the conduct a banking RFP:
  1. Dissatisfaction with the relationship manager/customer service
  2. Issues with existing products/services
  3. Lack of new service offerings/enhanced technology
  4. Excessive cost of services
- From our discovery meetings, below is the City’s current situation compared to the reasons list above:

### **1. Dissatisfaction with the relationship manager/customer service**

The City’s banking relationship is managed by Relationship Executive, Ralph Hildevert and Senior Treasury Management Officer, Charles Million. Ralph has been managing the City’s relationship since JP Morgan was originally awarded the City’s relationship, and Charles has been on the relationship for at least the past 5 years. City staff indicated that they are satisfied with the relationship team, the cadence of meetings with the City, and the day-to-day customer service the bank is providing.

One area of potential improvement is the City currently does not have a dedicated merchant account manager assigned to the relationship. According to City staff, the last merchant account manager retired around the beginning of the pandemic and was not replaced. If the City decides not to go through an RFP process, the City should reach out to JP Morgan to inquire if a new merchant account manager can be assigned.



# Analysis Summary

## 2. Issues with existing products/services

During the discovery meetings with PFM, City staff did not indicate that there were any major issues with JP Morgan's products/services. PFM identified several minor areas in the current mix of services (i.e., discontinuing the use of CD-ROMs) the City may want to consider exploring further. Details on these items can be found under "Recommendations" at the end of these materials (page 18).

## 3. Lack of new service offerings/enhanced technology

City staff indicated that they felt JP Morgan has been proactive in bringing new services and ideas to the table. PFM reviewed the City's mix of services and provided the following new services/ideas to potentially explore:

- **Outsourced check printing** – City staff suggested this may be of interest but may not be feasible due to the time sensitivity of some check payments and challenges with inconsistency in the mail system.
- **Full account reconciliation services** – City staff indicated that they receive a daily check file from JP Morgan to update cleared checks within Naviline. The City is using partial reconciliation services, which provides a list of cleared checks at month end, while full reconciliation provides a list of outstanding and cleared checks (in addition to other report options) at month end. City staff indicated they would be interested in full reconciliation if it creates efficiencies; however, they do not believe it directly adds value to the City.
- **Virtual reference numbers (VRN)** – City staff indicated that this service would be of interest to help identify the senders of incoming funds and to reconcile revenue, particularly as it relates to individual merchant IDs and other incoming fund sources. JP Morgan is one of the few banking institutions that offers the VRN solution.
- **Account validation services** – The City is not planning to move in the direction of ACH for vendor payments in the near future, so this service offers limited value.
- **Mobile check deposits** – The use of mobile check deposits may add value to the City but would be an IT consideration. City staff suggested that the use of mobile devices to make check deposits would most likely not be permitted by IT.
- **Stale date control** – The City indicated that the current process to address stale dated checks within Naviline works well and do not see a need for stale dated checks to be presented to the City as positive pay exceptions.



## Analysis Summary

### 4. Excessive cost of services

PFM conducted an analysis of the City's pricing for banking and merchant card processing services and the rebate schedule for the City's purchasing card program against market pricing/rebates PFM has seen for comparable municipal entities. Below is a summary of results from the analysis. Additional details are included within pages 6 through 17 of these materials.

**Banking Service Fees:** PFM benchmarked the City's current JP Morgan bank pricing against existing pricing for other JP Morgan governmental entities. PFM also benchmarked the City's current JP Morgan bank pricing against competitive pricing submitted by JP Morgan in response to recent banking RFPs for other governmental entities. Below are the results:

- The City pays approximately \$45,000 in annual banking fees
- Annual banking costs using average line-item pricing from existing JP Morgan clients is approximately \$62,700
  - At these rates, the City's pricing would increase by \$17,700 per year or \$177,000 over a 10-year contract
- Annual banking costs using average line-item pricing from competitive pricing submitted by JP Morgan in response to recent banking RFPs for other governmental entities is approximately \$46,300
  - At these rates, the City's pricing would increase by \$1,300 per year or \$13,000 over a 10-year contract.
- Overall, PFM believes that the City is receiving competitive pricing on a majority of banking services through JP Morgan. If the City decides not to undergo a banking RFP, there may be some opportunity for savings by isolating individual line items and directly negotiating with the bank.

