



MEMORANDUM

To: Members of the Cash Management Policy Board
From: Banking RFP Evaluation Committee
Date: November 28, 2018
Subject: Banking Services RFP Award Recommendations

I. Introduction

On June 13, 2018, the Office of the State Treasurer (“OST”), the Department of Finance (“DOF”), and the Office of Management and Budget (“OMB”) (collectively, the “State”), on behalf of the Cash Management Policy Board (the “CMPB”) and the Government Efficiency and Accountability Board (the “GEAR Board”), issued a comprehensive Request for Proposals (“RFP”) from qualified firms (“Vendors”) interested in providing banking services to the State. Collectively, the selected Vendors will manage the State’s banking needs (referred to as the “banking architecture”) in accordance with the guidelines approved by the CMPB and the directives provided by the GEAR Board.

A comprehensive evaluation was completed and this memo provides an overview of the process and the resulting recommendations to the Banking Subcommittee and CMPB.

II. RFP Overview

Given the broad scope of the State’s current banking services, the RFP was divided into five (5) unique components. Vendors were given the opportunity to submit proposals for one or more components, with each component evaluated independently. Vendors were not penalized or rewarded for submitting bids for any combination of components. The State retained the ability to select different banking institutions for each of the components, if desired.

A description of each component can be found below:

- **Component 1: General Banking Services**
The selected provider will serve as the State’s concentration bank, handling collections and disbursements. This component includes 21 accounts currently used by OST, and potentially 200+ additional State agency accounts.
- **Component 2: Lockbox Processing Services**
The selected provider will provide physical lockbox processing services for three separate agencies (Division of Corporations, Division of Unemployment and the Pension Office), and electronic lockbox processing for the Division of Revenue.

- **Component 3: Purchasing/Virtual Card & ePayables Services**
The selected vendor will deliver the State’s purchasing card, virtual card, and single use account (“SUA”) programs. The State is also exploring the benefits of an ePayables program, which may streamline the State’s payment infrastructure.

- **Component 4: Stored Value Card Services**
The selected vendor will deliver stored value card services to distribute benefits currently administered by the Division of Unemployment, the Division of Child Support Services and the Department of Services for Children, Youth & Families.

- **Component 5: Check Printing Services**
External check printing is a new service being considered by the State. Currently, all checks are printed internally. The State is evaluating the benefits of outsourcing this service.

III. Summary of Proposals Submitted

In response to the RFP, the State received a total of twelve (12) proposals from potential Vendors by August 3, 2018. A summary of the responses received is below:

Respondent	Proposal Received				
	Component 1	Component 2	Component 3	Component 4	Component 5
	General Banking Services	Lockbox Processing Services	Purchasing / Virtual Card & ePayables	Stored Value Card Services	Check Printing Services
Bank of America			X		X
BNY Mellon	X	X			X
Citibank	X		X		X
Citizens Bank	X	X	X		X
Fulton Bank		X			
JP Morgan	X	X	X		X
KeyBank	X	X	X	X	X
M&T Bank		X	X		
PNC	X	X	X		X
TD Bank	X	X	X	X	X
US Bank	X		X	X	
Wells Fargo	X	X	X		X
Total Proposals	9	9	10	3	9

IV. Evaluation Process & Finalist Selection

OST identified subject matter experts from various State agencies to serve on the Evaluation Committee. These experts represented key banking services users, and provided a diverse perspective regarding how well each Vendor would be able to meet the State’s requirements. In addition to the voting members of the Evaluation Committee, additional resources from impacted agencies participated in the review process and provided feedback to the Evaluation Committee for their consideration.

Each Vendor proposal was scored based on the evaluation criteria published in the RFP. The criteria included operational requirements, technical requirements, implementation planning, overall experience, and pricing.

After completing a comprehensive review of all proposals, the Evaluation Committee met on September 5, 2018 to identify the vendors that would be invited to make finalist presentations during the week of September 17, 2018. The evaluation team identified a total of seven (7) vendors to make oral presentations, with 2 to 5 vendors for any single component.

