

CITY OF NORTH RICHLAND HILLS

Analysis of Bank Depository, Lockbox and Safekeeping Service Proposals

March 2024

The City of North Richland Hills solicited proposals for banking services, lockbox and safekeeping in January 2024 to serve the City with efficient and cost-effective services. The RFP was structured so that each responding institution could propose on any service separately or as a package of services. The City intended for its financial partners to provide state-of-the-art technology to assure that its current banking needs would be met and allow the City to continue to incorporate technological improvements into its operations over the period of the contract. The contract is structured for a three-year period with the option for the City to renew the contract for two additional one-year periods, if approved by the City Council.

US Bank has proposed only custody services. The three services (banking services, lockbox and custody) can easily be separated on a functional basis and so are discussed separately although combining two or more services can also provide operational efficiencies in data transmission and in their ancillary support services. The City received three proposals for banking services in response to its Request for Proposal (RFP). The proposals were made by Frost Bank, JPMorgan, and US Bank.

Both the Frost Bank and JPMorgan proposals were structured for all three services. Overall, the basic needs of the City for banking services are available at both these two banks. Both these proposers are major financial institutions closely monitored by regulators and both have excellent credit ratings and service histories. However, material differences appear between the two institutions in the use of technology and expanded services. Each of these services is discussed separately below as stand-alone service and combined within the larger banking services framework.

Currently, banks in general face distinct challenges from increased banking regulations, the expenses generated by regulatory requirements, and high interest rates. These challenges have moved many banks toward the use of a *balance-based fee* to counter higher costs. This substantial fee (from 0.10% to 0.1275% on balances) is charged as a direct monthly cost based on the average ledger balance of funds in the bank. It is essentially a *lease fee* for any funds left in the bank. Only Frost Bank is proposing a balance-based fee. JPMorgan has waived the fee in their best and final proposal. The difference in the banks created by the balance-based fee application and the availability of account structures to eliminate this fee is a major factor in the analysis of these proposals.

Key issues in evaluating bank services included (1) the availability of services and the automation capabilities which support those services as technology has developed and will undoubtedly continue to develop over the contract period, (2) base fees charged for those services, and (3) the earnings potential for funds maintained in or through the banks. Each of these issues is summarized separately below and then combined to identify the best alternative for the City. Detailed backup and scoring by service upon which the analysis is based has been presented on matrices which accompany this report. The confluence of the level of services offered, the proposed fees, and the earnings available in each bank play a major role in choosing the best banking solution. Ultimately the City must be able to get and maintain maximum services at a reasonable cost enabling earnings at reasonable market rates.

BANKING SERVICES PROPOSALS

First, the basic banking services proposed by Frost Bank and JPMorgan, excluding lockbox and safekeeping/custody were reviewed and compared. Lockbox and safekeeping/custody were viewed

separately in order to determine if these services could or would be provided outside a primary banking services/depository contract.

To evaluate services each question in the RFP was weighted as to its importance in providing that particular service and each bank response was rated. The resulting objective score for each bank service and its overall score indicates the differences between the banks and gives an indication of overall service expectations. The banks’ scores for services were:

	Depository Services	Custody Services Only	Lockbox
Frost Bank	632	38	98
JPMorgan	717	38	118
US Bank	n/a	43	n/a

The types of services offered by Frost Bank and JPMorgan are identical, but the underlying technology and online services flexibility are broader at JPMorgan. Major differences for each service area are discussed below by type. US Bank has proposed only on custody services but the ancillary support to provide that service has been included in the discussion.

CREDITWORTHINESS

All three financial institutions are highly rated on their senior and subordinate debt indicating stability and an ability to provide excellent ongoing service for the contract period. Frost and JPMorgan are ranked as ‘high satisfactory’ and ‘satisfactory’ respectively from their Community Reinvestment regulators. US Bank is rated as outstanding although it carries a negative rate outlook from Moody’s. All were asked to confirm that the City would be alerted to any change in their debt ratings during the contract period. Only US Bank confirmed.

