



Transportation Committee

November 8, 2012

Connect Card Banking Services Agreement

Issue: The Connect Card Governance Committee (Consortium), comprised of six transit operators and SACOG staff, is recommending that a contract for banking services be awarded.

Recommendation: That the Transportation Committee recommend that the Board award the Connect Card banking services contract to U.S. Bank and delegate authority to the Chief Executive Officer to negotiate and execute a final contract.

Discussion: The Connect Card is a regional electronic transit fare system that will allow patrons to conveniently purchase fares in advance, seamlessly pay onboard bus fare and light rail fare at stations, and easily transfer between transit systems using one smart card. Used like a reloadable debit card, patrons can load value onto their smart card through a variety of mechanisms, including over the Internet, at light rail stations, or at retail kiosks throughout the region. Fare revenue collected through the Connect Card system will be deposited into a central bank account and distributed periodically to Consortium members, consistent with the transfer agreements in place between the participating transit agencies. This is the act of financial settlement. It is the primary function the recommended banking services contractor will provide.

SACOG released a Request for Qualifications (RFQ) on September 24, 2012. One proposal was received and reviewed by a Proposal Evaluation Committee. The proposal was deemed responsive, and the proposer was interviewed. Following the interview, the Proposal Evaluation Committee formally scored the proposal and recommended that the Consortium approve the recommended banking services provider. The Consortium unanimously recommended that the contract for banking services be awarded to U.S. Bank.

Under U.S. Bank's proposal, the Consortium can expect to pay \$0 in monthly fees for the required banking services. The initial contract for banking services will be for one year, with the option to exercise up to three, one-year extensions.

The following documents are attached: justification for selection of U.S. Bank (Attachment A); U.S. Bank corporate profile (Attachment B); and the preliminary scope of work (Attachment C). The final scope of work and contract documents are subject to further refinements.

Approved by:

Mike McKeever
Chief Executive Officer

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Attachments: A – Justification for Selection of U.S. Bank
B – U.S. Bank Corporate Profile
C – Preliminary Scope of Work

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Justification for Selection of U.S. Bank

Below is a summary of the following:

1. Project need
2. Selection process
3. Survey of non-responsive financial institutions
4. Summary of firm experience and cost proposal
5. Summary of reference checks

1. Project need

The Connect Card Project needs a bank that can offer account management and financial settlement services for collective revenue generated from Connect Card sales.

2. Selection process

SACOG staff worked with a subset of financial staff from Regional Transit and the Connect Card consultant team to develop a Scope of Work for the Request for Qualifications (RFQ). The RFQ was released on September 24, 2012, and one qualified proposal was submitted on October 15 (U.S. Bank). A Proposal Evaluation Committee, made up of representatives from Regional Transit, Yolo County Transportation District, and SACOG, reviewed and evaluated the proposal. U.S. Bank was interviewed on November 2. The Proposal Evaluation Committee then formally evaluated the proposal and unanimously recommended that U.S. Bank be awarded the Connect Card banking services contract. The recommendation was brought before the Consortium, made up of members from all six participating transit operators, who unanimously approved the recommendation to select U.S. Bank.

3. Survey of non-responsive financial institutions

Following the close of the bid period, SACOG staff contacted financial institutions that had downloaded the banking services RFQ but chose not to submit a proposal to ask why they chose not to respond. Of the three banks that responded to the survey, one indicated that they did not feel that there was a large enough banking component to the Connect Card project. The second bank had concerns about internal resource availability to meet the bid deadline. The third bank had intended to submit a proposal, but got the closing date of the bid period wrong and missed the deadline.

Although not specifically noted by any of the three banks, the Proposal Evaluation Committee speculated that more banks were not interested because the Connect Card project has already selected a contractor to provide merchant services (credit and debit card processing). Many financial institutions offer merchant services from a 3rd party provider, and thus are able to include a markup for that service. The Connect Card project used a California Master Services Agreement to secure advantageous pricing on merchant services directly from a provider (Elavon), without going through a financial institution. Elavon is a wholly owned subsidiary of U.S. Bancorp. The third bank referenced above, that had planned on submitting a proposal but

missed the deadline, uses Elavon as its merchant services provider. The other two banks that did not submit proposals use competing merchant services providers.

