Valley View Consulting, L.L.C.

July 27, 2015

Ms. Cheryl Delaney
Deputy Town Manager
Town of Addison
5300 Belt Line Road
Dallas, TX 75254

Dear Ms. Delaney:

Thank you for the opportunity to assist the Town of Addison (the "City") with this Primary Depository Bank Services Request for Applications (the "RFA") project.

The objective of this engagement was to select a primary depository bank following the expiration of the current contract which ends September 30, 2015, with no remaining options for extension.

Procedure

The project began with the establishment of a Calendar of Events to ensure that the required project steps were performed in a timely and sequential manner, by the October 1st deadline.

The process for selecting a primary depository bank is governed by the State of Texas Local Government Codes: Chapter 105 Depositories for Municipal Funds Act; Chapter 176 Conflict of Interest Act; Chapter 2256 Public Funds Investment Act; and Chapter 2257 Public Funds Collateral Act.

In addition to complying with these State statutory requirements, it was necessary to understand and comply with the City's financial and purchasing policies, and Investment Policy.

The RFA process was conducted as follows:

1. Analyzed bank service usage and balance records.
2. Established the minimum required banking services and potential additional services.
3. Developed a list of potential financial institutions within an approximate five mile radius of City Hall:
    a. Amegy Bank
    b. American Bank of Commerce
    c. Bank of America Merrill Lynch
    d. BB&T
    e. BBVA Compass Bank
    f. Capital One Bank
    g. Comerica Bank
    h. Community Trust Bank
    i. First Community Bank
    j. Frost Bank (incumbent)

   k. Grand Bank
   l. Green Bank
   m. Happy State Bank
   n. JPMorgan Chase Bank
   o. LegacyTexas Bank
   p. Liberty Capital Bank
   q. North Dallas Bank & Trust
   r. PlainsCapital Bank
   s. Regions Bank
   t. Southwest Bank
   u. Stockman Bank
   v. T Bank
   w. Texas Capital Bank
   x. Wells Fargo Bank
4. Contacted the identified financial institutions.
5. Drafted the RFA for review and approval.
6. Advertised as required.
7. Distributed the RFAs to the identified and receptive financial institutions.
8. Posted the RFA documents on BidSync.
9. No additional RFA requests were received as a result of the advertisement.
10. Held a non-mandatory pre-application conference that was attended by representatives of Capital One Bank, Grand Bank, LegacyTexas Bank, and Comerica Bank.
11. By the deadline, four applications were received:
    a. Capital One Bank
    b. Comerica Bank
    c. Frost Bank
    d. Grand Bank

This process provided a competitive environment with four banks submitting applications. The evaluation of the applications was based on, but not limited to, the following criteria, in no particular order of priority:

1. Ability to perform and provide the required and requested services,
2. References provided and quality of services,
3. Cost of services,
4. Transition cost, retention and transition offers and incentives,
5. Funds availability,
6. Interest paid on interest bearing accounts and deposits,
7. Earnings credit calculation on compensating balances,
8. Completeness of application and agreement to points in the RFA,
9. Physical location within an approximate five mile radius of City Hall,
10. Convenience of locations,
11. Previous service relationship with the City, and
12. Financial strength and stability of the institution.

Financial Strength and Service Capability

The analysis began with an overall review of each bank's general financial strength and ability to provide the bank services necessary to meet the City's current and potential future service needs. The responding banks exhibited acceptable financial strength and adequately passed the general bank service test.

The City is expecting a five year contractual relationship to result from this process (an initial two year term and three one-year extension options). Fixed pricing for the entire five year term is a key RFA requirement. Three banks agreed to this provision. Frost Bank requested mutual agreement to extend.

Fees

The fee schedules of the banks were analyzed based on the City's banking service needs and estimated activity levels. As a retention incentive, Frost Bank offered to waive fees for three months. As transition incentives, Comerica Bank offered $10,000 to offset expenses and Capital One Bank offered to waive fees for three months and provide 6 free check scanners. The value of any incentives (where material and quantifiable) is reflected in the following table:

Bank	Est. Monthly Fees	Est. Two Year Fees	Est. Five Year Fees
Capital One Bank	($2,858)	($60,009)	($162,880)
Comerica Bank	($4,270)	($86,857)	($246,204)
Frost Bank	($2,058)	($43,213)	($117,292)
Grand Bank	($1,883)	($45,201)	($113,003)

Earnings

The City recognized that in addition to bank service charges, the bank's desire to pay for bank balances augments a relationship. The City's recent monthly average bank balances approximate $3,500,000. Those balances fluctuate month-to-month and within individual months. Therefore, attractive bank-originated interest earning options are important.

