Deferred Compensation Plan
BOARD REPORT 17-28

Date: August 22, 2017

To: Board of Deferred Compensation Administration

From: Staff

Subject: FDIC-Insured Savings Account Procurement

Recommendation:
That the Board of Deferred Compensation Administration (a) approve terminating the contract negotiation process with Union Bank to be a third provider for the Plan's FDIC-Insured Savings Account; and (b) authorize staff to draft for its review and approval a Request for Proposal (RFP) for FDIC-Insured Savings Account investment service providers.

Discussion:

A. Background

The Deferred Compensation Plan's Federal Deposit Insurance Corporation (FDIC) Insured Savings Account ("the FDIC Fund") is an investment option designed to preserve principal while producing interest earnings derived from investments in bank depository savings accounts. The current underlying providers of the FDIC Fund are Bank of the West and East West Bank, each providing up to $250,000 of FDIC insurance to individual participants. Assets are divided evenly between the two providers. As of August 11, 2017, assets in the FDIC Fund totaled $329,129,930, or $164,564,965 million on deposit with each bank as of that date. However, consistent with the construction of this investment option as outlined in the Plan's Investment Policy Statement (IPS), the FDIC Fund is ideally intended to operate with three underlying providers, providing the following benefits to its investors:

- Increased FDIC insurance coverage levels from a maximum of $500,000 per individual to $750,000
- Added flexibility for the Plan in the event shifting assets between providers is advantageous for participants as a result of either significant crediting rate differentials or concerns about a provider's institutional reliability

On April 8, 2014, the Board issued a Request for Proposal (RFP) for provider services for this option. Only two responses were received, from East West Bank and Bank of the West. At its July 2014 meeting, the Board approved the selection of these two providers. As there were no other respondents to the RFP, the Plan was not able to select a third provider.

As communicated to the Board in 2014, the lack of interest from the provider community in competing for this contract was likely related, as it was in 2009 with a similar procurement, to the unusual set of credit, monetary policy, and interest rate conditions following the recession. Savings deposits of this nature were viewed by some institutions as representing liabilities or not in alignment with the institution's strategic interests. Additionally, subsequent to 2008, financial regulations became more stringent for banking institutions, which likely increased the administrative complexity (and reluctance) of providing such services.

Subsequently, the Board approved conducting an independent search for a third provider. It had used a similar approach in 2009 when the response to the RFP had also been lacking. The Plan's investment consultant, Mercer Investment Consulting ("Mercer"), was tasked with conducting a provider review and outreach process to gauge interest and viability. Union Bank expressed interest but also indicated certain questions related to the City's general contracting requirements and securing its internal administrative authority to move forward.

Following initial negotiations, at its March 8, 2016 meeting, the Board approved staff's recommendation to select Union Bank as the third provider for the Plan's FDIC Insured Savings Account and instructed staff to negotiate a draft contract. Negotiations have proceeded slowly, specifically with regards to the City's general contracting requirements. Due to the length of negotiating time that has elapsed and a lack of sufficient organizational responsiveness to make meaningful progress, staff believes it is no longer in the Plan's interests to continue negotiations with Union Bank based on the prior Board action. Staff therefore recommends that the Board approve terminating the contract negotiation process with Union Bank.

Further, since the date of the prior Board action, the interest rate environment has evolved considerably. The Federal Reserve has increased rates on several occasions and there are indications that banks may have greater willingness to take on new deposits of this nature. In consultation with Mercer, staff believes possibilities exist for greater interest from the provider community. In addition, issuing a new procurement would assist the City in negotiating a contract by securing bidder acceptance of the City's general contracting requirements as a condition of submitting a proposal.

Given the status of Union Bank negotiations and change in interest rate environment, staff recommends that the Board authorize staff to draft for its review a new Request for Proposal (RFP) for FDIC-Insured investment service providers. Contracts with the incumbent providers East West Bank and Bank of the West expire in September 2019. Given the proximity of the timing of the likely conclusion of the contract execution process related to a new procurement, staff's intent would be to provide options for the Board to execute contracts for all three providers pursuant to this procurement. The details of these options will be addressed in drafting of the RFP and in consultation with Board counsel.

Submitted by: ______________________________

Daniel Powell

Approved by: ______________________________

Steven Montagna