4. Summary of firm experience and cost proposal

U.S. Bank's Government Banking Division has close to 5,500 public sector relationships throughout the country, including jurisdictions within the Sacramento region (see Section 5. Summary of reference checks). Locally, the Relationship Manager and Treasury Management and Payments Consultant assigned to the Connect Card project have over 50 years of experience in the banking industry and will be the primary points of contact for the Connect Card project. U.S. Bank supports a centralized, government-specific, Commercial Customer Service team located in Portland, OR, that is focused exclusively on providing problem resolution to commercial banking clients. The Consortium is satisfied that U.S. Bank can successfully implement banking services for the Connect Card project and has the technical capacity to fulfill the requirements of the Scope of Work.

U.S. Bank has proposed a competitive offer for the Connect Card project. Essentially, the Consortium will pay \$0 for the banking services contract. U.S. Bank's offer includes waiving all set up and implementation fees and a \$1,000 bonus credit to be applied toward any account analysis services. Any new services not listed in the RFQ that are added within the first two years of the contract will earn an additional analysis credit of \$500. In the unlikely event that monthly fees are incurred, U.S. Bank will waive any fees incurred during the first three months. U.S. Bank's offer also includes an Earnings Credit Rate (ECR) Floor Rate of 0.60%. The ECR is the interest rate a bank pays on customer deposits. However, rather than being applied to the deposit directly, earnings credits are used to reduce the fees the customer pays for banking services. For example, if a bank is paying a 0.05% ECR on a \$10,000 deposit, the depositor earns a \$5 reduction in his/her banking fees. With an ECR of 0.6%, it is estimated that the Connect Card Consortium's earnings credit will exceed the monthly service charges, meaning that the Consortium will pay \$0 in monthly fees and \$0 in setup and implementation fees.

5. Summary of reference checks

Following the interview with U.S. Bank, SACOG staff conducted reference checks with jurisdictions in the region that have a relationship with U.S. Bank.

City of Lincoln:

The City of Lincoln has had a relationship with U.S. Bank since at least 2003. U.S. Bank provides all of the City's banking services, including services comparable to what will be provided for the Connect Card project. City staff reports being very satisfied with U.S. Bank. In 2008, the City compared U.S. Bank's fees to competitors and found U.S. Bank's fees to be much lower. City staff has found the Commercial Customer Service team to be highly responsive, and U.S. Bank customer service representatives routinely follow up with City staff to ensure that issues have been completely resolved. The City has had several Relationship Managers during their relationship with U.S. Bank, but City staff feels that the transitions have been quite seamless, with U.S. Bank providing advance notice of the changes and coordinating meetings to facilitate the transition.

County of Yuba:

Yuba County has had a relationship with U.S. Bank for at least five and a half years. U.S. Bank provides a variety of services for the County, including services comparable to what will be provided for the Connect Card project. Overall, County staff has had positive experiences with U.S. Bank and finds U.S. Bank's pricing to be competitive. County staff has found the Commercial Customer Service team to be highly responsive in not only resolving issues promptly but also taking extra time to educate County staff on how to use various account features. Yuba County has also worked with multiple U.S. Bank Relationship Managers, but County staff feels U.S. bank has been proactive in working through the staff transitions.

Stability in Uncertain Times

As the fifth largest commercial bank in the nation, U.S. Bank's financial position remains strong. Our judicious lending and credit policies have resulted in minimal exposure for U.S. Bank to risks associated with sub-prime lending. The banking industry as a whole continues to experience significant distraction as a result of present circumstances. The financial strength of our company during the past two years has distinguished us in the financial services industry versus our competitors. This resulted in Standard & Poor's upgrading U.S. Bank to A+ in August, 2012. U.S. Bank has been the only financial institution who has seen an upgrade in this current market.

