



DATA SHEET
Agenda No. 26.

Meeting Date: April 6, 2017

Agenda Item:

Authorize Staff, in coordination with the Finance and Investment Committee, to issue Requests for Proposals (RFPs) for Banking and Depository Services.

Placement: <input type="checkbox"/> Consent <input checked="" type="checkbox"/> Individual Consideration <input type="checkbox"/> Executive Session
Vote: <input checked="" type="checkbox"/> Non-Weighted <input type="checkbox"/> Regular Weighted Capital <input type="checkbox"/> Special Weighted Capital
Recommending Department: Business Department/Executive Director

Background:

For over 20 years, Wells-Fargo (formerly First State Bank of Texas) has been the District's depository bank and has performed a variety of banking services for us. The services have been above average in quality and timeliness. However, in recent months the bank's corporate culture has become a matter of concern, as evidenced by extensive national news coverage. The bank's questionable corporate culture and aggressive sales practices have now directly impacted the District, in connection with an investment product they advertised as "TexPool Plus".

The product was supposed to be simple: to provide the District with the same rate of interest as TexPool, plus 3 basis points (.03%). As to safety of the investment, this product was actually safer than TexPool because the bank is required to provide collateral (investments) in the District's name as added depository insurance. However, the problem is not "safety" it is "trust". Wells-Fargo was calculating the interest in such a way that the District was actually earning ***less*** interest in these accounts than if the money had been deposited in TexPool. Moreover, Wells-Fargo did not disclose the alternative way they were calculating interest—purporting to pay TexPool Plus; but, in actuality paying ***less*** than TexPool.

Manually, District Staff determined that Wells-Fargo was using an undisclosed methodology for calculating interest. After we made demands, the bank (quite reluctantly) agreed to retroactive payment to the District (but not for other customers) for lost earnings from June 2016 to date (December 2016). However, in a recent routine check, we learned that Wells-Fargo has reverted to using the inappropriate methodology for interest earnings in January 2017 and February 2017. The Executive Director has been actively involved; as a precaution. Early on, Mr. Taylor directed that the Business Department make an orderly transfer of funds (approximately \$40 million) to TexPool, keeping minimum balances for checking accounts.

Mr. Taylor kept the Officers and the Board informed. The issue (especially lack of trust) was brought before the Finance and Investment Committee (FIC) on March 23, 2017. The FIC recommended that although the District's deposits are protected by collateral in accordance with the Public Funds Investment Act, there are serious questions about Wells-Fargo and the matter of trust. Therefore, the FIC accepted Staff's recommendation to issue an RFP for depository services. An up to date RFP is necessary to see if Wells-Fargo is still the District's best option as its depository.

Financial:

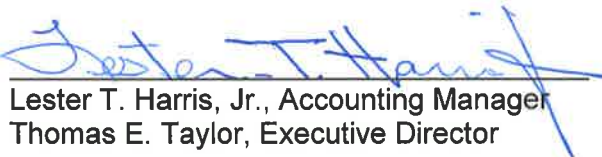
In this instance, an alert Staff avoided loss of funds. While the potential loss of interest earnings is relatively small, the brazen tactics of the bank raise a more serious matter – a lack of trust.

Recommendation:

Authorize Staff to issue Requests for Proposals (RFPs) for Banking and Depository Services.

For more information, please contact Lester Harris at (972) 219-1228.

Submitted By:


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Thomas E. Taylor, Executive Director

Date: March 31, 2017