



**August 28, 2019**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

**Subject:** Agreement for Custodial Banking Services

### **Overview**

The Orange County Transportation Authority utilizes custodial banking services to provide custody and reporting services for its short-term investment portfolio. A request for proposals was issued due to the upcoming expiration of the current contract. Proposals were received in accordance with the Orange County Transportation Authority's procurement procedures for professional and technical services. Board of Directors' approval is requested to select a firm to provide custodial banking services.

### **Recommendations**

- A. Approve the selection of U.S. Bank as the firm to provide custodial banking services for the Orange County Transportation Authority's short-term investment portfolio.
- B. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-9-1361 between the Orange County Transportation Authority and U.S. Bank, in the amount of \$381,400, for a five-year term, to provide custodial banking services for the Orange County Transportation Authority's short-term investment portfolio.

### **Discussion**

The Orange County Transportation Authority (OCTA) invests approximately \$1.5 billion in its short-term investment portfolio. The short-term investment portfolio is managed by four investments firms that invest OCTA's funds in accordance with the investment policy that is approved annually by OCTA's Board of Directors (Board). OCTA staff ensures that the investment firms invest the funds in compliance with OCTA's investment policy and report to the Board on a monthly and quarterly basis.

In addition to the compliance monitoring and reporting completed by OCTA staff, OCTA uses custodial banking services to provide custody and reporting services for the short-term investment portfolio. Custodial banking services provide OCTA an important additional level of security to protect OCTA's short-term investment portfolio. The custodian bank provides possession and safeguarding of the securities held in the short-term portfolio and ensures proper settlement of investment buys and sells as executed through the investment firms. The custodian bank also provides security pricing and reporting information, as well as provides for the transfer of funds to OCTA's commercial bank to meet operating and capital expenditures.

OCTA's current custodial banking services contract expires on October 31, 2019, and the continuation of these services is important to maintain the safeguarding of OCTA's short-term investment portfolio.

***Procurement Approach***

The procurement was handled in accordance with OCTA's Board-approved procedures for professional and technical services. Various factors were considered in the award for professional and technical services. Award is recommended to the firm offering the most comprehensive overall proposal considering such factors as prior experience with similar projects, staffing and project organization, work plan, as well as cost and price.

On May 30, 2019, Request for Proposals 9-1361 was issued electronically on CAMM NET. The project was advertised in a newspaper of general circulation on May 30 and June 5, 2019. A pre-proposal conference was held on June 5, 2019, with attendees representing three banks. Two addenda were issued to make available the pre-proposal conference registration sheets and presentation, and to respond to written questions.

On June 25, 2019, five proposals were received. An evaluation committee consisting of OCTA staff from Contracts Administration and Materials Management, Finance and Administration, Express Lanes Programs, Accounting and Financial Reporting, Financial Planning and Analysis departments, and the Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency met to review all proposals received.

The proposals were evaluated based on the following evaluation criteria and weightings:

- Qualifications of the Firm 30 percent
- Staffing and Project Organization 20 percent
- Work Plan 30 percent
- Cost and Price 20 percent

Several factors were considered in developing the evaluation criteria weightings. Staff assigned a weight of 30 percent to qualifications of the firm as the bank had to demonstrate relevant experience, as well as have the resources and financial stability to meet its clients' custodial banking needs. Work plan was also weighted at 30 percent because the bank had to demonstrate how calculations of balances and transactions will be reported and when investment information will be updated as these are vital to OCTA's operations. In addition, the bank must have a web-based application to successfully transfer confidential investment information on a daily basis. Staffing and project organization was weighted at 20 percent as the bank's custodial staff had to demonstrate relevant experience and knowledge, as well as include an account manager to serve as the primary liaison with OCTA for day-to-day account activities. Cost is weighted at 20 percent to ensure competitiveness in pricing and that OCTA receives value for the services provided.