**Merchant Card Processor Fees:** PFM compared the City's current merchant card processing fees for JP Morgan and CardConnect against competitive bids for entities with similar processing volume and transaction size to gauge current market rates. Overall, the merchant card processor fees for JP Morgan are quite competitive, and bids through an RFP process would most likely result in an increase in fees. The merchant card processor fees for CardConnect are less competitive. We estimate that annual fees paid by the City to CardConnect could be reduced from its current level of \$40,100 to roughly \$25,000. However, it is currently unknown to PFM if CardConnect is bundling fees to provide gateway services with its processor fees. PFM will reevaluate the pricing when this information is provided by the City.



## Analysis Summary

### 4. Excessive cost of services

**Purchasing Card Rebate:** Purchasing card program rebates can vary considerably based on the size of the program and the settlement terms (i.e., how quickly invoices are sent by the bank and how quickly they are paid). Based on recent proposals received by PFM clients for existing card programs, we estimate that the City is receiving an above average market rebate, but there may be some room for improvement through direct negotiation.

#### Summary

|                              | JP Morgan<br>Pricing/Rebate | Average<br>Pricing/Rebate<br>from Recent<br>RFPs | Annual Savings   | Savings over 10-<br>year Contract<br>Term |
|------------------------------|-----------------------------|--------------------------------------------------|------------------|-------------------------------------------|
| Banking Services Fees        | -\$45,000                   | -\$46,300                                        | -\$1,300         | -\$13,000                                 |
| Merchant Card Processor Fees | -\$35,200                   | -\$51,900                                        | -\$16,700        | -\$167,000                                |
| Purchasing Card Rebate       | \$40,200                    | \$44,300                                         | \$4,100          | \$41,000                                  |
| <b>Total</b>                 | <b>-\$40,000</b>            | <b>-\$53,900</b>                                 | <b>-\$13,900</b> | <b>-\$139,000</b>                         |

|                              | CardConnect<br>Pricing | Average<br>Pricing/from<br>Recent RFPs | Annual Savings | Savings over 10-<br>year Contract<br>Term |
|------------------------------|------------------------|----------------------------------------|----------------|-------------------------------------------|
| Merchant Card Processor Fees | -\$40,100              | -\$26,900                              | \$13,200       | \$132,000                                 |



# Bank Pricing Review

## Background

- PFM benchmarked the City's current JP Morgan bank pricing against existing pricing for other JP Morgan governmental entities.
- PFM also benchmarked the City's current JP Morgan bank pricing against competitive pricing submitted by JP Morgan in response to recent banking RFPs for other governmental entities.
  - For this analysis, PFM selected sample clients where JP Morgan was the most competitive pricing submitted during the RFP process.
  - Within this sample, PFM included two Florida governmental entities who recently received bids from JP Morgan. These entities included a city with a population of approximately 60,000 and a county with a population of approximately 300,000.
- The results are presented below:

## JP Morgan Pricing for Existing Relationships

|                                                 | City of Pompano<br>Beach - Current<br>Pricing | Georgia City<br>(~92,000 Population) | Arizona City<br>(~90,000 Population) | Michigan City<br>(~25,000 Population) | California City<br>(~59,000 Population) | Average Pricing |
|-------------------------------------------------|-----------------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|-----------------------------------------|-----------------|
| <b>Annual Pricing</b>                           | \$ 45,014.02                                  | \$ 50,645.83                         | \$ 57,464.06                         | \$ 86,484.11                          | \$ 55,185.05                            | \$ 62,720.76    |
| <b>Annual Savings</b>                           | -                                             | \$ (5,631.81)                        | \$ (12,450.04)                       | \$ (41,470.09)                        | \$ (10,171.03)                          | \$ (17,706.74)  |
| <b>Annual Savings over<br/>10-year Contract</b> | -                                             | \$ (56,318.10)                       | \$ (124,500.42)                      | \$ (414,700.86)                       | \$ (101,710.32)                         | \$ (177,067.43) |

