



STAFF REPORT

DATE: April 18, 2017
TO: Ronald L. Olson, City Manager
FROM: Jonathan Locke, Executive Director of Finance
SUBJECT: Spend Net Payables Commercial Card Program Line of Credit

BACKGROUND AND FINDINGS:

The City's depository bank, BBVA Compass, provides a Spend Net Payables commercial card program which is a state-of-the-art tool that uses virtual cards to deliver payments to City vendors without the need for them to log into a website. Spend Net Payables works with the City's accounts payable system to send payments to vendors electronically with a virtual account number.

Spend Net Payables will assist the City in four areas:

1. Working capital management - Method of payment can be a crucial part of price negotiations with suppliers. Spend Net Payables will assist with optimizing cash flow, reducing transaction costs, and improving resource allocation.
2. New revenue streams - BBVA works with the City to enroll suppliers into the program to maximize rebate and savings potential.
3. Improved processes - BBVA allows the City to access meaningful information quickly while providing the flexibility and control needed to manage the payment program effectively.
4. Risk management - BBVA provides tools that offer tighter controls and increased transparency which will help the City improve compliance, streamline audits, and reduce fraud/misuse.

BBVA Compass and staff identified over \$5 million in annual payments to vendors that accept commercial card payments. This amount represents only payments to vendors that exceed \$5,000 per year. If these payments were made through the Spend Net Payables program, the City would have received an estimated rebate of \$75,000. To get started, the City needs to establish a line of credit. BBVA Compass has agreed to put in place a \$1 million line of credit to facilitate the program.

THE ALTERNATIVES CONSIDERED:

1. Leverage technology and utilize the BBVA Compass Spend Net Payables commercial card program.
2. Utilize the CitiBank commercial card program. CitiBank indicated that they do not have a program suitable for the city's purposes.
3. Continue to process, print, and mail checks manually.

Which alternative is recommended? Why?

Alternative 1 is recommended. This program will provide rebates to the City, improve reporting, enhance controls over cash, and reduce check processing costs.

CONFORMITY TO CITY POLICY:

Debt Management Policy Section VI(A). Where their use is judged to be prudent and advantageous to the City, the City has the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines or letters of credit that shall provide the City with access to credit under terms and conditions as specified in such agreements. Before entering into any such agreements, takeout financing for such lines or letters of credit must be planned for and determined to be feasible by the Director of Finance. Any agreements with financial institutions for the acquisition of lines or letters of credit shall be approved by the City Council.

FINANCIAL IMPACT:

What is the amount of the expenditure in the current fiscal year? For future years?

The Spend Net Payables commercial card program will not result in an outflow of cash. All entities that accept credit cards pay merchant fees to their credit card processor. BBVA Compass will rebate a portion of the merchant fees collected to the City.

Is this a one-time or recurring expenditure?

NA

Is this expenditure budgeted?

NA

If not, where will the money come from?

NA

Is there a sufficient amount in the budgeted line-item for this expenditure?

NA

RECOMMENDATION:

Staff recommends that the City Council approve this resolution authorizing a line of credit with BBVA Compass for the Spend Net Payables commercial card program.

DEPARTMENTAL CLEARANCES:

Finance

Legal

ATTACHED SUPPORTING DOCUMENTS:

Debt Management Policy