On July 8, 2019, the evaluation committee reviewed the proposals based on the evaluation criteria and short-listed the three most qualified banks listed below in alphabetical orders:

Firm and Location

Bank of New York Mellon Trust Company, N.A (BNY Mellon)  
New York, New York

MUFG Union Bank, N.A. (MUFG)  
New York, New York

U.S. Bank  
Minneapolis, Minnesota

On July 16, 2019, the evaluation committee conducted interviews with the three short-listed banks. The interview consisted of a presentation to demonstrate the banks' understanding of OCTA's requirements, as well as a demonstration of their web-based applications. The banks' relationship managers and key team members had an opportunity to present each team's qualifications and respond

to the evaluation committee's questions. Questions were related to pricing sources and reporting frequency, interfacing with a third-party vendor, and handling any discrepancies. In addition, each team was asked specific clarification questions related to its proposal.

After considering the responses to the questions asked during the interviews, the evaluation committee reviewed the preliminary ranking and made adjustments to individual scores. However, U.S. Bank remained the highest-ranked bank with the highest overall score.

Based on the evaluation of the written technical proposals and the information obtained from the interviews, the evaluation committee recommends U.S. Bank for consideration of the award. The following is a brief summary of the proposal evaluation results.

#### Qualifications of the Firm

The short-listed firms are established banks with extensive experience providing custodial banking services.

U.S. Bank was founded in 1863 and is headquartered in Minneapolis, Minnesota with 24 trust and custody offices located throughout the United States. The bank has over 74,000 employees and provides payment services, consumer and business banking, corporate and commercial banking, and wealth management and investment services to 18.7 million customers. U.S. Bank has been providing trust and custody services for the past 120 years and currently serves 496 public agency clients with \$126 billion in assets. The bank demonstrated its financial stability. Some of the bank's clients include the Los Angeles County Metropolitan Transportation Authority (LACMTA), Santa Clara Valley Transportation Authority, California State University, San Mateo County Transit District, and Milwaukee County Transit System.

MUFG is headquartered in New York City and was founded in 1864. The bank operates 377 branches throughout the United States. MUFG has been providing trust and custody services since 1918 with \$289 billion in assets under administration. The bank demonstrated its financial stability. MUFG provides custodial banking services to the cities of Burbank and Oxnard, California, and the City of Bend, Oregon. MUFG is currently OCTA's custodian.

BNY Mellon was established in 1784, has been providing global custody services since 1968, and is headquartered in New York City. The bank currently has \$33.1 trillion under custody and administration, and has approximately 1,125 corporate trust employees across the United States. The bank

demonstrated its financial stability. BNY Mellon has a dedicated custody team, based in Jacksonville, Florida, for public sector clients. The team administers custody services for over 435 clients, including Metropolitan Water District of California, Contra Costa County, and El Dorado County, with accounts totaling \$34 billion in asset holdings.

#### Staffing and Project Organization

U.S. Bank proposed a custodial team with relevant experience. The proposed relationship manager has over 20 years of experience and has been with U.S. Bank since 2012. This individual currently serves as relationship manager for California State University and LACMTA. The proposed account manager has over ten years of experience and has been with the bank since 2017. The proposed backup to the account manager is familiar with the primary account manager's clients and is able to provide support in the event the account manager is unavailable. During the interview, the custodial team members explained their roles and discussed their approach for providing custodial banking services, which included a demonstration of its web portal. Additionally, the proposed relationship manager and account manager are both located in the City of Los Angeles and were present for the interview. The custodial team also responded to the evaluation committee's questions.

MUFG proposed the same custodial team that is currently working with OCTA. The proposed relationship manager has 19 years of experience and has been with the bank since 2000. The proposed account manager has almost 40 years of experience and joined MUFG in 2005. The proposed backup to the account manager has been with the bank for three years and provides additional support. During the interview, the custodial team discussed their roles, as well as provided a demonstration of its web portal. Although the proposed key staff were asked to attend the interview, none of them were present.