## JP Morgan Pricing from Recent RFPs

|                                                 | City of Pompano<br>Beach - Current<br>Pricing | California City<br>(2020 RFP ) | California City<br>(2019 RFP ) | Florida City<br>(2023 RFP ) | Florida County<br>(2022 RFP ) | Average Pricing |
|-------------------------------------------------|-----------------------------------------------|--------------------------------|--------------------------------|-----------------------------|-------------------------------|-----------------|
| <b>Annual Pricing</b>                           | \$ 45,014.02                                  | \$ 45,841.10                   | \$ 43,475.94                   | \$ 55,858.08                | \$ 40,069.77                  | \$ 46,311.22    |
| <b>Annual Savings</b>                           | -                                             | \$ (827.08)                    | \$ 1,538.08                    | \$ (10,844.06)              | \$ 4,944.25                   | \$ (1,297.20)   |
| <b>Annual Savings over<br/>10-year Contract</b> | -                                             | \$ (8,270.82)                  | \$ 15,380.82                   | \$ (108,440.58)             | \$ 49,442.52                  | \$ (12,972.01)  |



## Opportunity Cost of Balances – Concentration Account

- The analysis below compares the potential annual earnings at the City's net rate on deposits to the upper bound of the Fed Funds Target Rate. The upper bound is a proxy for overnight rates and is used for illustrative purposes.
- For this account, there is an opportunity cost for maintaining balances at the current net rate on deposits.

| Net Rate on Deposits                                          |                                                       |              |
|---------------------------------------------------------------|-------------------------------------------------------|--------------|
| Ledger Balance                                                |                                                       | \$11,491,444 |
| Less Float                                                    |                                                       | \$270,031    |
| Total Collected Balance                                       |                                                       | \$11,221,413 |
| Earnings Credit                                               | 2.57%<br>\$392,243 * 2.57% * 28/365                   | \$773        |
| Interest Paid on Balances                                     | 2.47% * \$10,829,170 * (28/365)                       | \$20,519     |
| Less FDIC Assessment                                          | 0.00%<br>\$0 / (\$11,491,444 * (28/365))              | \$0          |
| Net Interest Rate                                             | 2.42% on Ledger Balance<br>2.47% on Collected Balance | \$21,292     |
| Average Annual Cost / Benefit Analysis                        |                                                       |              |
| Earnings on Fed Funds Target Rate (for illustrative purposes) | 5.25%<br>\$11,221,413 * 5.25%                         | \$589,124    |
| Annual Earnings at Net Rate                                   | 2.47%<br>\$11,221,413 * 2.47%                         | \$277,561    |
| Annual Cost / Benefit                                         |                                                       | (\$311,563)  |



## Opportunity Cost of Balances – Local Affordable Housing Trust Fund

- The analysis below compares the potential annual earnings at the City's net rate on deposits to the upper bound of the Fed Funds Target Rate. The upper bound is a proxy for overnight rates and is used for illustrative purposes.
- For this account, there is an opportunity cost for maintaining balances at the current net rate on deposits.

| Net Rate on Deposits                                          |                                                       |             |
|---------------------------------------------------------------|-------------------------------------------------------|-------------|
| Ledger Balance                                                |                                                       | \$3,013,741 |
| Less Float                                                    |                                                       | \$0         |
| Total Collected Balance                                       |                                                       | \$3,013,741 |
| Earnings Credit                                               | 0.00%<br>\$ * 0.00% * 28/365                          | \$0         |
| Interest Paid on Balances                                     | 2.47% * \$3,013,741 * (28/365)                        | \$5,710     |
| Less FDIC Assessment                                          | 0.00%<br>\$0 / (\$3,013,741 * (28/365))               | \$0         |
| Net Interest Rate                                             | 2.47% on Ledger Balance<br>2.47% on Collected Balance | \$5,710     |
| Average Annual Cost / Benefit Analysis                        |                                                       |             |
| Earnings on Fed Funds Target Rate (for illustrative purposes) | 5.25%<br>\$3,013,741 * 5.25%                          | \$158,221   |
| Annual Earnings at Net Rate                                   | 2.47%<br>\$3,013,741 * 2.47%                          | \$74,439    |
| Annual Cost / Benefit                                         |                                                       | (\$83,782)  |



## Opportunity Cost of Balances – NSP1 Revolving Loan Fund

- The analysis below compares the potential annual earnings at the City's net rate on deposits to the upper bound of the Fed Funds Target Rate. The upper bound is a proxy for overnight rates and is used for illustrative purposes.
- For this account, there is an opportunity cost for maintaining balances at the current net rate on deposits.

