



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.

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.

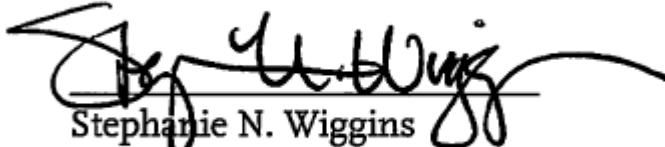
ATTACHMENTS

Attachment A - Procurement Summary

Attachment B - DEOD Summary

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Stephanie N. Wiggins
Chief Executive Officer

PROCUREMENT SUMMARY

CUSTODIAL BANKING SERVICES/PS124467000

| | | |
|----|---|--|
| 1. | Contract Number: PS124467000 | |
| 2. | Recommended Vendor: U.S. Bank National Association | |
| 3. | Type of Procurement (check one): <input type="checkbox"/> IFB <input checked="" type="checkbox"/> RFP <input type="checkbox"/> RFP-A&E <input type="checkbox"/> Non-Competitive <input type="checkbox"/> Modification <input type="checkbox"/> Task Order | |
| 4. | Procurement Dates: | |
| | A. Issued: July 3, 2024 | |
| | B. Advertised/Publicized: July 3, 2024 | |
| | C. Pre-Proposal Conference: July 15, 2024 | |
| | D. Proposals Due: August 14, 2024 | |
| | E. Pre-Qualification Completed: September 12, 2024 | |
| | F. Ethics Declaration Forms submitted to Ethics: August 15, 2024 | |
| | G. Protest Period End Date: November 27, 2024 | |
| 5. | Solicitations Picked up/Downloaded: 11 | Bids/Proposals Received: 1 |
| 6. | Contract Administrator: Manchi Yi | Telephone Number: (213) 418-3332 |
| 7. | Project Manager: Robert Suh | Telephone Number: (213) 922-4102 |

A. Procurement Background

This Board Action is to approve Contract No. PS124467000 to provide full custodial banking services, compliance monitoring, and performance measurement. Board approval of contract award is subject to the resolution of any properly submitted protest(s), if any.

On July 3, 2024, Request for Proposal (RFP) No. PS124467 was issued as a competitive procurement in accordance with Metro’s Acquisition Policy and the contract type is a firm fixed unit rate. The Diversity and Economic Opportunity Department (DEOD) did not recommend a Small Business Enterprise/Disabled Veteran Business Enterprise (SBE/DVBE) participation goal for this procurement.

No amendments were issued during the solicitation phase of this RFP.

The solicitation was available for download from Metro’s website. Advertisements were placed with the Los Angeles Daily News, Asian Journal, La Opinion, and Los Angeles Sentinel to notify potential proposers of this solicitation. Further, Metro notified potential prime contractors identified by the Project Office and other potential proposers from Metro’s vendor database based on applicable North American Industry Classification System (NAICS) codes. A virtual pre-proposal conference was held on July 15, 2024, and was attended by three participants representing three firms.

A total of eleven individuals downloaded the RFP and were included on the planholders list. There were twelve questions received and responses were issued prior to the proposal due date.

One proposal was received from U.S. Bank National Association (U.S. Bank N.A.) by the proposal due date of August 14, 2024.

Since only one proposal was received, staff conducted a market survey of the planholders to determine why no other proposals were received. Responses were received from four firms, and they included:

- lack of capability to fulfill the technical requirements of the RFP
- inability to meet the RFP minimum qualification requirements

The market survey revealed that the decisions not to propose were based on individual business considerations. Therefore, the solicitation can be awarded as a competitive award.

B. Evaluation of Proposal

A Proposal Evaluation Team (PET) consisting of staff from the Treasury and Accounting departments was convened and conducted a comprehensive technical evaluation of the proposal received.

The proposal was evaluated based on the following evaluation criteria:

Phase 1 Evaluation - Minimum Qualifications (Pass/Fail): To be responsive to the RFP minimum qualification requirements, proposers must meet all of the following:

- The proposer must have current custody of more than one trillion dollars (\$1,000,000,000,000) of domestic fixed-income assets.
- The proposer must have a minimum of eight years of experience in providing custody and/or performance measurement services.
- The proposal must include proof that an independent certified auditor or third party vendor has attested to the accuracy of performance returns according to Global Investment Performance Standards (GIPS).