CUSTOMER SERVICE

Most all banks create an internal customer service team structure to monitor and respond to client needs. All of these three banks utilize a team structure and propose ongoing meetings to evaluate service needs. Both banks anticipate at least semi-annual service reviews with the City. JPMorgan does have a more robust and clearly defined customer service program managed from a corporate Public Sector Group along with a Treasury Consulting Group charged with 5-year evaluation/implementation plans.

When queried regarding local community support/activity all the banks showed active contributions to the local and Tarrant County community through various volunteer and contributory programs.

Crucially, as part of customer service, the City needs a bank which is consistently moving forward on technological service improvements and advances. In this area, Frost has cited a planned integrated receivables program which is planned but not yet available. JPMorgan cited development of optimal transaction tools across banking channels and an increasing ease of ERP integration as goals. JPMorgan is also planning to implement additional virtual account structures into their online structure.

ACCOUNT STRUCTURE

Account structure options are key to the City’s ability to respond to changing interest rates and investment options. The account structures proposed by the three banks are quite different.

Because US Bank is proposing only custody services only minimal funds from security purchases would be held at the bank as transactions occur dependent on timing and intents to re-invest proceeds. Funds held there for any period of time however must be collateralized or invested. In response to this need, US Bank structures its clearing account as a sweep into a money market mutual fund to accommodate any funds remaining between trades. The account provides for daily online reporting and accrued interest

posted on a monthly basis. An SEC-registered US Bank money market fund would be used and a prospectus has been provided. This structure assures that no funds are left uninvested in the bank and are invested at a market rate.

Frost Bank has proposed a ZBA (zero balance account) structure but the sweep of cash balances will not be to an external (SEC registered) money market mutual fund but to an internal master account (Public Funds Money Market Savings Account). Funds are maintained in the bank at the bank's managed rate. In such a structure funds are swept to a money market account for which the bank has quoted 2.44%, substantially below alternative market rates closer to 5.00%. A money market account is restricted to six withdrawals a month but banks are given the opportunity to waive the six withdrawal limits because of changes to Regulation D. Although not stated Frost must be waiving that limitation for use as an internal sweep. A clarification on this withdrawal limitation for such an internal sweep would have to be obtained from the bank before use. Frost previously had an external sweep to a money market mutual fund but has discontinued its use and has not indicated when such a mechanism will again be available. It is clearly not offered under this proposal. In addition, Frost has proposed application of a *balance based fee* which will be a direct analysis fee to the City (\$0.125 per \$1,000 balance) with the direct cost averaging \$1,000 per month based on historical City balances. This fee would remain because funds are not being transferred out of the bank for investment purposes.

JPMorgan has proposed a ZBA/master account structure in which the funds swept from ZBA accounts to the Master would result in a daily investment to a JPMorgan Money Market registered money market fund (currently yielding 4.49%). With the sweep no compensating balance is required and payment for services would therefore be on a fee basis. JPMorgan also proposed an alternative account structure in addition to the sweep within a compensating balance structure not unlike Frost. This alternative structure is their *Hybrid* account in which a compensating balance target would be set to generate interest at an ECR rate paying for the cost of services. The bank ECR has been noted at 1.95% but the bank is offering a 3% rate. This is an initial managed rate, however and future indications on the rate are unclear. It is clear however that the ECR will always be below market rates. Above this compensating (target) balance funds not used for the compensating balance will be in an interest-bearing (1.94%) or money market (1.64%) account. JPMorgan has not indicated whether a six withdrawal limit is set on the money market accounts. JPMorgan is not proposing a balance based fee be applied regardless of which account structure is chosen eliminating a fee for funds remaining in the bank.