Vendors invited to finalist presentations are highlighted by component below:

Respondent	Proposals Received				
	Component 1: General Banking Services	Component 2: Lockbox Processing Services	Component 3: Purchasing / Virtual Card & ePayables	Component 4: Stored Value Card Services	Component 5: Check Printing Services
Bank of America			X		X
BNY Mellon	X	X			X
Citibank	X		X		X
Citizens Bank	X	X	X		X
Fulton Bank		X			
JP Morgan	X	X	X		X
KeyBank	X	X	X	X	X
M&T Bank		X	X		
PNC	X	X	X		X
TD Bank	X	X	X	X	X
US Bank	X		X	X	
Wells Fargo	X	X	X		X

Finalist presentations were conducted between September 17th and 20th. A follow-up request for additional operational and technical information was sent to all seven (7) vendors who made oral presentations.

V. Evaluation Committee Recommendations

After completing a comprehensive review of all proposals, finalist presentations, and follow-up information, each member of the Evaluation Committee submitted their respective scoresheets. Final scores were tabulated, and the highest scoring Vendors are listed below:

- Component 1: General Banking – **J.P. Morgan**
- Component 2: Lockbox Processing Services – **J.P. Morgan**
- Component 3: Purchasing Card/Virtual Card & ePayables – **J.P. Morgan**
- Component 4: Stored Value Card – **U.S. Bank**
- Component 5: Check Printing Services – **J.P. Morgan**

Each component was evaluated independently by each member of the Evaluation Committee, including PFM. J.P. Morgan emerged as the top scoring vendor in each of the components to which they responded. The Evaluation Committee recommends that the CMPB award new banking services contracts to J.P. Morgan and U.S. Bank for the components referenced above.

VI. Discussions at the Banking Subcommittee

OST presented the Evaluation Committee's recommendation at the Banking Subcommittee meeting held on November 14, 2018. The Banking Subcommittee adopted the recommendation after discussing concerns over operational, liquidity and reputational risks resulting from selecting one Vendor, JP Morgan, to manage four banking components.

Operational: The operational risk associated with JP Morgan is mitigated by continuity strategies outlined in a firm-wide Resiliency Management Program. As an integral part of normal business operations within J.P. Morgan, managers are responsible for developing and maintaining resiliency plans. The plans address and comply with documented organizational requirements. Critical resiliency plans are tested annually to verify the effectiveness of alternate locations and to demonstrate that the plans remain accurate and executable. These plans are subject to risk-based examinations by J.P. Morgan's internal auditors, and all findings are escalated for review. Moreover, the firm's Board of Directors reviews the status of the overall resiliency program annually.

Liquidity: There is minimal liquidity risk because, at any given point in time, over 95% of the State's cash is held in investment accounts (outside the banking architecture). Liquidity risk within the State's banking architecture can be further reduced by the implementation of a sweep vehicle that transfers excess cash to the State's custodian.

Reputational: J.P. Morgan's Government Banking line of business is a distinct group of relationship executives, product, technology and service experts who are solely focused on serving the public sector. This priority status aligns J.P. Morgan's banking services to the State's current needs, with the ability to adapt and scale services to meet evolving requirements. More than 420 professionals are in place in communities throughout the country, engaging and maintaining client relationships. This approach will provide the responsive service desired, and services will be delivered by an institution with the financial strength required.

VII. Conclusion

The Evaluation Committee and PFM believe transitioning the State's current banking services to JP Morgan and U.S. Bancorp under the State's new banking architecture will result in cost savings, improved operational efficiencies, and enhanced risk management capabilities. Both financial institutions are highly regarded and are among the largest in the United States. PFM prepared profiles of each institution attached in Exhibit 1, highlighting the strength of their balance sheets and the view from independent credit assessments by the nationally recognized statistical rating organizations.



Exhibit 1

This following material is based on information provided by the respective banks within their response to the Office of the State Treasurer's Request for Proposals for Professional Banking Services and other sources generally believed to be reliable and available to the public.

Both JP Morgan and U.S. Bancorp are highly regarded and among the largest financial institutions in the United States. The following profiles highlight the strength of their balance sheet and view from independent credit assessments by the nationally recognized statistical rating organizations (NRSRO).

