



To the Mayor and Members of the City Council

September 14, 2021

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SUBJECT: BANKING SERVICES AGREEMENT RENEWAL

The purpose of this report is to inform the Mayor and City Council about proposed changes to the City's Bank Services Agreement with J.P. Morgan Chase Bank, N.A. ("Chase Bank").

The City entered into a contract effective October 1, 2018 for Banking Services with Chase Bank ([M&C P-12208](#)) after completing a competitive procurement process. The contract covers a five year period with an initial three year term ending September 30, 2021 and two-one year mutually agreed upon renewals. For the initial term, Chase Bank agreed to provide the City with an interest rate floor ("minimum rate") of fifty basis points (0.50%) on both the City's Earnings Credit Rate ("ECR") and the City's Money Market Demand Accounts ("MMDA").

Back in 2018 when the City entered into the contract for Banking Services, the Federal Funds Target Rate ("Fed Rate") range (the rate which commercial banks borrow and lend their excess reserves to each other overnight) was 2.00% to 2.25%. In March 2020, the Federal Reserve ("Fed") lowered the Fed Rate range to 0.00% to 0.25% in order to combat the negative economic impact of the COVID-19 virus. The Fed has signaled that it will maintain an accommodative monetary policy (i.e. keep rates at or near zero) until inflation remains consistently at or above 2.00%. Many economic experts believe the Fed will not raise the Fed Rate until 2023.

As a result of the current market conditions, Chase Bank has offered to renew the City's Banking Services Agreement with the following modifications:

- Lower the ECR minimum rate to 0.33% (from 0.50%)
- Lower the MMDA minimum rate to 0.10% (from 0.50%)
- Consider allowing deposits to be secured by pledged Federal Home Loan Bank Standby Letters of Credit (LOC).
 - An LOC is a fully allowable public funds deposit collateralization vehicle under state law.
- No transactional price increase

Staff estimates the minimum rate reduction on the MMDA accounts will result in a reduction in interest earnings of approximately \$1,500,000. The General Fund portion (about 50%) is allocated to the General Debt Service fund so the minimum interest rate reduction will not affect revenue in the General Fund operating budget. In addition, the reduction in the ECR minimum rate **may** result in the need to appropriate funds to cover a portion of banking service charges (approximately \$75,000) that previously would have been offset by the ECR.

Given the current stance of the Fed, the rates offered to other local governmental agencies, and current short-term money market rates, staff will move forward with the execution of a one year renewal with the fair and reasonable modifications noted above. This plan of action was reviewed with the City's Investment Committee on August 25, 2021.

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The City has enjoyed a long standing relationship with Chase Bank. Chase Bank continues to provide exceptional customer service and stability of critical banking services. Staff believes that initiating a competitive process in the current interest rate environment will not result in better terms than being offered under this renewal. Staff will monitor the market over the course of the next year and will continue ongoing efforts to minimize banking charges.

If you have any questions, please contact John Samford, City Treasurer, at 817-392-8500 or john.samford@fortworthtexas.gov.

David Cooke
City Manager