Even a cursory view of rates shows that the option of an external sweep to a registered money market mutual fund at JPMorgan proves to be the most effective manner for the City because of rates materially higher than those available at either bank. The optimal structure would be to structure the accounts as an automatic sweep to such a fund (which should move at approximately 0.25-0.50% below the available local government pools). Funds not needed for a compensating balance can be maintained in higher earning pools or other short investments until transferred to the bank for payables.

AUTOMATION AND INFORMATION SERVICES

Online demonstration links to each banks' online systems have been provided. All the banks, whether for the full banking services, lockbox use, or stand-alone custody information utilize a single web-based portal and provide for online and stored reports. Each bank has strong security functions and City controlled access for administration and access assignment purposes. The review shows that JPMorgan does have a more flexible and advanced treasury system available.

Although Frost has all the necessary standard banking functions in their online system Treasury Connect, JPMorgan has presented a number of advanced functions and options available to the City. The bank has global search capabilities across operating modules and has embedded transfer solutions directly to Excel for analysis and cash flow purposes. The system's transfer of information can populate Excel sheets and provide templates for further manipulation and analysis of data by the City. The home page at JPMorgan

is customizable by the individual user for easy of use and direct access to key data points. Customization is prevalent in the bank's online functions including interactive reporting, global search capabilities and customized cash flow trending templates. The bank has noted that it has worked with several ERP end-to-end integration and has proposed that their team work on a planned-test environment in anticipation of the City's possible ERP conversion.

US Bank has proposed use of their online web-based system: PIVOT. This single-portal dashboard allows online transaction ability for entry of trades as well as cash movement and balance information. Multiple inventory and transaction reports are found online and downloadable with a 16 month *cabinet* for past reports. Transactions and cash movements are reported daily. These reports can also be exported in PDF and CSV+ formats. The trade transactions are anticipated to be entered by the City's investment advisor minimizing entry work on the City.

COLLECTIONS AND DEPOSITS

US Bank would not be involved in any collection or depository functions.

The area of collections and deposit services varies considerably between Frost and JPMorgan. Both can provide location tracking on deposits which carries over to reporting. Both also have remote deposit capabilities and encourage its use for checks received outside a lockbox. Deposits for checks and cash not moving through remote deposit is also similar although JPMorgan more directly encourages vault over branch deposits.

The cost of deposits was requested for comparison through a sample deposit in the RFP. The deposit at a Frost branch would cost \$99.55 whereas at JPMorgan the same deposit would cost \$223.60. However, utilizing the JPMorgan vault the deposit would be a comparable cost at \$75.27. Use of the vault requires an armored car service so the JPMorgan option would naturally accrue armored car service costs. Although not quantified JPMorgan has indicated an available incentive for use of the vault for deposits.

The bigger differences in deposits between the banks lies in collections. To expedite collections and reduce float e-receivables is a technology broadly used to collect various types of receivable and consolidate them into an electronic file which is then transmitted to the City's systems. Frost offers an "all transaction report" of collections but not a comprehensive e-receivables platform. The bank has stated "some flexibility for custom programming" to accomplish complete reporting and noted that *integrated receivable* is a future planned service.

JPMorgan has proposed a plan to assist the City on a strategy to migrate receivables online merging remote and ACH and including lockbox and e-lockbox for a single file transmission to the City's A/R system. ACH lockbox would generate a single file to the City's A/R system including images.

An additional difference appears in the e-lockbox services. Frost has not fully outlined their e-lockbox service instead referencing the benefits of retail and wholesale lockbox whereas JPMorgan does clarify that the e-lockbox consolidates for a single next day credit with online review for transaction repair. E-lockbox transactions are consolidated to a single next day deposit.

In the area of remote deposit both banks are identical. The transactions are same-day ledger posted at both banks and reporting is essentially the same. However, Frost has offered one free remote scanner with the service. JPMorgan does not offer a scanner but suggests that the proposed incentive payment could cover the cost of a scanner.