- The Ponemon Institute has ranked U.S. Bank as the **#1 bank in the nation for customer privacy practices for the last six years**. Based in Michigan, The Ponemon Institute conducts independent surveys of financial institutions to assess privacy compliance, data protection, corporate governance, and business ethics.
- U.S. Bank Continues to Excel in 2011 American Customer Satisfaction Index (ACSI). Customers continued to rank U.S. Bank highly in overall satisfaction, quality and value according to American Customer Satisfaction Index (ACSI) research conducted in the third quarter of 2011. U.S. Bank once again exceeded the industry average and the four largest banks in the country.
- U.S. Bank was ranked the **#1 bank brand in the Nationwide Small Business Owners Survey** by City Business Journals.
- We were the highest ranked large commercial bank in Forrester's customer experience survey.
- For the sixth consecutive year, U.S. Bank has won an annual award for the 25 Most Powerful Women in Banking, according to U.S. Banker Magazine.
- Global Finance ranks **U.S. Bancorp as one of safest banks** in the world.
- U.S. Bank was the **Department of Defense Patriot Award** winner for 2010.
- Paybefore has chosen the U.S. Bank AccelaPay mobile banking application as a **2011 Paybefore Awards winner in the Best Virtual or Mobile Prepaid Application** category. The awards are presented annually by Prepaid Media, whose Paybefore publications are the leading source of industry information for the global prepaid community.

| U.S. Bank Corporate Profile 2 nd Quarter 2012 | |
|---|------------------------------------|
| Founded | 1863 |
| Ranking | 5th Largest Commercial Bank |
| Asset Size | \$353 Billion |
| Deposits | \$241 Billion |
| Loans | \$216 Billion |
| Earnings per Common Share (diluted) | \$0.71 |
| Return on Average Assets (ROAA) | 1.67% |
| Return on Common Equity (ROCE) | 16.5% |
| Efficiency Ratio | 51.1% |
| Tangible Efficiency Ratio | 49.8% |
| Customers | 17.4 Million |
| Primary Banking Region | 25 States |
| Bank Branches | 3,080 |
| ATMs | 5,085 |
| NYSE Symbol | USB |



Quality Service—Guaranteed

Of course, providing the required technical capabilities represents only a portion of your overall banking relationship. Significant consideration must also be given to consistent, quality service. Individuals like your Relationship Manager and Treasury Management Consultant dedicate their time to evaluating the marketplace, matching new and emerging technologies and solutions to your changing needs.

U.S. Bank's Key Differentiators

- We are One Bank with One Banking System, in 25 states with 3,080 branch offices and 5,085 bank-branded ATMs, providing your employees convenient banking locations throughout our footprint. In the Sacramento market, we have 52 locations.
- We have full service branches in Sacramento, El Dorado, Placer, Sutter, Yolo and Yuba Counties. The closest branch to SACOG is our U.S. Bank Tower location at 621 Capitol Mall, Sacramento CA 95814.
- We provide leading-edge payment processing technology through our industry-leading Treasury Management Services.
- We offer a Connect Card a team with over 30 years' experience working with the public sector. This team, located in Sacramento will work with Connect Card beginning with this RFQ, thru implementation and beyond. Charline Botelho and Jean Jackson have the experience and understanding working with the public sector and stand ready to partner with SACOG. Refer to Tab 5 for more detailed information.
- We offer innovative Card-Based Programs and one of the largest Visa card providers in the world.
- We deliver one of the most powerful Merchant Service Platforms in the world by combining our bank expertise with our premier payment processing network. We also offer “next day” funds availability on all U.S. Bank deposits.
- We are continually developing an aggressive Customer Fraud Prevention Plan, including Payee Name Positive Pay, Teller Positive Pay, Check Filters, ACH Debit/Credit Blocks, and E-Check Blocks, to protect all of your U.S. Bank accounts.
- U.S. Bank SinglePoint®, U.S. Bank's suite of online services, will help you achieve new levels of efficiency by bringing all information reporting, ACH, Wire, Book Transfer, File Exports, special reporting, and electronic statements together in an integrated, easy-to-use Web site.
- We will help you empower your payment collections with E-Payment Services, a secure, convenient turnkey way to accept payments online.
- We provide a sophisticated team of Treasury Management, Implementation, and Customer Service Representatives that recognizes your needs with many years of experience in treasury management.
- We are a reliable, trusted, and established financial services provider, and the safest and most secure bank in the country.