There are two potential earnings sources: soft-dollar earnings credit and hard-dollar interest. Earnings credit generates "soft-dollar earnings" that can only be used to offset banking fees. Earnings credit amounts that exceed the applicable fees are not paid to the City as interest. "Hard-dollar" interest is the normal type of earnings that can be used to pay service charges or may be credited to the City's accounts. Earnings above the applicable service charges are kept by the City as earned interest income. Earnings credit, hard-dollar interest, or a combination of the two, can be used to offset any services charges.

In the analysis, each bank's potential earnings credit was compared to the hard-dollar interest. The better option was then optimized to offset the amount of banking fees. Where appropriate, once the City's optimized target compensating balance for each bank generated enough earnings credit to offset the fees, the excess balance, if any, was invested in that bank's most attractive hard-dollar interest earnings alternative.

The estimated two year fees after application of optimized earnings credit are as follows:

Bank	Est. Two Year Fees	Est. Two Year Earnings Credit	Est. Two Year Net Fees
Capital One Bank	($60,009)	$44,100	($15,909)
Comerica Bank	($86,857)	$78,750	($8,107)
Frost Bank	($43,213)	$17,010	($26,203)
Grand Bank	($45,201)	$15,750	($29,451)

For all the banks, the ECR rate was greater than the "hard dollar" interest rate and the $3,500,000 balance was most effectively utilized toward offsetting fees. There were no remaining balances available to earn "hard dollar" interest.

The City then estimated the internal cost of completing a transfer of banking services, including personnel time and other expenses. The $15,000 estimated cost was then applied to the three non-incumbent banks:

Bank	Est. Two Year Net Fees	Est. Two Year Earnings	Estimated Transition Cost	Est. Two Year Net Earnings/(Cost)
Capital One Bank	($15,909)	$0	($15,000)	($30,909)
Comerica Bank	($8,107)	$0	($15,000)	($23,107)
Frost Bank	($26,203)	$0	$0	($26,203)
Grand Bank	($29,451)	$0	($15,000)	($44,451)

Extrapolating for the full five year term generates the following table:

Bank	Est. Five Year Net Fees	Est. Five Year Earnings	Estimated Transition Cost	Est. Five Year Net Earnings/(Cost)
Capital One Bank	($52,630)	$0	($15,000)	($67,630)
Comerica Bank	($32,454)	$0	($15,000)	($47,454)
Frost Bank	($74,767)	$0	$0	($74,767)
Grand Bank	($73,628)	$0	($15,000)	($88,628)

Additional Considerations

Grand Bank's application raised concern that the capabilities and capacity of the bank could be insufficient to adequately meet the City's needs as a Primary Depository Bank.

Capital One Bank offered attractive incentives and other advantages and was invited for a presentation/demonstration on its on-line banking system which was deemed acceptable by staff.

The Comerica Bank application offered the lowest analyzed Net Cost, but raised concern and uncertainty with the provision that the bank could impose a collateral fee.

The incumbent bank depository, Frost Bank, has been a long-term business partner, providing consistent and efficient services, responsive to the needs of the City, and has a proven track record in delivering the banking services that the City requires.

Conclusion

The proposed fees, transition incentives, earnings credit, and interest income comparisons highlight the tight range of bank responses and confirm the competitive environment of the RFA process. If the only criteria for evaluation were projected financial value, a different conclusion might be proposed. As previously mentioned, the "Best Value" criteria incorporated many non-financial aspects to a successful primary depository bank relationship.

The City also faces many other extenuating factors that require consideration:

- The absence of a CFO to guide and manage the transition process, assign tasks, control set-up of service options, arrange for security features (including restriction of access and system administration functions), etc.;
- The currently unfilled Assistant Finance Director position further adds to the lack of personnel resources;
- The involvement of Finance Department staff to the committed implementation of the ERP system due by the same date as the bank contract (October 1st) will conflict with and limit their bank transition availability;
- The remaining Finance Department staff's Addison-specific job inexperience will likely accentuate the transition processes complexity; and
- The normal transition risk that the new bank systems and processes may not function as smoothly and as efficiently as planned.

Based on the City's evaluation criteria listed above, the detailed financial analysis attached, excellent service and support during the current contract, anticipated effort and estimated cost of transition, the unexpected vacancy in the extremely important CFO and AFD positions, and the listed transition considerations, we appreciate the staff's concerns and concur with staff's finding that the incumbent, Frost Bank, represents the "best value" to the City **at this time**. The contract term is two years, commencing October 1, 2015, with three additional one-year extension options.

Please contact Tom, Dick, or me to discuss any questions or additional information needs. Thank you for this opportunity to serve the City.

Sincerely,

William J Koch

William J Koch
Valley View Consulting, L.L.C.
972.682.6900 (direct)

Attachment