DISBURSEMENTS

Both banks are similar in their disbursement functions. Both have integrated payables services although data is updated more frequently throughout the day at JPMorgan. Both importantly have virtual card capabilities. The virtual card option at JPMorgan has a rebate component. JPMorgan has also proposed a check print service if the City considered printing checks off-site by the bank.

The banks were asked to provide cashing of City checks at no cost to non-account holders. Frost has agreed but JPMorgan will request the City pay for off-us cashing charges (which should not be an issue since all checks would be on-us to the bank).

RECONCILIATION AND POSITIVE PAY

Positive pay and reconciliation services are similar at both banks. Although the City currently uses full reconciliation the City indicated in the RFP an intention to move from full to partial reconciliation under the contract. The only specific difference in these services lies with the pro-active notification of exceptions at JPMorgan which sends a daily email to alert the designated individuals to an exception rather than the need to check for exceptions online. Exception decisions are received somewhat later at JPMorgan (4:00pm versus 3:00pm). Both banks update teller stations throughout the day although more frequently at Frost (every 15 minutes versus one hour at JPMorgan).

On the partial reconciliation service the reports described by JPMorgan have expended information on stops, miscellaneous debits, and details.

US Bank completes a daily reconciliation on trades and prices securities monthly. Information is available through their Connect Direct online system.

TRANSFERS AND WIRES

Wire and transfer services are also quite similar at all three banks. All transfers and wires can be made online although transfers at US Bank must go through the Trade Service Team for confirmation. At US Bank non-repetitive wires also require a call-back verification.

Both Frost and US Bank require collected balances for wires, but JPMorgan has provision for a review by Funds Control to address unique situations regarding planned incoming credits. Future dating is longer at JPMorgan (365 days) but certainly sufficient with 14 days at Frost. US Bank does not provide for future dating. The only additional minor difference between the banks is the later cut-off time at JPMorgan (6PM) than Frost (4:45PM). US Bank is considerably shorter with 3pm outgoing and 11AM incoming which may affect trade transactions.

ACH

All US ACH transactions are controlled by NACHA so the services vary very little between banks. ACH would not be used at US Bank. The other two banks require strong two-person security authorization and both have online manual input capabilities. Both have blocks and filters capabilities and both report addenda. File reversals and deletions are handled by fax at Frost but online at JPMorgan

COLLATERAL

In accordance with City policy and law, all banks must collateralize public deposits with acceptable collateral which must equal 102% of the market value of deposits in the bank. The City requirements were stated in the RFP. The banks were asked whether they accepted all the collateral provisions as set by the City in the RFP.

Frost had no exceptions to the City conditions. JPMorgan has made one change to the monitoring condition by modifying the language regarding monitoring the value timing of the collateral. JPMorgan would like to change the maintenance language regarding the 102% margin from monitoring “at all times” to “daily” monitoring. This is a common and understandable change in that collateral margins can only be set after daily activity establishes the account balances at the end of the business day. Such balances are not available throughout the day i.e. *at all times*. (Collateral is actually always set and settled next business day in any case but the City is safely covered by the 102% margin.) The proposed change is acceptable and practical.

Frost will hold its collateral securities at Bank of New York Mellon which provides the City daily online access through its Nexen System. JPMorgan has chosen to hold its collateral securities at the Federal Reserve Bank.

There remains a question as to whether JPMorgan intends to use a letter of credit as collateral. In its response to the collateral questions in the RFP JPMorgan addresses pledged securities only. However, earlier in the proposal’s responses on account structure the bank indicated that an LOC would be used if their hybrid account structure was used. This situation should be discussed and clarified. The recommendation to use the external sweep option and not the *hybrid* structure would also eliminate the use of an LOC.

STORED VALUE CARDS

JPMorgan no longer provides and is not proposing the use of stored value cards. The bank is recommending Concourse as a digital payout option through the portal. The bank did however mention commercial purchasing cards in their discussion of disbursements.