Trust U.S. Bank with your Banking Services

Your ultimate choice in a complete banking partner will take into consideration quality, capabilities, service, and price. But the best value comes from the appropriate combination of these factors. U.S. Bank provides true value through our quality products and services. We look forward to working with you.

Scope of Services

Connect Transit Card Banking Services Provider

INTRODUCTION

The Sacramento Area Council of Governments (SACOG) and seven transit agencies in the Sacramento region (Consortium) are introducing an electronic fare card program, the Connect Transit Card, which will allow transit riders to use a single prepaid fare medium on transit systems throughout the region. The Connect Transit Card program (Program) will be launched in spring 2013 with a pilot project. The banking services for the Program will need to be implemented by February 1, 2013. The Program is expected to be in full operation by fall 2013.

There are currently eight agencies participating in the Program.

- SACOG – Managing Agency
- Sacramento Regional Transit District (RT) – Transit Agency Account
- El Dorado County Transit Authority (El Dorado Transit) – Transit Agency Account
- City of Elk Grove (e-tran) – Transit Agency Account
- City of Folsom (Folsom Stage Line) – Transit Agency Account
- City of Roseville (Roseville Transit) – Transit Agency Account
- Yolo County Transportation District (Yolobus) – Transit Agency Account
- Yuba-Sutter Transit – Transit Agency Account

SACOG is seeking to retain the services of a financial institution (Bank) to provide banking services for the Connect Card. Working with the Consortium, the selected Bank will provide account management and servicing as it relates to receiving funds from a merchant service credit/debit provider; holding funds in an account until the Bank receives disbursement instructions from the Connect Transit Card central system; and distributing funds to and/or receiving funds from each of the seven transit agency's individually-maintained bank account.

