



Metro

**FINANCE AND BUDGET COMMITTEE
JULY 15, 2009**

SUBJECT: OPERATING FUND PORTFOLIO

ACTION: APPROVE CONTRACT FOR CUSTODY SERVICES

RECOMMENDATION

Authorize the Chief Executive Officer to award a five-year, firm-fixed unit rate contract, Contract No. PS52102337, to U.S. Bank Institutional Trust & Custody (U.S. Bank) for custody, compliance reporting and performance measurement services in an amount not to exceed \$1,423,750, inclusive of two one-year options, effective on or about October 1, 2009.

RATIONALE

The MTA's Investment Policy requires that securities purchased for the investment of surplus operating funds and collateral be maintained in the trust department or safekeeping department of an established bank. The Treasurer is also required to report compliance with the Investment Policy and provide the portfolio's performance returns in a quarterly report to the CEO and Board. To comply with the mandated policy, MTA requires custodial services, compliance reporting and performance measurement services.

The current contract was awarded through a competitive procurement in July 2004 to The Bank of New York. That five-year contract, inclusive of two one-year renewals, is due to expire on July 31, 2009. BNY Mellon (successor to the Bank of New York) was the highest rated proposer. However, after lengthy negotiations we were unable to reach agreement. Therefore, we moved to the next highest rated proposer, U. S. Bank and reached agreement. Since the new contract is being awarded to U.S. Bank, the current contract with BNY Mellon will be extended through September 2009 to allow for a smooth transition.

FINANCIAL IMPACT

The funding of \$257,300 for these services is included in cost center 5210's FY10 budget as follows: \$10,292 in project number 100002 Governmental and Oversight Activities, \$110,639 in project number 300076 Debt Service – Enterprise and \$136,369 in project number 610340 Investment and Debt Management.

Since this is a multi-year contract, the cost center manager and Executive Officer will be accountable for budgeting the future years' costs, including any options exercised.

In FY 2009, actual expenditures incurred for the 9 months ended March 31, 2009 totaled \$82,482. For FY2008, the last full year, actual expenditures were \$106,775. The recommended contract recognizes new Measure R monies beginning in FY10.

Impact to Bus and Rail Operating and Capital Budget

The funding for this service comes from a combination of General Fund - Prop A, C, TDA Admin (4%), Enterprise Fund, Bus and Rail Operations Fund (43%) and Prop C Discretionary Interest Fund (53%). The Enterprise Fund is eligible for bus and rail operating and capital expenditures. This activity will impact operating costs by \$110,000 based on the investments held in custody for the Enterprise Fund that are ultimately used to purchase buses and rail cars, cover bi-weekly payroll and other recurring expenses essential to the ongoing activity of the agency's bus and rail operations.

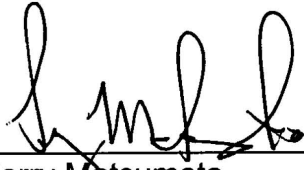
ALTERNATIVES CONSIDERED

MTA's Investment Policy mandates the use of an external trust department to safekeep operating fund securities or cash.

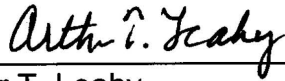
ATTACHMENTS

- A. Procurement Summary
- A-1. Procurement History
- A-2. List of Subcontractors

Prepared by: Donna Mills, Assistant Treasurer
Marshall Liu, Project Manager
Robert Vasquez, Senior Contract Administrator