Frost does have stored value cards available through the *Money Network Paycard* service. The bank indicated that 15 customers currently use the system but no reference given was a public entity. This is a web-based system funded through ACH which has been in use for 15 years through the bank. In the area of costs, the inactivity trigger – generating a \$5 charge – is quite short at 30 days which may cause difficulties if used for temporary workers payments.

STOP PAYS

Stop pays are handled online at both banks but the JPMorgan system checks 90 days history for the check and sends a confirmation if activated or if the check has already been cleared. The length of the stops varies considerably. Frost stops are established for six months and can be renewed online. At JPMorgan the initial stop is for one year and auto renews for six years providing additional protection.

STATEMENTS AND ACCOUNT ANALYSES

All three banks provide online statements with Frost and JPMorgan retaining the statements seven years. US Bank maintains their statements on a rolling 24 month basis. The report at US Bank is basically a custody report.

Frost can provide the statement on paper as well as online access and mails it by the fifth business day. Both banks provide the statement within 1-2 business days.

ALTERNATIVE SERVICES

The banks were given the opportunity to present any other services available that might serve the City’s needs. Frost did not provide for any alternative services. JPMorgan has listed several services including account validation services, virtual card use, check printing and smart safes. JPMorgan also noted the

availability of an app entitled Payments:Insight with payment news presented in podcast, email and video formats.

SAFEKEEPING/CUSTODY

The function and process for safekeeping/custody is basically the same at all three banks. All functions are online, but both Frost and JPMorgan are utilizing Bank of New York for the safekeeping services. Frost is involved in the transactions through their Capital Markets or Trust Custody divisions whereas JPMorgan has proposed establishing a direct relationship between the City and BNY without taking any role in the transactions. Frost would charge the service through the account analysis and JPMorgan can use the account analysis or a direct fee.

US Bank is providing a full custody service at a reduced cost through its relationship with Meeder Investment, the City's investment adviser. Meeder will provide all the transaction information directly to US Bank without the need for the City's participation. (This should be the case with BNY also but the proposals did not describe the actual transaction.) US Bank will provide full reporting online along with monthly reports. Disbursements back to the City differs slightly at US Bank in that the cut-off time is one hour before close of the money market fund deadline.

ELECTRONIC IMAGE LOCKBOX

The City established the RFP such that any bank could respond to lockbox processing as a stand-alone service. Both Frost and JPMorgan provided service information on their scannable image lockboxes. The systems function in a standard capture, image and clear process and both have Dallas metroplex lockboxes they are recommending for use. Both have implementation teams (although Frost is the incumbent and would not need this unless the City process has changed) providing design, implementation and training assistance.

Both banks can process retail and wholesale transactions and both process these in the same facility. JPMorgan does not differentiate between retail and wholesale whereas Frost, by way of its pricing structure, indicates that these two types of transactions and a *lockbox receivables* are handled somewhat differently for costs although the difference is not apparent in the descriptions given.

The key differences between the banks' service descriptions appear in reporting and collections timing. Frost indicates that the lockbox information reports can be in paper form and sent in the remit bag by 'various methods' which is assumed to be electronic transfer. JPMorgan is clearly an electronic transmission which allows for searches by invoice number, vendor and other fields. In addition, JPMorgan plans to work with the City to design report formats, activity reports, batch recaps and optional reports. Collections from the USPS are completed twice per day at Frost and four times per day at JPMorgan.

SERVICE COST PROPOSALS

Every effort was made to compare services costs for the banks using the submitted *Attachment A* and provided pro forma in order to assure that fees were compared on an apples-to-apples basis. There are differences in nomenclature and a basic difference in that JPMorgan relies most prevalently on individual per item charges Frost utilizes monthly maintenance for some services.

The analysis calculated costs of safekeeping/custody and lockbox services separately in order to divide these services between banks.

SAFKEEPING/CUSTODY COSTS

Safekeeping/custody fees will vary over time because of activity in the City’s portfolio and the resultant level of assets being held. Custody fees for assets held will be part of the pricing at all three banks although US Bank focuses only on asset size charging 75 basis points on assets held.