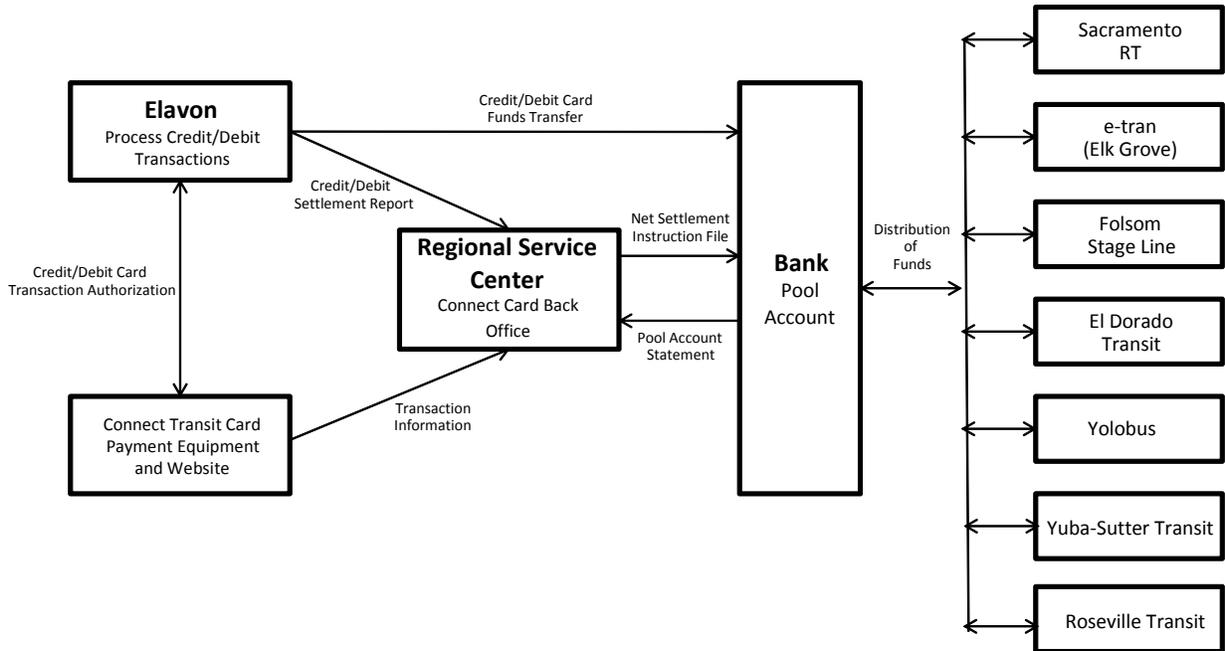
FLOW OF FUNDS

Funds will flow into the Pool Account from either of two sources:

1. Transit Agency Bank Accounts – Each transit agency currently maintains its own bank account. Funds will flow from each agency's bank account to the Pool Account and/or from the Pool Account to each agency's bank account. Funds transfer instructions will be sent via a net settlement calculation from the Connect Transit Card back office transaction processing system (Regional Service Center), or by an employee from SACOG (dual custody features will be necessary), to the Bank.
2. Credit/Debit Transaction Processor – funds transfer will be via settlement instructions sent to the Bank from the merchant service credit/debit card processor.

Attachment C

Flow of Transaction Information – Connect Card Pool Account



The Bank shall transact fund transfers in a quick and safe methodology with full transparency with all the necessary best practices for banking internal controls including but not limited to dual custody features for manual fund transfers and self-reconciliations. Each member of the Consortium must be provided with at least one, preferably more, web interface user accounts whereby the Consortium member can view the funds transferred or future dated transfers from the Bank to their respective transit agency bank account.

The balance in the Pool Account is expected to change frequently, increasing almost constantly as incremental electronic deposits are made. The other key transactions are the net settlement funds distributions that the Bank will perform on at least a monthly basis. It is estimated that the average monthly balance maintained in the Pool Account by the second year of full operation will be approximately **\$2,093,000**.

ACCOUNT SETTLEMENT

The Bank will be required to settle all cleared transactions between the seven transit agency bank accounts and the Pool Account at a frequency of at least once per month based on instructions received from the Regional Service Center (RSC). The transfer instructions from the RSC will be in the form of a net settlement file that is delivered to the Bank in a file format agreed upon by the Bank and the Consortium. The Bank will perform the funds transfers within 48 hours of receiving the net settlement file from the RSC.

ACCOUNT REPORTING

The Bank will provide online and electronic reporting/statements documenting all account activity including funds deposited into the Pool Account and all fund settlement transfers from the Pool Account.

Attachment C

ADDITIONAL AGENCIES

Additional transit agencies may choose to join the Consortium in the future. Within twenty (20) business days of receiving a request from the Consortium, the Bank will add account management, settlement, and reporting functionality, as outlined above, for any agencies that join the Consortium.

OPTION 1 – MERCHANT SERVICES

Provide financial services for electronic transactions (Merchant Services). A significant volume of sales transactions are expected with credit/debit cards on an internet commerce site, at kiosks, and at other point-of-sale locations. Proposers must include full pricing sheets for all transaction costs for Merchant Services (credit and debit payment processing). This option may be exercised by SACOG at any time during the term of the contract.

OPTION 2 – SETTLEMENT FREQUENCY

The Consortium may opt for the Pool Account to be settled more frequently than once per month. Proposers must describe how their proposal would change (financial and operational consequences) should the Consortium opt to settle the Pool Account twice monthly, weekly, or daily. This option may be exercised by SACOG at any time during the term of the contract.