



## 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**

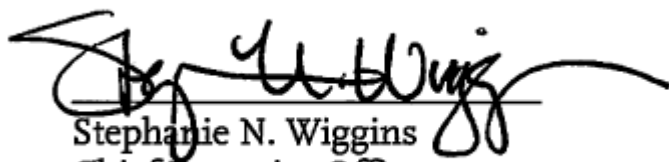
Upon Board approval, staff will execute Modification No. 3 to Contract No. PS133590000 with U.S. Bank N.A. to continue to provide custodial banking services.

### **ATTACHMENTS**

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

Prepared by: Jin Yan, Assistant Treasurer, (213) 922-2127  
Mary E. Morgan, Deputy Executive Officer, Finance, (213) 922-4143  
Rodney Johnson, Treasurer, (213) 922-3417  
Carolina Coppolo, Deputy Chief Vendor/Contract Management Officer (Interim)  
(213) 213-4471

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088

  
Stephanie N. Wiggins  
Chief Executive Officer

## PROCUREMENT SUMMARY

## CUSTODIAL BANKING SERVICES/PS133590000

1.	<b>Contract Number:</b> PS133590000			
2.	<b>Contractor:</b> U.S. Bank N.A.			
3.	<b>Mod. Work Description:</b> Continue existing services and extend the period of performance from December 31, 2024 through March 31, 2025			
4.	<b>Contract Work Description:</b> Provide custodial banking services			
5.	<b>The following data is current as of:</b> 6/4/24			
6.	<b>Contract Completion Status</b>		<b>Financial Status</b>	
	<b>Contract Awarded:</b>	7/25/19	<b>Contract Award Amount:</b>	\$600,222
	<b>Notice to Proceed (NTP):</b>	N/A	<b>Total of Modifications Approved:</b>	\$500,148
	<b>Original Complete Date:</b>	12/31/24	<b>Pending Modification (including this action):</b>	\$500,000
	<b>Current Est. Complete Date:</b>	3/31/25	<b>Current Contract Value (with this action):</b>	\$1,600,370
7.	<b>Contract Administrator:</b> Aielyn Dumaua		<b>Telephone Number:</b> (213) 922-7320	
8.	<b>Project Manager:</b> Jan Yin		<b>Telephone Number:</b> (213) 922-2127	

**A. Procurement Background**

This Board Action is to approve Modification No. 3 to continue to provide custodial banking services and extend the period of performance from December 31, 2024 through March 31, 2025.

This contract modification will be processed in accordance with Metro's Acquisition Policy and the contract type is a firm-fixed unit rate.

In July 2019, the Board awarded a five-year (inclusive of two, one-year options), firm fixed unit rate contract to U.S. Bank N.A. to provide custodial banking services.

Two modifications have been issued to date.

Refer to Attachment B – Contract Modification/Change Order Log.

**B. Price Analysis**

The recommended price has been determined to be fair and reasonable based on price analysis. The contract rates that were established as part of the competitive contract award in July 2019 remain unchanged and are lower than current market rates for similar services.

<b>Proposed Amount</b>	<b>Metro ICE</b>	<b>Recommended Amount</b>
\$500,000	\$500,000	\$500,000

## CONTRACT MODIFICATION/CHANGE ORDER LOG

## CUSTODIAL BANKING SERVICES/PS133590000

<b>Mod. No.</b>	<b>Description</b>	<b>Date</b>	<b>Amount</b>
1	Exercise options 1 and 2 and extend the period of performance (POP) through September 30, 2024.	9/30/22	\$400,148
2	Continue services and extend POP through December 31, 2024.	5/20/24	\$100,000
3	Continue services and extend POP through March 31, 2025.	<b>Pending</b>	<b>\$500,000</b>
	<b>Modification Total:</b>		<b>\$1,000,148</b>
	<b>Original Contract:</b>	<b>7/25/19</b>	<b>\$600,222</b>
	<b>Total Contract Value:</b>		<b>\$1,600,370</b>

**DEOD SUMMARY**

**CUSTODIAL BANKING SERVICES/PS133590000**

**A. Small Business Participation**

The Diversity & Economic Opportunity Department did not establish a Small Business Enterprise/Disabled Veteran Business Enterprise (SBE/DVBE) goal for this project due to the lack of subcontracting opportunities. U.S. Bank N.A. is expected to provide the custodial banking services with its own workforce.

**B. Living Wage and Service Contract Worker Retention Policy Applicability**

The Living Wage and Service Contract Worker Retention Policy is not applicable to this modification.

**C. Prevailing Wage Applicability**

Prevailing Wage is not applicable to this modification.

**D. Project Labor Agreement/Construction Careers Policy**

Project Labor Agreement/Construction Careers Policy is not applicable to this Contract. Project Labor Agreement/Construction Careers Policy is applicable only to construction contracts that have a construction contract value in excess of \$2.5 million.

# **Custody Bank Contract Modification**

**Finance, Budget and Audit Committee  
July 18, 2024**



# Custody Bank Contract Modification

## Causes and benefits of the modification:

- Metro's Investment Policy requires the use of an external custody bank to safekeep operating fund securities or cash.
- The number of accounts, trading volume and the market value of investments has increased since 2019.
- Contracted fixed fee percentages have not changed.
- This action will provide adequate funding, allow sufficient time for the re-procurement to expand participation for local community banks, and allow a 3-month transition period.

# Custody Bank Contract Modification

## Recommendation:

- Authorize the CEO to execute an extension of the current contract with US Bank to March 31, 2025, and increase contract value by \$500,000 to a new Not to Exceed (NTE) amount of \$1,600,370 ;

The existing contract expires on December 31, 2024.

# Custody Bank Contract Modification

## Next Step:

- Upon Board approval, staff will execute the modification with U.S. Bank to continue to provide custodial banking services.