Terry Matsumoto
Chief Financial Services Officer and Treasurer



Arthur T. Leahy
Chief Executive Officer

**BOARD REPORT ATTACHMENT A
PROCUREMENT SUMMARY**

OPERATING FUND PORTFOLIO

1.	Contract Number: PS52102337		
2.	Recommended Vendor: U.S. Bank		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$1,575,000	Recommended Price: \$1,423,750	
	B. Details of Significant Variances are in Attachment A-1.D		
4.	Contract Type: Firm Fixed Unit Rate		
5.	Procurement Dates:		
	A. Issued: 03/04/09		
	B. Advertised: 03/06/09		
	C. Pre-proposal Conference: 03/17/09		
	D. Proposals Due: 03/31/09		
	E. Pre-Qualification Completed: 06/25/09		
	F. Conflict of Interest Form Submitted to Ethics: 06/25/09		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: None	Date Small Business Evaluation Completed: Not Applicable	
	B. Small Business Commitment: 0% (Details are in Attachment A-2)		
7.	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: 4	Bids/Proposals Picked up: 14	Bids/Proposals Received: 4
8.	Evaluation Information:		
	A. Bidders/Proposers Names:	<u>Bid/Proposal Amount:</u>	<u>Best and Final Offer Amount:</u>
	BNY Mellon	\$1,276,700	\$ No BAFO Submittal
	JP Morgan	\$1,833,225	\$ N/A
	State Street	\$ 584,450	\$ N/A
	U.S. Bank	\$1,575,000	\$1,423,750
	B. Evaluation Methodology: Details are in Attachment A-1.C		
9.	Protest Information:		
	A. Protest Period End Date: T.B.D.		
	B. Protest Receipt Date: T.B.D.		
	C. Disposition of Protest Date: T.B.D.		
10.	Contract Administrator: Robert Vasquez	Telephone Number: 213-922-1044	
11.	Project Manager: Marshall Liu	Telephone Number: 213-922-4285	

BOARD REPORT ATTACHMENT A-1 PROCUREMENT HISTORY

OPERATING FUND PORTFOLIO

A. Background on Contractor

U.S. Bank Institutional Trust & Custody (U.S. Bank) is a business unit of U.S. Bancorp, a diversified NYSE-listed, Fortune 500 financial services company headquartered in Minneapolis, MN, which was founded in 1863. U.S. Bank has a local office in Los Angeles, CA to better serve the MTA. At the time of proposal submittal, U.S. Bank was the 6th largest bank in the United States, with \$266 billion in assets and 2,791 banking offices in 24 states. U.S. Bank has provided trust services since the early 1900s and lists the following institutions among its current clients: CSU - Long Beach, Alaska Airlines, SVB Asset Management, Commonwealth of Kentucky and Municipal Electric Authority of Georgia. U.S. Bank currently serves as custodian for the MTA's Retiree Healthcare and Welfare Benefits Trust and as trustee for several outstanding MTA bonds.

B. Procurement Background

This negotiated procurement was handled using a competitive Request for Proposals (RFP). The contract shall be awarded on a Firm Fixed Unit Price basis for a three-year basis plus two one-year options, for a total potential of five years. Four proposals were received by the due date and all four met the RFP's Minimum Qualifications which were established on a pass or fail basis. The contract Scope of Work consists of three primary service requirements: custodial, compliance reporting and performance measurement.

C. Evaluation of Proposals

After a review of the Minimum Qualifications, the MTA's source selection committee used the explicit factors/weighted criteria method of evaluating the proposals in accordance with established Procurement Policies and Procedures. Price was weighted at 30% and technical factors were weighted at 70% of the total possible score. The committee consisted of a non-voting chairperson from the Procurement Department and three voting members with knowledge and experience related to custodial banking services. The two Metro voting members are from the Treasury Department and the outside voting member is a financial advisory consultant.

The committee initially selected BNY Mellon (BNYM) as the highest rated proposer. However, BNYM took numerous exceptions to the MTA's form of contract and standard terms and conditions. BNYM and the MTA were not able to arrive at a mutually agreeable set of contract terms and conditions after lengthy negotiations. The MTA's negotiating committee consisted of the Contract Administrator, the Project Manager, the Assistant Treasurer, County Counsel, with some participation from Risk Management relating to Indemnification and Liability. The most significant issues related to conflicts

between the MTA's contractual language and BNYM's standard "custody agreement." The MTA then began negotiating with the next highest rated proposer, U.S. Bank, and was able to reach contractual agreement with U.S. Bank in a relatively short period of time.

State Street Bank's proposed price was far lower than any of the other proposers; however, it was rated the lowest of the four proposers in the technical and project management areas because of its limited experience specific to operating fund portfolio services. It provided no reference information or past performance details for public agencies that are subject to California government code.

D. Cost/Price Analysis Explanation of Variances

The recommended price has been determined to be fair and reasonable based upon adequate competition and current contract unit rates on comparable services.

**BOARD REPORT ATTACHMENT A-2
LIST OF SUBCONTRACTORS**

OPERATING FUND PORTFOLIO

PRIME CONTRACTOR – U.S. Bank Institutional Trust & Custody

Small Business Commitment

Other Subcontractors

Not Applicable

Not Applicable

Total Commitment

Not Applicable

