



Finance Director
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M E M O

DATE: January 19, 2017
TO: Mike O. Geisel, City Administrator
FROM: Craig D. White, Finance Director *CDW*
RE: Banking Services

The Finance Department recently requested proposals for banking services from several reputable local banks. The City had not requested bids on banking services since PNC won a competitive bid process over three years ago. We determined that it was time to begin the process to make sure that the City is obtaining the best services available. As always, our first concern was the safety of the City's money. Secondly, we need a bank that can fulfill all of the City's service needs. Finally, we looked at fees and interest earnings offered by each institution.

We received five bids from Central Bank, Commerce Bank, First State Bank, PNC Bank, and Reliance Bank, all of which would be good custodians of the City's money. Four of the banks offered services for all of the City's accounts. First State Bank proposed banking services for the City's non-operating accounts only. While this did not disqualify them from proposing, it was determined that the costs/inefficiencies of spreading the City's accounts among multiple banks outweighed any benefits offered through First State's proposal.

PNC, the City's current bank, has shifted their service focus away from the traditional coin and cash transactions to lending and electronic activity. The Chesterfield Valley branch is frequently staffed with 2-3 employees, only one of which has vault access, and have trouble handling the larger deposits generated by our Parks Department's successful summer programs. Their proposal addressed this by incorporating a third party to provide remote deposit services. Unfortunately, there are significant costs associated with the proposed utilization of an armored car and other onsite deposit services, which almost entirely offset any interest earnings.

The other three banks met and exceeded the City's minimum level of services requested. We were impressed with these banks and felt that each would provide

an improved level of service and earnings. I worked closely with each to develop an accurate estimate of the net annual interest earnings (less fees and other expenditures) for their offered services based on our actual activity over the past 12 months.¹ See the following summary of each institution:

	Central Bank	Commerce Bank	Reliance Bank
Total Assets	\$ 12,045,440,557	\$ 24,604,962,000	\$ 1,264,791,000
Deposits	\$ 9,032,574,457	\$ 12,444,299,000	\$ 950,876,000
Branch Employees	11	8	5
Annual Interest	\$ 91,687	\$ 79,434	\$ 82,071
Annual Costs	\$ 6,895	\$ 9,531	\$ 7,732
Annual Net Benefit	\$ 84,792	\$ 69,903	\$ 74,340
Monthly Average	\$ 7,066	\$ 5,825	\$ 6,195
Net ROR	0.61%	0.50%	0.53%

Before making a decision, a team consisting of Finance and Parks Concession employees met with the three banks to ensure that they understood our business, could meet our service needs, and protect our assets. All three banks were equally impressive in displaying their ability to service the City. I also previewed their online services and verified that each offered a platform that met all of the City's requirements.

Based on the above considerations, I recommend that the City change to Central Bank starting on March 1, 2017. They offered the most favorable net benefit, largest local branch staff, and a long history of quality service within Chesterfield and the state of Missouri. In addition, we were impressed with their team and are confident that they will become a great partner for the City.

¹ In reviewing the City's net benefit from each banking arrangement, I analyzed all interest earnings net of the related banking fees. For instance, some banks offered an "earnings credit offset" which the City earns from a balance left in deposit overnight while the remaining amount is swept at a higher rate of return. While on paper this would eliminate the banking fees, in practice it reduced the **net benefit** to the City as the earnings credit rate is inferior to the sweep rate. As such, when reviewing the proposals, I used the calculation that offered the best **net benefit** to the City rather than trying to maximize the interest return and/or minimize fees.