| Net Rate on Deposits                                          |                                                       |            |
|---------------------------------------------------------------|-------------------------------------------------------|------------|
| Ledger Balance                                                |                                                       | \$617,271  |
| Less Float                                                    |                                                       | \$0        |
| Total Collected Balance                                       |                                                       | \$617,271  |
| Earnings Credit                                               | 0.00%<br>\$ * 0.00% * 28/365                          | \$0        |
| Interest Paid on Balances                                     | 2.47% * \$617,271 * (28/365)                          | \$1,170    |
| Less FDIC Assessment                                          | 0.00%<br>\$0 / (\$617,271 * (28/365))                 | \$0        |
| Net Interest Rate                                             | 2.47% on Ledger Balance<br>2.47% on Collected Balance | \$1,170    |
| Average Annual Cost / Benefit Analysis                        |                                                       |            |
| Earnings on Fed Funds Target Rate (for illustrative purposes) | 5.25%<br>\$617,271 * 5.25%                            | \$32,407   |
| Annual Earnings at Net Rate                                   | 2.47%<br>\$617,271 * 2.47%                            | \$15,247   |
| Annual Cost / Benefit                                         |                                                       | (\$17,160) |



## Opportunity Cost of Balances – NSP3 Revolving Loan Fund

- The analysis below compares the potential annual earnings at the City's net rate on deposits to the upper bound of the Fed Funds Target Rate. The upper bound is a proxy for overnight rates and is used for illustrative purposes.
- For this account, there is an opportunity cost for maintaining balances at the current net rate on deposits.

| Net Rate on Deposits                                          |                                                       |           |
|---------------------------------------------------------------|-------------------------------------------------------|-----------|
| Ledger Balance                                                |                                                       | \$86,504  |
| Less Float                                                    |                                                       | \$0       |
| Total Collected Balance                                       |                                                       | \$86,504  |
| Earnings Credit                                               | 0.00%<br>\$ * 0.00% * 28/365                          | \$0       |
| Interest Paid on Balances                                     | 2.47% * \$86,504 * (28/365)                           | \$164     |
| Less FDIC Assessment                                          | 0.00%<br>\$0 / (\$86,504 * (28/365))                  | \$0       |
| Net Interest Rate                                             | 2.47% on Ledger Balance<br>2.47% on Collected Balance | \$164     |
| Average Annual Cost / Benefit Analysis                        |                                                       |           |
| Earnings on Fed Funds Target Rate (for illustrative purposes) | 5.25%<br>\$86,504 * 5.25%                             | \$4,541   |
| Annual Earnings at Net Rate                                   | 2.47%<br>\$86,504 * 2.47%                             | \$2,137   |
| Annual Cost / Benefit                                         |                                                       | (\$2,405) |



## Opportunity Cost of Balances – SHIP Account

- The analysis below compares the potential annual earnings at the City's net rate on deposits to the upper bound of the Fed Funds Target Rate. The upper bound is a proxy for overnight rates and is used for illustrative purposes.
- For this account, there is an opportunity cost for maintaining balances at the current net rate on deposits.

| Net Rate on Deposits                                          |                                                       |             |
|---------------------------------------------------------------|-------------------------------------------------------|-------------|
| Ledger Balance                                                |                                                       | \$2,265,906 |
| Less Float                                                    |                                                       | \$0         |
| Total Collected Balance                                       |                                                       | \$2,265,906 |
| Earnings Credit                                               | 0.00%<br>\$ * 0.00% * 28/365                          | \$0         |
| Interest Paid on Balances                                     | 2.47% * \$2,265,906 * (28/365)                        | \$4,293     |
| Less FDIC Assessment                                          | 0.00%<br>\$0 / (\$2,265,906 * (28/365))               | \$0         |
| Net Interest Rate                                             | 2.47% on Ledger Balance<br>2.47% on Collected Balance | \$4,293     |
| Average Annual Cost / Benefit Analysis                        |                                                       |             |
| Earnings on Fed Funds Target Rate (for illustrative purposes) | 5.25%<br>\$2,265,906 * 5.25%                          | \$118,960   |
| Annual Earnings at Net Rate                                   | 2.47%<br>\$2,265,906 * 2.47%                          | \$55,968    |
| Annual Cost / Benefit                                         |                                                       | (\$62,992)  |



