



Report to: General Committee

Date: March 23, 2015

SUBJECT: Banking and Merchant Services Contract Extension
PREPARED BY: Shane Manson - Senior Manager, Revenue & Property Tax

RECOMMENDATION:

- 1) **THAT** the report “Banking and Merchant Services Contract Extension” be received;
- 2) **AND THAT** Staff be authorized to extend contract 006-R-02 with TD Commercial Banking (TD Bank) for five years, ending on April 30th, 2020;
- 3) **AND THAT** Staff be authorized to enter into a Merchant Services Agreement with TD Merchant Services for five years May 1st, 2015 – April 30th, 2020;
- 4) **AND THAT** the Treasurer be authorized to extend the contract for Banking and Merchant Services for an additional five year period, May 1st, 2020 – April 30th, 2025, subject to the approval of the annual operating budget, performance and mutually agreed upon by both parties;
- 5) **AND THAT** the Request for Proposal (RFP) process be waived in accordance with Purchasing By-Law 2004-341, Part II, Section 7, 1(c), Non-Competitive Procurement, when the extension of an existing contract would prove more cost-effective or beneficial;
- 6) **AND THAT** Staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

This report seeks the approval to extend the two agreements with TD Bank, which include the following;

- 1) Banking services; and
- 2) Merchant services (Debit and Credit Card Processing).

BACKGROUND:

TD Bank has been the City’s financial institution since 1994. Over the years, TD Bank has provided excellent service and demonstrated a thorough understanding of the City’s needs and processes. TD Bank service standards have been consistently rated as superior and timely by Staff.

The 2014 annual cost for banking services was approximately \$62,400, which included the following key services:

- **Retail Lockbox Service:** This service is for the collection of property tax cheque payments from the designated lockbox and transportation to a processing site, where the cheques are processed and deposited directly into the City’s General

Bank Account. Payment data is then transmitted to the City electronically. The 2014 annual fee for this service was approximately \$22,100, or 35% of the total contract cost.

- Pre-Authorized Tax Payment Plan: Collection of property taxes by way of direct deposit of money by the payer directly into the City's General Bank Account. The 2014 annual fee for this service was approximately \$18,700, or 30% of the total contract cost.
- Standard Banking Activity: This service includes processing deposits, transfers of funds between bank accounts, certified cheques, incoming wire payments, cheque fraud protection service and statement preparation. The 2014 annual fee for these services was approximately \$16,100, or 25% of the total contract cost).
- On-line Banking: This service allows for payment of property taxes on line through financial institutions. The property tax payments are consolidated in files and then transmitted to the City electronically. The 2014 annual fee for this service was approximately \$5,500, or 9% of the total contract cost.

OPTIONS/ DISCUSSION:

1) BANKING SERVICES

City staff met with TD Bank representatives and negotiated a proposed agreement which provides for decreases in the annual banking fees based on anticipated transaction volumes. The existing monthly service fees are approximately \$5,200 or \$62,400 per annum. The proposed monthly service fees for the new term would be \$5,100, for a total cost \$61,200 per annum, a reduction of \$1,200 annually, or 2%.

Additional benefits for the City of Markham were also negotiated as part of the proposed new banking arrangement with TD Bank:

- Interest earned on credit balances for Canadian Accounts is TD Prime less 1.70%, updated from TD Prime less 1.75%, which is estimated to generate an additional \$20,000 per annum or \$100,000 over the five year term of the contract;
- Remote Deposit Capture Service will be provided to the City at no charge which is a cost avoidance of \$12,400. This product will enable the City to scan cheques directly and immediately to TD daily vs. utilizing courier services for transmission to TD; and
- Electronic Funds Transfer Service pricing will be discounted; with the per file charge reduced from \$10 to \$5 and the monthly maintenance fee of \$25 waived completely, resulting in savings of \$1,200 over the five year term of the contract; and
- Retail Lockbox Service pricing will be discounted; with a per transaction fee charge change from \$0.33 to \$0.26, resulting in savings of approximately \$1,900 over the five year term of the contract; and

- The in-branch Wire Payment processing fee of \$14.50 per view, introduced in 2013, will be waived, resulting in savings of \$2,900 over the five year term of the contract.