Frost and JPMorgan assign a fee for assets held at month end but also charge transaction costs. To create a true cost comparison the analysis used an average of \$100 million in assets as a basis. In addition, if the safekeeping/custody service is provided as a stand-alone service by one bank there would be ancillary services (account maintenance, wires, etc.) which have to be considered for a total cost analysis.

Looking at the fee schedules individually, US Bank charges strictly on assets held. Frost Bank charges a monthly account fee and then charges for individual transactions as securities are cleared as well as a fee for total assets PAR held at month-end. Individual clearing transactions also incur a fee. The fee would not be charged if the trade as a Frost on-us brokerage transactions, however, to assure DVP clearing this would never be the case.

JPMorgan does not charge an account maintenance fee for under five accounts, but the BNY through JPMorgan has a minimum fee of \$10,000 per year for the service (\$833 per month). The first \$100 million is charged 100 bps and there are additional clearing fees plus a wire fee for proceeds. The bank also has transaction clearing fees which it is assumed would be charged against the \$10,000 annual fee.

US Bank is offering an all inclusive fee of 75 bps based on assets.

As noted above, in estimating total costs for safekeeping/custody it is necessary to view the costs (a) as a stand-alone service (no other banking services being offered by the institution) or (b) as a service incorporated into an overall banking services contract. Safekeeping/custody services require clearing accounts and wires/ACH as well as online inquiry even if only the safekeeping services were to be utilized. Ancillary services considered include account maintenance and DR/CR posted, electronic depository and image fees, ACH and wire fees as well as online access fees.

Using our asset projected \$100 million for each of these situations, the estimated monthly costs would be:

	WITHIN BANKING CONTRACT	AS STAND-ALONE SERVICE
Frost Bank	\$ 670	\$ 784
JPMorgan	\$ 953	\$ 1,005
US Bank	n/a	\$ 625*

- The US Bank proposal assumes all service costs are incorporated into the basis point cost including bank processing costs.

The most cost-effective service is clearly from US Bank. This is in addition to US Bank receiving the highest service score for safekeeping/custody.

ELECTRONIC IMAGE LOCKBOX

There are considerable differences between the banks in the interpretation of lockbox definitions and volumes of each service and therefore the costs associated with the service. To determine a clear cost of the lockbox service each bank’s proposal was defined by their proposed costs and then a standardization of volumes against fees was made in order to assure a clear picture of this service.

Frost included four types of lockbox fees based on historical volumes which it is currently processing for the City. The four completely separate fee groupings are: lockbox fees, wholesale lockbox processing, retail lockbox, and lockbox receivables management services. (a) The “lockbox fees” focuses on retail image capture and maintenance. (b) The “wholesale lockbox” fees address the actual lockbox maintenance and image capture of wholesale items. (c) The “retail lockbox” fees include primarily monthly maintenance image captures and specific transaction types such as ‘un-processable items’ or ‘check only transactions.’ (d) The “lockbox receivables” section has only monthly maintenance charges for data downloads and data transmissions (both set as monthly fees).

Using the volumes of service categories from the Frost actual lockbox account analysis of October 2023, the historical volumes were multiplied by the fees provided by Frost on their Commercial Banking and Treasury Management Services sheet in the proposal. Using these volumes and the scheduled fees the cost of the monthly service at Frost for all four categories presented is \$1,960. As best as can be determined this includes all ancillary services if the service was to be provided as a stand-alone service as is currently the case. *[Every effort was made to eliminate duplicate volume counts which were duplicated in the four categories. The like categories are shown on the ‘Lockbox’ tab of the supporting spreadsheets].* If the lockbox service was provided as a stand-alone service the ancillary fees would be \$114 per month bringing the total to \$2,421 per month.