## Opportunity Cost of Balances – Wastewater Proceeds

- The analysis below compares the potential annual earnings at the City's net rate on deposits to the upper bound of the Fed Funds Target Rate. The upper bound is a proxy for overnight rates and is used for illustrative purposes.
- For this account, there is an opportunity cost for maintaining balances at the current net rate on deposits.

| Net Rate on Deposits                                          |                                                       |              |
|---------------------------------------------------------------|-------------------------------------------------------|--------------|
| Ledger Balance                                                |                                                       | \$10,595,776 |
| Less Float                                                    |                                                       | \$0          |
| Total Collected Balance                                       |                                                       | \$10,595,776 |
| Earnings Credit                                               | 0.00%<br>\$ * 0.00% * 28/365                          | \$0          |
| Interest Paid on Balances                                     | 2.25% * \$10,595,776 * (28/365)                       | \$18,289     |
| Less FDIC Assessment                                          | 0.00%<br>\$0 / (\$10,595,776 * (28/365))              | \$0          |
| Net Interest Rate                                             | 2.25% on Ledger Balance<br>2.25% on Collected Balance | \$18,289     |
| Average Annual Cost / Benefit Analysis                        |                                                       |              |
| Earnings on Fed Funds Target Rate (for illustrative purposes) | 5.25%<br>\$10,595,776 * 5.25%                         | \$556,278    |
| Annual Earnings at Net Rate                                   | 2.25%<br>\$10,595,776 * 2.25%                         | \$238,405    |
| Annual Cost / Benefit                                         |                                                       | (\$317,873)  |



## Merchant Card Processor Fees

### Observations

- Merchant card processing fees can vary significantly based on the total value of transactions processed and the average transaction size.
  - PFM looked at competitive pricing from entities with similar processing volume and transaction size to gauge current market rates.
  - As shown on the next page, it is common for processors to charge a variable fee based on the size of the transaction plus a fixed fee per transaction.
- Based on recent proposals received by PFM clients for comparable merchant card processing relationships, we estimate that the City is receiving below market charges for the JP Morgan activity and above market charges for the CardConnect activity.
  - The table on the following page provides details about recent proposals from several national banks for other municipalities.
  - Using the City's merchant card activity, we estimate that annual fees paid by the City to the CardConnect could be reduced from its current level of \$40,100 to roughly \$25,000.



## Merchant Card Processor Fees – Comparative Data (JP Morgan)

|                                    |                  | Current Processor<br>(JP Morgan) |                | JP Morgan – Kentucky<br>City (2022 RFP) |                | US Bank – California City<br>(2021 RFP) |                | US Bank – Ohio City (2020<br>RFP) |                |
|------------------------------------|------------------|----------------------------------|----------------|-----------------------------------------|----------------|-----------------------------------------|----------------|-----------------------------------|----------------|
| Annual Merchant Card Volume        |                  | \$5.3 million                    |                | \$4.1 million                           |                | \$3.5 million                           |                | \$1.8 million                     |                |
| Average Ticket Size                |                  | \$6                              |                | \$36                                    |                | \$39                                    |                | \$122                             |                |
|                                    | Annual<br>Volume | Processor<br>Fee                 | Annual<br>Cost | Processor<br>Fee                        | Annual<br>Cost | Processor<br>Fee                        | Annual<br>Cost | Processor<br>Fee                  | Annual<br>Cost |
| MasterCard Volume                  | \$1,548,520      | 0.04%                            | \$619          | 0.13%                                   | \$2,013        | 0.00%                                   | -              | 0.15%                             | \$2,323        |
| Visa Volume                        | \$3,181,639      | 0.04%                            | \$1,273        | 0.13%                                   | \$4,136        | 0.00%                                   | -              | 0.15%                             | \$4,772        |
| Discover Volume                    | \$75,011         | 0.04%                            | \$30           | 0.13%                                   | \$98           | 0.00%                                   | -              | 0.15%                             | \$113          |
| American Express Volume            | \$494,433        | 0.00%                            | -              | 0.13%                                   | \$643          | 0.00%                                   | -              | 0.15%                             | \$742          |
| MasterCard per Transaction         | 227,114          | \$0.04                           | \$9,085        | \$0.10                                  | \$22,711       | \$0.10                                  | \$22,711       | \$0.10                            | \$22,711       |
| Visa per Transaction               | 520,539          | \$0.04                           | \$20,822       | \$0.10                                  | \$52,054       | \$0.10                                  | \$52,054       | \$0.10                            | \$52,054       |
| Discover per Transaction           | 11,686           | \$0.04                           | \$467          | \$0.10                                  | \$1,169        | \$0.10                                  | \$1,169        | \$0.10                            | \$1,169        |
| American Express per Transaction   | 72,153           | \$0.04                           | \$2,886        | \$0.10                                  | \$7,215        | \$0.10                                  | \$7,215        | \$0.10                            | \$7,215        |
| Total Costs                        |                  |                                  | \$35,182       |                                         | \$90,039       |                                         | \$83,149       |                                   | \$91,099       |
| Annual Savings                     |                  |                                  | -              |                                         | (\$54,857)     |                                         | (\$47,967)     |                                   | (\$55,917)     |
| Savings over 10-Year Contract Term |                  |                                  | -              |                                         | (\$548,570)    |                                         | (\$479,670)    |                                   | (\$559,170)    |