BNY Mellon proposed a team with custodial banking experience. The proposed relationship manager joined BNY Mellon in 2015 and has five years of experience. The proposed account manager has been with the bank since 2011 and has eight years of experience. The account manager is supported by a backup to ensure ample coverage and availability to clients. The custodial team discussed their roles and approach, as well as responded to the evaluation committee's questions. The team also provided a demonstration of its web portal. The proposed account manager that would be assigned to OCTA was not present at the interview. The bank indicated that the custody team operates Monday through Friday, 8:00 a.m. to 5:00 p.m. Eastern Standard Time and would only be available during those times. Therefore, if any issues arise after

2:00 p.m. Pacific Standard Time, BNY Mellon would not be available to respond until the next business day.

#### Work Plan

U.S. Bank presented a comprehensive work plan that addressed all the elements in the scope of work. The bank discussed its process for safekeeping and securities settlement management, which includes direct memberships, contractual settlement, dedicated Trade Services department, and automated trust system. As an enhancement feature to ensure proper settlement of investment buys and sells, U.S. Bank assigns a trade services representative who is responsible for contacting each investment manager to communicate various trade items, such as pending trade issues, settling trades, failing trades, and corporate actions. U.S. Bank described the features and capabilities of its web portal, Pivot, which includes accessing price securities and reporting information, generating consolidated reports and statements, and transfer of funds to OCTA's commercial bank. OCTA contracts with a third-party vendor, Clearwater Analytics (Clearwater), for investment reporting and analytics, and requires that the custodian interface with Clearwater to provide pricing and relevant security detail, which U.S. Bank indicated it would be able to do through its web portal. Since U.S. Bank is not currently providing custodial banking services to OCTA, the bank described its conversion plan and how it will work with OCTA's current custodian to ensure a smooth and efficient transition. During the interview, the firm was able to demonstrate the features of Pivot as described in the proposal.

MUFG provided a general overview of how it will administer and manage the operations of OCTA's accounts. As the incumbent custodian, the bank indicated that the custodial team is familiar with and knowledgeable of OCTA's requirements and will not require any transitions or additional training to provide custodial services. MUFG also discussed its quality control process, which includes maintaining several checks and balances, periodic reconciliation of holdings, and continuous audits. During the interview, MUFG described the functions and capabilities of its web portal and how it interfaces with Clearwater as they were not mentioned in the proposal.

BNY Mellon discussed its approach for providing custodial banking services, such as proper safekeeping, accurate reporting, and settling transactions. The bank also discussed the functions of its web portal, NEXEN Gateway, which includes real-time cash balances and holdings, reporting services, instruction capture, and alerts and broadcasts. The bank discussed how it will interface with Clearwater and will provide Clearwater with pricing and relevant security

details. Although not mentioned in the proposal, BNY Mellon discussed its conversion plan when asked during the interview.

#### Cost and Price

Pricing scores were based on a formula which assigned the highest score to the bank with the lowest average annual fee, and scored the other proposals' average annual fee based on their relation to the lowest average annual fee. U.S. Bank proposed the lowest average annual fee.

#### Procurement Summary

Based on the evaluation of written proposals, the firm's qualifications, and the information obtained from the interviews, the evaluation committee recommends the selection of U.S. Bank as the top-ranked firm to provide custodial banking services. U.S. Bank delivered a thorough and comprehensive proposal and an interview that was responsive to all the requirements of the RFP.

#### Fiscal Impact

Custodial banking services is included in OCTA's Fiscal Year 2019-20 Budget, Finance and Administrative Division, Account 1230-7519-A5400-F01. The expenditures will be funded using local funds.

#### ***Summary***

Staff is recommending the Board authorize the Chief Executive Officer to negotiate and execute Agreement No. C-9-1361 between the Orange County Transportation Authority and U.S. Bank, in the amount of \$381,400, for a five-year term, to provide custodial banking services.

***Attachments***

- A. Review of Proposals, RFP 9-1361 Custodial Banking Services
- B. Proposal Evaluation Criteria Matrix (Short-Listed Firms), RFP 9-1361 Custodial Banking Services
- C. Contract History for the Past Two Years, RFP 9-1361 Custodial Banking Services

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