JPMorgan has provided a fees which incorporate both retail and wholesale and a pro forma with lockbox services categorized as such. Using the historical service volumes the monthly cost at JPMorgan would be \$1,313. These fees do not appear to contain any ancillary services if the service was provided outside an all-inclusive banking services contract. Ancillary services in this case is estimated at \$52 per month so if JPMorgan provided only the lockbox services the total cost would be \$1,365.

Between the two banks the service at JPMorgan would be slightly less expensive than that proposed by Frost on a combined basis with banking services or as a stand-alone function.

ALL INCLUSIVE BANKING SERVICES FEES

If the safekeeping/custody fees and the lockbox fees are accounted for separately, the standard banking services fees remain to be compared. That would involve the services listed in the table below.

This calculation is also dependent on a decision of the account structure to be used. Since the recommendation of the analysis would be to utilize a sweep to an external money market fund the JPMorgan costs shown include cash concentration fees and the ZBA/master account structure. The Frost fees include the internal sweep fees. First does include a line item “Investment Sweep” which is not calculated into the fees since there is no external sweep and because the bank has included ZBA accounting separately.

Frost does not provide an external sweep which is highly recommended because of the additional earnings to be garnered and the projection that these money market mutual fund rates will stay – even in a falling interest rate environment – above the banks’ managed rate. Frost does however list an undefined “Investment Sweep” fee of \$250 per month. This fee has not been included in the total costs assuming it is referring to a true external sweep. The Frost ZBA fees have been included in the calculation since under that structure the greatest earnings are available at Frost. (ZBA Accounting fee is \$35 per month so not a major factor in total cost.)

The costs below therefore are calculated using an external sweep at JPMorgan rather than the hybrid account structure also offered by the bank.

Looking at basic banking service fees without lockbox or safekeeping/custody at Frost and JPMorgan:

SERVICE	FROST	JPMORGAN
ACCOUNT SERVICES	1,539	467
LIQUIDITY SERVICES	<i>Sweep not available</i>	90
BANKING CENTER SERVICES	2	33
VAULT SERVICES	408	413
DEPOSITORY SERVICES	315	260
DISBURSEMENT SERVICES	441	509
RECONCILIATION SERVICES	510	254
WIRES AND TRANSFERS	186	70
ACH	2,404	753
AUTOMATED INFORMATION	390	297
FEES -EXCLDING S/K & LOCKBOX	6,342	2,885

A major contributor in this discrepancy of fees is that Frost is charging a balance-based fee which adds \$1,082 a month to total fees for the bank. Other major differences occur because of higher fees from Frost on high volume detail items.

e-LOCKBOX TRANSACTION RECEIVED	0.40	0.06
ACH ORIGATION	0.15	0.08
ACH BLOCK/FILTER PER MONTH	20.00	0.00
ACH SAME DAY CREDIT	5.00	0.75
ACH TRANS BLOCK AUTORIZED ID	1.00	0.50
INFO SYSTEM MO MAINTENACE	60.00	20.00
INFO SYSTEM ACCTS REPORTED	25.00	15.00
CASH CONCENTRATION SUB-ACCOUNTS	35.00	10.00
CONTROLLED DISB. ACCT MAINT/MO	120.00	75.00
FRB WIRE DEBIT	12.00	5.00

There are certain fees on volume items which are higher at JPMorgan but JPMorgan uses the detail actual count of activity and does not charge all the monthly maintenance fees from Frost.

ELECTRONIC DR/CR POSTED	0.20	0.50
BRANCH ORDER PROCESSED	0.00	2.50
CR DEPOSITED ON-US	0.00	0.12
CR DEPOSITED TRANSIT	0.15	0.24
IMAGE CAPTURE/ITEM	0.00	0.35
BRANCH CR POSTED	0.20	2.00
DEPOSIT RECON ITEMS	0.05	0.10

To summarize this rather complex amalgam of various fees with the differing service combinations the bank costs are listed below for a total picture.

Safekeeping/Custody Services – as a stand-alone service including ancillary services needed to provide the service as a separate entity.