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JP Morgan – Firm Profile

- **Firm Overview:** JPMorgan Chase & Co. is a leading global financial services firm with operations worldwide. The firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management. A component of the Dow Jones Industrial Average, JPMorgan Chase & Co. serves millions of customers in the United States and many of the world's most prominent corporate, institutional and government clients under its J.P. Morgan and Chase brands.
- **Market Share:** JP Morgan has 5,136 branches and footprint includes several markets they rank No. 1 in deposit market share: New York, Texas, Illinois, Michigan and Arizona. JP Morgan's footprint also has a significant presence in California (No. 3), Ohio (No. 5), and Florida (No. 4).
- **Federal Reserve's Stress Test:** JPMorgan is one of 35 firms subject to an annual "stress test" by the Federal Reserve that was instituted after the financial crisis to grade financial institutions' ability to withstand a severe financial crisis. If a bank fails the stress test, there are restrictions placed on the financial institution's ability to pay dividends and share buybacks. JPMorgan passed the most recent stress test in June 2018.¹

JPMorgan received a non-objection for its capital plan, which includes common share repurchases of up to \$21 billion between 3Q18 and 2Q19, as well as a 46% increase in quarterly dividends to \$0.15 per share.

- **Corporate Headquarters:** New York, NY
- **Year Established:** 1799

¹ <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180621a.htm>



- **Bank Size by Assets and Rank:** \$2.53 trillion, Ranked 1st in the United States and 6th globally.
- **Total Deposits:** \$1.44 trillion
- **Total Loans:** \$930.7 billion
- **Number of Employees:** 252,539
- **Credit Ratings:**

	Standard & Poor's Rating	Moody's Investor Services
Firm / Bank		
Short-Term Unsecured Senior Debt	A-1	P-1
Long-Term Unsecured Senior Debt	A+	Aa2
Outlook	Stable	Stable
Bank Holding Company		
Short-Term Unsecured Senior Debt	A-2	P-1
Long-Term Unsecured Senior Debt	A-	A2
Outlook	Stable	Stable

- **Total Risk Based Capital Ratio:** 14.7%
- **Tier 1 Risk Based Capital Ratio:** 13.8%
- **Tier 1 Leverage Capital Ratio:** 8.7%
- **Participant in Sheltered Harbor?:** Yes

U.S. Bank – Firm Profile

- **Firm Overview:** U.S. Bancorp is the parent company of U.S. Bank, the fifth-largest commercial bank in the United States. U.S. Bank serves millions of retail, business, wealth management, payment, commercial and corporate, and investment services customers across the country and around the world.
- **Market Share:** U.S. Bancorp has 3,106 branches, primarily in the Midwest. U.S. Bancorp typically has leading deposit-market share. It ranks either 1st or 2nd in five of its seven primary states. FDIC data also show that average annual growth (8%) over the past five years in U.S. Bancorp's deposits has been above the industry's (6%), suggesting market-share gains.
- **Federal Reserve's Stress Test:** U.S. Bancorp is one of 35 firms subject to an annual "stress test" by the Federal Reserve that was instituted after the financial crisis to grade financial institutions' ability to withstand a severe financial crisis.



If a bank fails the stress test, there are restrictions placed on the financial institution's ability to pay dividends and share buybacks. U.S. Bancorp passed the most recent stress test in June 2018.²

U.S. Bancorp is recognized as having a history of conservative lending practices that is a positive for its credit profile, but may detract from profitability benefiting equity investors.

- **Corporate Headquarters:** Minneapolis, MN
- **Year Established:** 1863
- **Bank Size by Assets and Rank:** \$462.0 billion, Ranked 1st in the United States and 67th globally.
- **Total Deposits:** \$347.2 billion
- **Total Loans:** \$280.4 billion
- **Number of Employees:** 74,000
- **Credit Ratings:**

	Standard & Poor's Rating	Moody's Investor Services
Firm / Bank		
Short-Term Unsecured Senior Debt	A-1+	P-1
Long-Term Unsecured Senior Debt	AA-	A1
Outlook	Stable	Stable
Bank Holding Company		
Short-Term Unsecured Senior Debt	A-1	P-1
Long-Term Unsecured Senior Debt	A+	A1
Outlook	Stable	Stable

- **Total Risk Based Capital Ratio:** 12.5%
- **Tier 1 Risk Based Capital Ratio:** 10.4%
- **Tier 1 Leverage Capital Ratio:** 8.8%
- **Participant in Sheltered Harbor?:** Yes

² <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180621a.htm>