



June 14, 2019

Ms. Olivia Riley  
Chief Financial Officer  
Town of Addison  
5350 Belt Line Road  
Dallas, Texas 75254

Dear Ms. Riley:

We sincerely appreciated and welcomed the opportunity to assist the Town of Addison (the "Town") 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, 2019. This agreement, when approved, will commence on October 1, 2019 and terminate on September 30, 2021. Upon the option of the Town, the contract may be extended for three additional one-year periods under the same terms and conditions.

### **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.

The process for selecting a Primary Depository Bank is governed by the State of Texas Local Government Codes: Chapter 105 Municipal Depository 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 Town's financial and purchasing policies and Investment Policy.

The RFA project was conducted as follows:

1. Analyzed historical bank service usage and balance records.
2. Reviewed the minimum banking services and potential additional services.
3. Developed a list of eligible financial institutions within five miles of Town Hall:
  - a. Amegy Bank a division of ZB, N.A.
  - b. American Bank of Commerce
  - c. Bank 7
  - d. Bank of America, N.A.
  - e. Branch Banking and Trust Company
  - f. Capital One, N.A.

- g. Comerica Bank
  - h. Compass Bank
  - i. Frost Bank (incumbent)
  - j. Guaranty Bank & Trust, N.A.
  - k. Happy State Bank
  - l. JPMorgan Chase Bank, N.A.
  - m. LegacyTexas Bank
  - n. Liberty Capital Bank
  - o. North Dallas Bank & Trust Company
  - p. PlainsCapital Bank
  - q. Regions Bank
  - r. Stockmans Bank
  - s. T Bank
  - t. Veritex Community Bank
  - u. Wells Fargo Bank, N.A.
4. Contacted the financial institutions to confirm distribution information, describe the process, and identify the designated recipient.
  5. Drafted the RFA for Town review and approval.
  6. Posted the notice and advertised the RFA.
  7. Distributed RFAs to the identified and receptive financial institutions.
  8. Held a non-mandatory pre-application conference that was attended by representatives of:
    - a. Compass Bank
    - b. Dallas Capital Bank
    - c. Guaranty Bank & Trust, N.A.
    - d. Happy State Bank
    - e. PlainsCapital Bank
  9. By the closing deadline, applications were received from:
    - a. Compass Bank
    - b. Frost Bank
    - c. Guaranty Bank & Trust, N.A.
    - d. LegacyTexas Bank
    - e. PlainsCapital Bank
  10. No additional RFA responses were received as a result of the advertisement.

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 outlined in the RFA;
9. Physical location within specified boundaries;
10. Convenience of location(s);
11. Previous service relationship with the Town; and
12. Financial strength and stability of the institution.

### **Application Analysis**

The Application Analysis began with an overall review of each financial institution's general financial strength and ability to provide the services necessary to meet the Town's current and future service needs. Each of the qualified responding financial institutions exhibited acceptable financial strength and the ability to provide services the Town requested.

For added convenience, Compass Bank, Frost Bank and Guaranty Bank & Trust were willing to offer the Town safekeeping services for Town-owned securities. LegacyTexas Bank and PlainsCapital Bank offered this service using a third-party provider. This service can be contracted through a provider other than the primary depository, however there may be transactional costs avoided by having the same institution provide both services.

The analysis of proposed fees, earnings credit, and investment income potential is summarized below.

### **Net Income/(Cost)**

Each financial institution's fee schedule was analyzed based on the Town's banking service needs and estimated activity levels. Where quantifiable and appropriate, the estimated service fees were adjusted for any incentives (including waived fees and transition allowances).

Each of the financial institutions proposed monthly fee assessments for services utilized, an earnings credit rate or an interest bearing checking option to offset monthly fee charges, and investment income options for any excess balances available. Historical average annual deposit balances of \$5,600,000 have been maintained by the Town, therefore the analysis was completed assuming the same historic average balance.

The analysis below is for both the two (2) year initial contract term, and the full five (5) year term allowing for the three (3) possible one-year extensions at the option of the Town.

<b>Two-Year Term</b>	<b>Compass Bank</b>	<b>Frost Bank</b>	<b>Guaranty Bank</b>	<b>LegacyTexas</b>	<b>PlainsCapital</b>
Proposed Fees	(\$56,897)	(\$58,679)	(\$89,825)	(\$80,884)	(\$58,204)
Incentives offered	\$7,112	\$7,335	\$10,000	\$0	\$7,275
Earnings Credit and Hard Interest	\$168,001	\$211,545	\$179,887	\$224,280	\$152,401
Estimated Safekeeping Fees	(\$4,042)	(\$3,625)	(\$3,000)	(\$9,994)	(\$4,272)
Net Income / (Cost)	\$114,174	\$156,576	\$97,062	\$133,402	\$97,200

<b>Five-Year Term</b>	<b>Compass Bank</b>	<b>Frost Bank</b>	<b>Guaranty Bank</b>	<b>LegacyTexas</b>	<b>PlainsCapital</b>
Proposed Fees	(\$142,241)	(\$146,696)	(\$224,562)	(\$202,210)	(\$145,509)
Incentives offered	\$7,112	\$7,335	\$10,000	\$0	\$7,275
Earnings Credit and Hard Interest	\$420,000	\$528,862	\$449,717	\$560,700	\$381,000
Estimated Safekeeping Fees	(\$10,104)	(\$9,064)	(\$7,500)	(\$24,984)	(\$10,680)
Net Income / (Cost)	\$274,767	\$380,437	\$227,655	\$333,506	\$232,086

### **Recommendation**

Frost Bank has provided the Town with stable and reliable depository services during the current depository contract.

The Town will continue to benefit from the terms offered by Frost Bank, with the competitive pricing of monthly service terms, competitive earnings credit rate allowing for lower compensating balance requirements to offset fees, and the ability to continue placement of excess funds in higher earning investments.

LegacyTexas Bank offered a competitive interest income rate and service capabilities necessary to meet most of the Town's needs, however the overall higher pricing of monthly service terms and lower earnings credit rate made it difficult to merit the Town's consideration to change depositories.

Based on the analysis results, evaluation criteria and discussion with staff, it was determined that the terms offered by Frost Bank provide the “best value” to the Town. We concur with the staff recommendation that the Council award the Primary Depository Bank Services contract to Frost Bank and authorize the City Manager to execute the agreements necessary to implement the banking relationship.

Upon approval, the new contract will commence on Tuesday, October 1, 2019.

Please contact Bill Koch, Dick Long, Tom Ross, or me to discuss any questions or additional information needs.

Thank you for this opportunity to serve the Town of Addison once again.

Sincerely,



E. K. Hufstedler, III  
Valley View Consulting, L.L.C.

Attachment