



DATE: June 17, 2025

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT Adopt a Resolution Authorizing the City Manager to Execute a Professional Services Agreement Amendment for Investment Portfolio Management Services with PFM Asset Management LLC for a Period of One Year and Rescind Resolution No. 20-162

RECOMMENDATION

That Council adopts the attached resolution (Attachment II) authorizing the City Manager to execute a contract amendment with PFM Asset Management LLC (PFM) for investment portfolio management services for a period of up to one year and rescind Resolution No. 20-162 to align with current costs of investment advisory services.

SUMMARY

This amendment will bring the term of services under the current agreement with PFM Asset Management LLC to six years. In April 2025, Finance conducted a Request for Proposal (RFP) for investment portfolio management services with a start date of July 1, 2025. Due to recent department transition, awarding a new portfolio investment firm by July 1, 2025, will require months of preparation that the City needs additional time to potentially arrange for. This limited contract extension will allow staff the appropriate time to thoroughly review the submitted proposals from the April 2025 RFP in making a judicious decision on the award of contract.

BACKGROUND

The Government Finance Officers Association (GFOA) recognizes that many local governments use the services of investment management firms, and the GFOA offers best practice guidelines in the selection and utilization of such firms. The City's external auditor, Maze & Associates, opined as part of their FY 2011 year-end audit of the City's financial statements, that the City at that time did not have a balanced investment portfolio, and recommended that the City consider hiring a third-party investment manager to better manage and diversify the City's portfolio.

Adoption of the FY 2012 Statement of Investment Policy allowed the Director of Finance upon City Manager direction and authorization by the City Council to engage with an external investment management firm to assist with the City's portfolio investments following recommendations from the City's Investment Advisory Committee (IAC) and Council Budget & Finance Committee.

In April 2025, the City conducted a competitive RFP for investment portfolio management services due to the expiration of current PFM agreement and to adhere to the City's Purchasing policy. The City received eight responses by the May 2, 2025, deadline. These responses have shown to be extensive and will require additional time for a thorough and judicious review by the evaluating committee. Interviews with the selected proposers are scheduled for July 2025, with a tentative start date of services for January 2026.

DISCUSSION

PFM has been actively managing a portion of the City's investment portfolio since July 1, 2012. While the initial amount managed by PFM was \$40 million, they are now authorized to manage approximately \$ 285 million of the City's pooled cash and pooled California Asset Management Program (CAMP) assets. PFM has shown to maintain the City's assets even during times of economic instability.

While the Director of Finance continues to be the officer responsible of the City regarding the City's portfolio, PFM assists in the investment management and diversification of the City's portfolio, bringing in the professional expertise needed to balance the City's investment portfolio within Council investment policies and to maximize performance while maintaining safety and liquidity.

Staff is recommending that the City continue its engagement with PFM and authorize a contract amendment for up to one year. The amended contract will provide continued service to assist with the City's active portfolio management through the completion of the RFP process. The evaluating committee will have sufficient time to thoroughly complete the RFP process and have ample time for staff to arrange for the possibility of switching to a new portfolio management provider. A new contract for advisory investment services will be presented to the City Council for consideration upon completion of the RFP process with an anticipated service start date of January 1, 2026.

FISCAL IMPACT

The cost of services is based on the amount of funds being actively managed. PFM charges 7 basis points (.07%) per year on the first \$100 million of assets under management, 6 basis points (0.06%) per year on the next \$100 million of assets, and 4 basis points (0.04%) per year on assets over \$200 million.

Based on this cost structure, the annual cost will be approximately \$225,000 under the current assets invested. Assets are dependent on market volatility and annual cost is subject to adjust in relation to this. An allocation is included in the Finance Department General Fund budget each fiscal year to cover the annual cost for investment portfolio services– offset by a like amount of assumed interest revenue growth.

STRATEGIC INITIATIVES

This is a routine operational item and does not relate to strategic initiatives.

PUBLIC CONTACT

An addendum was published to RFP 25-043, Municipal Investment Advisory and Portfolio Management Services, to OpenGov on May 15, 2025, alerting all proposers of the tentative adjusted timeline.

NEXT STEP

Upon approval by City Council, the City Manager will proceed with executing an amended agreement with PFM Management Asset LLC for up to one year while staff complete the RFP process.

Prepared by: Crissy Mello, Administrative Secretary

Recommended by: Sharif Etman, Interim Director of Finance

Approved by:

A handwritten signature in blue ink, appearing to read 'M. Lawson', is positioned above a horizontal line.

Michael Lawson, J.D., Acting City Manager