## Merchant Card Processor Fees – Comparative Data (CardConnect)

|                                    |                  | Current Processor<br>(CardConnect) |                | JP Morgan – Kentucky<br>City (2022 RFP) |                | US Bank – California City<br>(2021 RFP) |                | US Bank – Ohio City (2020<br>RFP) |                |
|------------------------------------|------------------|------------------------------------|----------------|-----------------------------------------|----------------|-----------------------------------------|----------------|-----------------------------------|----------------|
| Annual Merchant Card Volume        |                  | \$4.1 million                      |                | \$4.1 million                           |                | \$3.5 million                           |                | \$1.8 million                     |                |
| Average Ticket Size                |                  | \$44                               |                | \$36                                    |                | \$39                                    |                | \$122                             |                |
|                                    | Annual<br>Volume | Processor<br>Fee                   | Annual<br>Cost | Processor<br>Fee                        | Annual<br>Cost | Processor<br>Fee                        | Annual<br>Cost | Processor<br>Fee                  | Annual<br>Cost |
| MasterCard Volume                  | \$1,101,891      | 0.60%                              | \$6,611        | 0.13%                                   | \$1,432        | 0.00%                                   | -              | 0.15%                             | \$1,653        |
| Visa Volume                        | \$2,396,969      | 0.60%                              | \$14,382       | 0.13%                                   | \$3,116        | 0.00%                                   | -              | 0.15%                             | \$3,595        |
| Discover Volume                    | \$76,520         | 0.60%                              | \$459          | 0.13%                                   | \$99           | 0.00%                                   | -              | 0.15%                             | \$115          |
| American Express Volume            | \$558,482        | 0.00%                              | \$0            | 0.13%                                   | \$726          | 0.00%                                   | -              | 0.15%                             | \$838          |
| MasterCard per Transaction         | 24,760           | \$0.20                             | \$4,952        | \$0.10                                  | \$2,476        | \$0.10                                  | \$2,476        | \$0.10                            | \$2,476        |
| Visa per Transaction               | 54,891           | \$0.20                             | \$10,978       | \$0.10                                  | \$5,489        | \$0.10                                  | \$5,489        | \$0.10                            | \$5,489        |
| Discover per Transaction           | 2,019            | \$0.20                             | \$404          | \$0.10                                  | \$202          | \$0.10                                  | \$202          | \$0.10                            | \$202          |
| American Express per Transaction   | 11,817           | \$0.20                             | \$2,363        | \$0.10                                  | \$1,182        | \$0.10                                  | \$1,182        | \$0.10                            | \$1,182        |
| Total Costs                        |                  |                                    | \$40,149       |                                         | \$14,722       |                                         | \$9,349        |                                   | \$15,550       |
| Annual Savings                     |                  |                                    | -              |                                         | \$25,427       |                                         | \$30,800       |                                   | \$24,599       |
| Savings over 10-Year Contract Term |                  |                                    | -              |                                         | \$254,270      |                                         | \$308,000      |                                   | \$245,990      |



## Purchasing Card Program

### Observation

- The City maintains a purchasing card program with JP Morgan.
- For the 12-month period ending April 30, 2022, the total net purchase volume for the program was \$2.6 million.