The following table 1 provides a cost comparison between TD's published fees, the City of Markham's existing fees and the proposed negotiated fees.

As illustrated, the City is saving \$107,969 annually compared to the TD Published Fees, and \$1,200 annually compared to the City's existing fees. Over the five year term of the contract, the City will save approximately \$6,000 compared to the City's existing fees.

Table 1: Comparison TD Monthly Fees (Based on Published, Existing and Negotiated Fees)

Banking Service Charges	Published Fees	Existing Fees	Negotiated Fees	Published Fees vs. Negotiated Fees Increase /(Decrease)	Existing Fees vs. Negotiated Fees Increase /(Decrease)
	A	B	C	A - C	B - C
Average Yearly Charges	\$168,794	\$62,026	\$60,826	(\$107,969)	(\$1,200)
Estimated Savings Based on 5 Year Term				(\$539,845)	(\$6,000)

2) MERCHANT SERVICES

The City of Markham accepts customer credit and debit card payments in a variety of ways; from standard point of sale, Interactive Voice Response (IVR) automated phone payments, and via the City's Portal. These methods of payment are easy and convenient for many of our customers, both on a one-time and on a recurring basis.

In order to accept credit and debit card payments, the credit card organizations require organizations to enter into service agreements with merchant service providers (typically banking institutions) to process these payments and transfer the funds into merchant's bank accounts. The City of Markham currently has a contract with TD Merchant Services, entered in April 2013 and expiring in April 2015. City Staff met with representatives of TD Merchant Services and were presented with a proposal for a five year extension of the City's current TD Merchant Services Contract. This five (5) year term agreement would be effective from May 1st, 2015 and expire on April 30th, 2020.

Although merchant services and banking services are not required to be with the same bank, there are benefits for the City to bundle banking and merchant services with TD Bank. The bundling of services avoids monthly fees to transfer funds to another financial institution and circumvents the typical one-day delay in receipt of deposits.

The 2014 annual cost for merchant services was approximately \$219,100. Staff negotiated a proposed contract which reduces the current merchant service fees annually by \$5,455 (or 2.50%) to \$213,645. The cost savings reflect reduced rates for Visa, MasterCard and Interac (debit) transactions.

FINANCIAL CONSIDERATIONS:

TD Bank has been the City's financial institution since 1994 has provided excellent service and demonstrated a thorough understanding of the City's requirements. The issuance of an RFP for Banking Services, and a potential change in banks would have a significant impact on City operations, which affects all departments. The bank plays a critical role related to City financial operations, in the context of cash handling, deposits, investments and disbursements. If there were to be a transition to another banking institution, the City would incur extra costs relating to the following:

- Printing new cheques and deposit forms;
- Notifying customers of new banking arrangements;
- Training staff on new banking systems;
- Co-ordinating the City's and bank's IT systems;

By extending its service contract with the TD Bank, the City would avoid incurring both the direct and indirect costs relating to the above. As such, the stable and uninterrupted provision of banking services is an important requirement for the ongoing fiscal operations for the City of Markham.

The extension of the banking services agreement with TD Commercial Banking would reduce costs related to bank service fees by \$1,200 per annum or \$6,000 over the five year term of the contract. In addition, the agreement would result in increases to interest revenues derived from bank deposits by over \$20,000 per annum or \$100,000 over the term of the contract. The extension with TD Merchant Services for debit and credit card transactions would result in a reduction of \$5,455 per annum or \$27,275 in costs over the five year term of the contract.

Staff believe the extension of the contract will provide solid value to the City of Markham through competitive rates, improved pricing, enhanced investment income and continuation of excellent service demonstrated to date.

HUMAN RESOURCES CONSIDERATIONS

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:

Legal Services

RECOMMENDED BY:

16/03/2015

16/03/2015

X 

Joel Lustig
Treasurer

X 

Trinela Cane
Commissioner, Corporate Services