Phase 2 Evaluation - Weighted Technical Evaluation: The proposer met the Minimum Qualifications (Pass/Fail) Criteria and was further evaluated based on the following evaluation criteria and weights:

- | | |
|---|-----|
| • Qualifications, Experience and Capability of the Firm and Key Personnel | 25% |
| • Custody, Compliance Reporting and Performance Measurement Services | 25% |

- Technology, Transition and Conversion 25%
- Price Proposal 25%

The evaluation criteria are appropriate and consistent with criteria developed for similar procurements. Several factors were considered in developing the evaluation criteria and each were equally weighted.

From August 19, 2024 through September 5, 2024, the PET independently evaluated and scored the technical proposal. At the conclusion of the evaluation, the PET determined that U.S. Bank N.A. met all RFP requirements and was technically qualified to perform the work.

The following is a summary of the PET scores:

| 1 | Firm | Average Score | Factor Weight | Weighted Average Score | Rank |
|---|---|---------------|---------------|------------------------|----------|
| 2 | U.S. Bank National Association | | | | |
| 3 | Qualifications, Experience and Capability of the Firm and Key Personnel | 92.00 | 25.00% | 23.00 | |
| 4 | Custody, Compliance Reporting and Performance Measurement Services | 94.16 | 25.00% | 23.54 | |
| 5 | Technology, Transition and Conversion | 93.32 | 25.00% | 23.33 | |
| 6 | Price Proposal | 100.00 | 25.00% | 25.00 | |
| 7 | Total | | | 94.87 | 1 |

C. Price Analysis

The recommended amount has been determined to be fair and reasonable based on price analysis, Independent Cost Estimate (ICE), and technical analysis.

| | Proposer Name | Proposal Amount | Metro ICE | Recommended Amount |
|----|--------------------------------|-----------------|-------------|--------------------|
| 1. | U.S. Bank National Association | \$1,989,250 | \$1,921,106 | \$1,989,250 |

The variance between the recommended amount and the ICE is due to the use of a lower projected market value of Metro’s operating fund investment portfolios in calculating the ICE. Further, fees proposed by US Bank N.A. are lower than the fee structure under the current custodial banking services contract.

D. Background on Recommended Contractor

U.S. Bank National Association (U.S. Bank N.A.), headquartered in Minneapolis, Minnesota, was established in 1863. It offers a wide range of financial services and has over 125 years of experience providing trust and custody services for institutional clients. It manages 5,303 custody accounts with more than \$2.6 trillion in assets, including 635 public and government clients with over \$417.3 billion in assets. Existing public sector clients include the Orange County Transportation Authority, Santa Clara Valley Transportation Authority, County of Fresno, City of San Diego and the California State University, Long Beach.

U.S. Bank, the incumbent contractor, has been providing custodial banking services to Metro and performance has been satisfactory.

DEOD SUMMARY

CUSTODIAL BANKING SERVICES / PS124467000

A. Small Business Participation

The Diversity and Economic Opportunity Department (DEOD) did not recommend a Small Business Enterprise (SBE)/Disabled Veteran Business Enterprise (DVBE) participation goal for this procurement due to the lack of subcontracting opportunities. It is expected that US Bank National Association (U.S. Bank N.A.) will perform the services of this contract 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 contract.

C. Prevailing Wage Applicability

Prevailing wage is not applicable to this contract.

D. Project Labor Agreement/Construction Careers Policy

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

Item #2024-0842

Custodial Banking Services Contract

Finance, Budget and Audit Committee
November 21, 2024



Custodial Banking Services Contract

Background:

- Metro's Investment Policy requires the use of an external custody bank to safekeep operating fund securities or cash.
- The existing five-year banking custodial services contract with U.S. Bank N.A. will expire on March 31, 2025.

Action:

- The RFP notification was posted on Metro's vendor database based on applicable NAICS codes, advertised on 4 publications and on Metro's Vendor Portal, and sent to 27 financial institutions.
- Only 1 proposal was submitted by the current custodial banking services provider, U.S. Bank N.A.



Procurement Evaluation – Single Proposer

| U.S. Bank N.A. | Evaluation Criteria Factor Weight | Weighted Average Score |
|--|--|-----------------------------------|
| Qualifications, Experience & Capability of Firm & Key Personnel | 25.00% | 23.00% |
| Custody, Compliance Reporting & Performance Measurement Services | 25.00% | 23.54% |
| Technology, Transition and Conversion | 25.00% | 23.33% |
| Price | 25.00% | 25.00% |
| Total | 100.00% | 94.87% |

Custodial Banking Services Contract

Recommendation:

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

Next Step:

- Upon Board approval, staff will execute Contract PS124467000 to U.S. Bank N.A. effective April 1, 2025 to provide custodial banking services.