Frost Bank	\$ 784
JPMorgan	\$ 1,005
US Bank	\$ 625

Safekeeping/Custody Services - if provided within the context of a complete banking services contract.

Frost Bank	\$ 670
JPMorgan	\$ 953
US Bank	not proposing

If a lockbox was presented as a stand-alone service including ancillary services needed to provide the service.

Frost Bank	\$ 1,960
JPMorgan	\$ 1,313

The fees and total cost for both banks for banking services - without lockbox services or safekeeping/custody then result in total costs of:

Frost Bank	\$ 6,196
JPMorgan	\$ 3,056

EARNING POTENTIAL ANALYSIS

In addition to direct costs associated with services used, consideration of potential earnings on balances in both banks must be considered as a true component of cost.

The banks were asked to supply the current rates and prior 12-month average of rates for comparison purposes. The 12-month averages are shown below for JPMorgan.

	Frost*	JPMorgan
ECR	1.00 %	1.95 %
Interest bearing account	0.08 %	1.94 %
Money market account	2.44 %**	1.64 %
Sweep to MMMF	n/a	4.49 %

**Frost chose not to provide the 12-month historical averages of their rates. These are the current rates provided by the bank. The money market rate a Frost is dependent on the balances in the accounts. The 3.35% is for the \$2.5-\$9.9 million range based on the City's historic balance. Below \$1million the rate drops to 2.44%.*

Based on these rates and the City's historical balance, maximum earnings at Frost would be from their proposed Money Market Saving Account (MMSA) at 2.44 % (but withdrawals are limited to 6 per month in this type account). The Frost structure requires a compensating balance, calculated to be \$6.8 million (at the 1% ECR). If, of the remaining balance (\$1.8 million), half were maintained in MMSA that would generate \$3,682/month and the remainder in an interest bearing would generate \$60 per month.

Frost cannot offer the sweep to eliminate bank balances so computation on a fee basis is not possible.

With JPMorgan rates higher than Frost and with the sweep option available the earnings can be calculated on a compensating balance and a fee basis. On a compensating balance basis with the higher ECR the estimated comp balance would be at \$1.022 million (using the incentive of an ECR of 3.00%) and using a sweep above the compensating balance the earnings in the sweep would be \$28,572/month. On a fee basis at JPMorgan the entire historical balance would earn at the sweep rate) 4.49%. Total earnings would then be \$32,388.

ANALYSIS SUMMARY AND RECOMMENDATION

The evaluation of these three proposals focused on the areas of service delivery required, fees and earnings. Safekeeping/custody and lockbox were analyzed separately for costs.

Overall excluding safekeeping/custody and lockbox services between Frost and JPMorgan the highest service score went to JPMorgan even though the bank chose not to propose and therefore was not scored for, stored value cards. Frost and JPMorgan tied for service points.

SERVICE	FROST	JPMORGAN
SAFEKEEPING	38	38
LOCKBOX	98	118
ALL OTHER BANKING SERVICES	632	717

The service score differentials were tied to enhanced flexibility in their technology and service choices with additional online options as well as developed e-receivables and e-payables alternatives. Frost did offer stored value cards and a focus on branch versus vault deposits. The lack of an external sweep option at Frost limits the choices to the City now and as rates change.

In the area of comparable fees, JPMorgan is offering a substantially lower cost of banking and eliminates the large balance-based fee which raises Frost's total monthly fees materially. After incorporating all incentives offered by both banks, an average monthly fee over a five-year period would be \$5,706 at Frost and \$2,556 at JPMorgan. Safekeeping fees are lower than JPMorgan but lockbox fees are lower at JPMorgan.

Finally, the earnings potential at JPMorgan is considerably higher in the ECR, interest bearing accounts, and sweep classes. These higher rates would return considerable additional earnings at JPMorgan.

Based on these three factors it is recommended that:

- The City award the banking services contract and the lockbox services to JPMorgan.
- The City award the safekeeping/custody service to US Bank.