| City Program    | Annual Spend  | Annual Number of Transactions | Average Transaction Size |
|-----------------|---------------|-------------------------------|--------------------------|
| Purchasing Card | \$2.6 million | 9,070                         | \$291.40                 |

- JP Morgan pays the City a rebate according to the following schedule.

| VOLUME GRID          |             |
|----------------------|-------------|
| ANNUAL CHARGE VOLUME | REBATE RATE |
| \$500,000            | 1.00%       |
| \$1,000,000          | 1.25%       |
| \$2,000,000          | 1.52%       |
| \$5,000,000          | 1.55%       |
| \$10,000,000         | 1.62%       |
| \$20,000,000         | 1.65%       |

- The City's rebate earned over the 12-month period ending April 30, 2022, was approximately \$40,174.



## Purchasing Card Program – Comparative Data

### Observation

- Purchasing card program rebates can vary considerably based on the size of the program and the settlement terms (i.e., how quickly invoices are sent by the bank and how quickly they are paid).
- Based on recent proposals received by PFM clients for existing card programs, we estimate that the City is receiving an above average market rebate, but there may be some room for improvement.
- The table below shows rebate schedules for the City spend level from recent procurement processes. Applying your total spend and, we have estimated the potential increase in rebate that could be achieved.

|                                                    | Current Program<br>(JP Morgan) |                  | JP Morgan –<br>California City<br>(2023 RFP) |                  | US Bank –<br>Delaware City<br>(2022 RFP) |                  | Wells Fargo –<br>Washington Utility<br>Entity (2021) |                  | Bank of America –<br>Virginia City (2020<br>RFP) |                  |
|----------------------------------------------------|--------------------------------|------------------|----------------------------------------------|------------------|------------------------------------------|------------------|------------------------------------------------------|------------------|--------------------------------------------------|------------------|
|                                                    | Rebate<br>Percent              | Rebate<br>Amount | Rebate<br>Percent                            | Rebate<br>Amount | Rebate<br>Percent                        | Rebate<br>Amount | Rebate<br>Percent                                    | Rebate<br>Amount | Rebate<br>Percent                                | Rebate<br>Amount |
| Rebate                                             | 1.52%                          | \$40,174         | 1.50%                                        | \$39,645         | 1.76%                                    | \$46,517         | 1.60%                                                | \$42,288         | 1.84%                                            | \$48,631         |
| Additional Rebate                                  | -                              |                  | -\$529                                       |                  | \$6,343                                  |                  | \$2,114                                              |                  | \$8,458                                          |                  |
| Additional Rebate<br>Over 10-year<br>Contract Term | -                              |                  | -\$5,286                                     |                  | \$63,432                                 |                  | \$21,144                                             |                  | \$84,576                                         |                  |



# Recommendations

## Recommendations

Based on the City's level of satisfaction with its banking partner, the relationship team, and the solutions offered, as well as the limited opportunity for cost savings by switching providers, PFM does not recommend the City undergo a competitive RFP to bid out the services offered by JP Morgan. Instead, PFM recommends the City directly negotiate with JP Morgan to establish a new contract. If the City agrees, PFM is available to support the negotiation of pricing and terms of the contract.

### Other Recommendations

1. **CD-ROMs:** On the City's account analysis statement, there are two charges for CD-ROMs:

- CD-ROM Maintenance (\$25.00 per month)
- CD ROM - Per CD (\$8.00 per CD)

During the discovery meetings, the City indicated that this CD-ROM is rarely used today. PFM recommends requesting this service be discontinued and utilize the bank's online system for accessing check images.

2. **Lockbox:** On the City's account analysis statement, there is a charge for "Closed LBX Image Viewing" (\$20.00 per month). During the discovery meetings, the City suggested the length of time required to access historical images tied to this lockbox has expired. If the City no longer requires access to images within this lockbox, PFM recommends requesting this service to be discontinued.

3. **Payee Positive Pay:** It does not appear that the City's "Recreation Imprest Account" and "Municipal Prosecutions Imprest Account" are currently set up with payee positive pay. PFM recommends considering adding payee positive pay to these accounts as an additional fraud prevention measure.

4. **Purchasing Card:** The City mentioned that there is a cardholder who has experienced several instances of fraud. PFM recommends reviewing the types of spend associated with this card and working with JP Morgan to determine the root cause of the issue.



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