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BANKING SERVICES AGREEMENT

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, December 12, 2006, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The Region's banking services contract with the Toronto Dominion ("TD") Bank be extended for up to six (6) months, from April 3 to October 3, 2007, with the existing terms and conditions;

2. The Commissioner of Finance be authorized to negotiate a sole source contract with the TD Bank for banking services for a term of five (5) years with an option to extend the contract for an additional two (2) years; and

3. The negotiated contract be approved by Council prior to its execution, subject to Legal review.

2. PURPOSE

This report outlines the Region's banking services requirements and recommends a six (6) month extension to the existing contract with the TD Bank. In addition, it recommends that Council authorize the Commissioner of Finance to negotiate a sole source contract with the TD Bank for the provision of these services for a new term of five (5) years with an option to extend, at the Region's discretion, for an additional two (2) years.

3. BACKGROUND

The Region's current banking services contract with the TD Bank will expire on April 3, 2007. The Region has used the TD Bank for these services since its inception in 1971. Banking services have been competitively tendered from time to time with the TD Bank consistently emerging as the successful proponent. The last contract with the TD Bank was extended by Council in February, 2005 for a period of two years because the Region's accounting system was undergoing a significant upgrade and any change in banking services could have led to service bottlenecks, delays and/or possible system failures which could have had a serious impact on the Region's financial operations. During this extension the TD Bank agreed to keep its fees at existing levels.

The services covered by the agreement with the Toronto Dominion Bank include:

- Maintenance of various bank accounts;
- Electronic cheque reconciliation services;
- Direct deposit payroll;
- Pre-authorized payment collection for Housing York Inc. and long-term care facilities;
- Wire and electronic funds transfer capability;
- VISA/debit card facilities for the Provincial Offences Office and other areas;
- Services to satellite offices;
- Stop payments and night deposit facilities; and
- Implementation of E-commerce initiatives.

The rates charged for banking services referenced above by the TD Bank have been the same since April 2000. However the total cost varies based on service requirements and transaction volumes. Table 1 summarizes total annual fees and service volumes (accounts payable disbursements plus deposit transactions).

Table 1
Summary Annual Fees and Service Volumes for 2002-2006

Year	Fees	Volumes
2002	$32,147	97,052
2003	$43,825	102,797
2004	$45,450	103,503
2005	$53,860*	115,100
2006	$44,393 (forecast)	121,885

* higher than trend due to one-time in-year servicing requirements

As identified above, the bank service charges have averaged approximately $44,000 annually over the past five years.

It should be noted that the services covered by the agreement with the TD Bank do not include the safekeeping of investments which is currently provided by the Royal Bank of Canada.

4. ANALYSIS AND OPTIONS

4.1 Sole Source Purchase/Negotiation

As the term of the bank services contract with the TD Bank will expire on April 3, 2007, Finance staff have reviewed the possible approaches for acquiring these services for the next contract period. The approaches considered included both a competitive Request for

Proposal ("RFP") process as well as a direct negotiation/sole source with the incumbent service provider.
The annual fee for banking services provided is expected to be approximately $50,000 which would not normally require the use of an RFP for vendor selection. However over the five year life of the next contract the fees (based on current volumes) are estimated to total approximately $250,000, or if extended for two more years, $350,000, for which a RFP is normally carried our. Notwithstanding, for the considerations discussed in this report, staff feel that a change in service provider should only be considered if and when there would be a material advantage to the Region.

Typically for a contract this size, a Request for Proposal is issued. However, Section 10.1 of the Purchasing By-law provides that:

"A sole service purchase may be made for the procurement of goods, services or construction without issuing a call for bidder where the compatibility of a purchase with existing equipment, facilities or service is the paramount consideration."

Awarding of a contract on this basis, if over $100,000, is further subject to Council's approval.

The constant and uninterrupted provision of banking services is an important requirement for the ongoing financial operation of York Region. The TD Bank has provided consistently superior levels of customer service to the Region since it was incorporated in 1971 and prior to that to the County of York, since 1958.

In discussion with other municipalities, Finance staff have determined that there are only a few service providers capable or willing to service municipal banking needs. Indeed, at the time of the last Request for Proposals issued by York Region in 2000, only two respondents submitted proposals; the TD Bank and the Royal Bank of Canada. The staff also discovered that the difference in service rates between respondents to municipal RFP's, were relatively insignificant and any savings by switching to an alternate service provider, were minimal and may not offset the potential costs of switching.

Additionally, service continuity could be jeopardized due to the following:

- Lack of familiarity with systems and processes as part of either Region or bank staff;
- IT systems incompatibility; and
- Time frame required to become familiar with key contacts.

The TD Bank has had considerable experience servicing the Region's needs and fully understands its people and processes. Furthermore, servicing levels have been consistent and deemed excellent from staff's perspective.

4.2 Other Servicing and Cost Considerations

In addition to exposing the Region to potentially critical service interruptions due to the factors cited above, the Region would incur significant extra costs relating to the following:

- Printing new cheques and deposit forms;
- Notifying customers of new banking arrangements (this could affect personnel in virtually all departments);
- Training Regional staff on new banking systems;
- Co-ordinating the Region's and bank's IT systems;
- Errors and miscommunications; and
- Duplication of work effort until such time as existing accounts can be fully closed.

By maintaining its service contract with the TD Bank, the Region could avoid incurring both the direct and indirect costs relating to the above.

Finally, the TD Bank, unlike some other banks who have responded to the Region's RFP's in the past, does not require compensatory balances (minimum non-interest earning balances) to be maintained in its bank accounts to cover or subsidize the cost of service needs. This avoids opportunity costs and provides greater flexibility.

4.3 Term of Contract

Previous banking contracts have been for a five year term. Therefore it is recommended that any new negotiated contract also be for a five (5) year term which would provide continuity of service and protection from escalating costs. Furthermore, a two year option to extend at the Region's discretion would provide flexibility to consider alternatives.

5. FINANCIAL IMPLICATIONS

There are no additional costs as a result of the recommendation contained in this report. Bank service fees will be determined after negotiation of rates and be reported back to Council for their approval.

6. LOCAL MUNICIPAL IMPACT

There is no impact to local municipalities as a result of the recommendations contained in this report.

7. CONCLUSION

This report recommends that the agreement for banking services with the TD Bank be extended for an additional six (6) months to October 3, 2007. It also recommends that Council authorize the Commissioner of Finance to negotiate a sole source contract with the TD Bank for their services for a further five (5) year period subject to Council ratification..

The Senior Management Group has reviewed this report.