



**DATE:** June 26, 2018

**TO:** Mayor and City Council

**FROM:** Director of Finance

**SUBJECT** Authorization to Execute a Professional Services Agreement for Investment Portfolio Management Services with PFM Asset Management LLC

### **RECOMMENDATION**

That Council adopts the attached resolution (Attachment II) authorizing the City Manager to execute a one-year contract with PFM Asset Management LLC for investment portfolio management services in an annual amount not to exceed \$95,000 per year, for a period of one-year to April 30, 2019.

### **SUMMARY**

This will bring the total term of services from PFM Asset Management LLC to seven years and will allow appropriate time for staff to issue a request for proposals (RFP) for investment advisory services during FY 2019.

### **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. Following recommendations from the City's Investment Advisory Committee (IAC) and Council Budget & Finance Committee, the City Council adopted an update to the City's FY 2012 Statement of Investment Policy for FY 2012 to allow the Director of Finance, upon direction of the City Manager and authorization by the City Council, to engage an external investment management firm to assist with the City's portfolio investments.

In December 2011, the City conducted a competitive Request for Proposals (RFP) process for investment portfolio management services. In April 2012, following a thorough review and interview process of the eight responsive proposers with the City's Investment Advisory Committee, the City awarded a contract for investment portfolio management services to PFM Asset Management LLC.

## **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 \$120 million of the City's pooled cash assets.

While the Director of Finance continues to be the responsible officer of the City regarding the City's portfolio, PFM Asset Management LLC 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 an additional one-year contract. During this time, the City will conduct a competitive RFP process. The new contract will provide continued service to assist with the City's active portfolio management.

## **FISCAL IMPACT**

The cost of services is based on the amount of funds being actively managed. PFM charges ten basis points (.10%) per year on the first \$25 million of assets under management, and eight basis points (.08%) per year on assets between \$25 million and \$50 million (with further cost phasing down to six basis points per year for assets over \$100 million).

Based on this cost structure, the annual cost will be approximately \$95,000. An allocation is included in the Finance Department General Fund budget for FY 2019 to cover this annual cost – 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.

*Prepared and Recommended by:*      Dustin Clausen, Director of Finance

Approved by:



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Kelly McAdoo, City Manager