



CITY OF POMONA COUNCIL REPORT

September 10, 2018

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

Submitted By: Onyx Jones, Finance Director/City Treasurer

Subject: **Award of Contract with Chandler Asset Management to Provide Investment Services for the City of Pomona**

OVERVIEW

Recommendation –The City Council award a contract to Chandler Asset Management (“CAM”) for a three-year (3) period with the option to renew for two (2) additional years, in one (1) year increments, not to exceed five (5) years, to perform investment advisory services and authorize the City Manager, or her designee to execute the contract on behalf of the City after review by City Attorney.

Fiscal Impact – For Fiscal Year ended June 30, 2018 the City earned approximately \$1.3 Million of interest revenue with a weighted average yield of 1.83% from investing activities. With the award of a Professional Investment Advisory Services contract, staff believes the same June 2018 cash balances could have yielded another 1%-2%, which could equate to an additional \$1M - \$2M in investment income. Please see below for Chandler’s Fee Schedule and page 2 for an illustration of potential fees and investment earnings.

Chandler Fee Schedule				
	First \$25M	Next \$25M	Next \$50M	Over \$100M
Year 1	0.08%	0.08%	0.07%	0.06%
Year 2	0.09%	0.08%	0.07%	0.06%
Year 3	0.10%	0.08%	0.07%	0.06%
Option years	0.10%	0.08%	0.07%	0.06%

Assets under Management: \$25,000,000			
	Estimated Interest Revenue	Estimated Management Fees	Estimated Net Investment Revenue
Year 1	\$ 707,500	\$ 20,000	\$ 687,500
Year 2	\$ 707,500	\$ 22,500	\$ 685,000
Year 3	\$ 707,500	\$ 25,000	\$ 682,500
Option Years	\$ 707,500	\$ 25,000	\$ 682,500

Assets under Management: \$50,000,000			
	Estimated Interest Revenue	Estimated Management Fees	Estimated Net Investment Revenue
Year 1	\$ 1,415,000	\$ 40,000	\$ 1,375,000
Year 2	\$ 1,415,000	\$ 42,500	\$ 1,372,500
Year 3	\$ 1,415,000	\$ 37,500	\$ 1,377,500
Option Years	\$ 1,415,000	\$ 37,500	\$ 1,377,500

Assets under Management: \$110,000,000			
	Estimated Interest Revenue	Estimated Management Fees	Estimated Net Investment Revenue
Year 1	\$ 3,113,000	\$ 81,000	\$ 3,032,000
Year 2	\$ 3,113,000	\$ 83,500	\$ 3,029,500
Year 3	\$ 3,113,000	\$ 86,000	\$ 3,027,000
Option Years	\$ 3,113,000	\$ 86,000	\$ 3,027,000

**Tables are for illustrative purposes only. Tables assume a 2.83% yield. Actual results may vary.*

Public Noticing Requirements – Requirements set forth in Section 2-970 of the City’s Purchasing Ordinance requires that a notice requesting proposals be published at least 10 days before the date of the opening have been met. The RFP (request for proposals) was published July 13, 2017 with a bid due date of August 10, 2017. (See Attachment 1)

Previous Council Action – None

Previous Related Action – None

EXECUTIVE SUMMARY

Professional investment management of public funds is a “best practice” that provides substantial benefits to the City. These benefits include day-to-day monitoring of investment yields available in the market; re-balancing of the portfolio's duration (average maturity) to take advantage of interest rate trends; credit monitoring and analysis; investment selection; and competitive shopping of investments to obtain the best rates. A formal RFP process was conducted and Finance Staff recommends that City Council award a contract to Chandler Asset Management for professional investment advisory services (See Attachment 1).

DISCUSSION

Historically, the City has invested a majority of its funds in the Local Agency Investment Fund (“LAIF”). LAIF offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff at no additional cost to the taxpayer

During difficult financial times, it is important that the City optimize the investment returns while still making certain that safety and liquidity are maintained. As of June 30, 2018 the City had approximately \$110 Million of unrestricted cash invested in three different investment platforms:

1. CitizensTrust (~\$20 Million invested in various short term and long term investments)
2. Investment Broker (~\$18 Million invested in bonds)
3. Local Agency Investment Fund “LAIF” (~\$71 Million)

These investments generated a weighted average yield of 1.830% and approximately \$1.34 million interest revenue for FY 2017-18. While those returns were significant, staff believes with the proper guidance of a professional investment advisor those same June 2018 cash balances could have yielded another 1%-2%, which could equate an additional \$1M - \$2M in investment income.

Many public agencies rely on investment managers to advise and/or invest funds on behalf of the public agency. The advantages of choosing such an option include:

1. A large resource of licensed, knowledgeable and experienced investment managers, which is unlikely to exist with Cities that have limited resources.
2. A disciplined investment process allowing the interpretation of macro-economic data to incorporate into model portfolios on a timely basis.
3. A systematic process to achieve consistent results in all market environments.

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4. A process that allows an agency to maximize yield, while reducing risk and maintaining adequate liquidity.
5. The cost for the investment advisory services is low compared to the estimated return on investment. Cost usually runs between .06% to .10% of total managed investment. Assuming 2.83% yield on investments, the net yield will be between 2.77% and 2.73% for all investments managed. (*Actual results may vary*)
6. Availability of additional services, such as cash flow analysis, preparation of investment reports and Investment Policy review, without additional cost.
7. Public agencies benefit from the economies of scale when securities and other investments are purchased in bulk.

The Finance Department solicited RFP's for investment advisory services on Planet Bids to various certified investment advisory firms with expertise in investing within California Municipal Code. Five firms responded with proposals offering the requested services. All proposals were reviewed by a team of three City staff. The proposals were evaluated in the areas of responsiveness to the RFP, firm qualifications, size and structure of firm, personnel qualifications and investment methodology. After the proposals were scored (See Attachment 2), the top three firms were interviewed by City staff and Chandler Asset Management was the top scoring firm.

With the award of the contract, the Finance department and Chandler will work on developing every aspect of an investment program, including analysis of risk and return, investment policy development and review, and cash flow analysis and forecasting. Chandler will implement investment strategies that meet the City's risk and return requirements, provide comprehensive investment reporting to save staff time, and conduct education and training for staff enrichment.

All Investments must be in compliance with the City's Investment Policy (See Attachment 3) and California Government Code.

Based on staff's evaluation of the proposals, interviews and the reference checks, it is staff's recommendation that Chandler Asset Management be awarded a three-year (3) contract with the option to renew for two (2) additional years, in one (1) year increments, not to exceed five (5) years to assist the City in creating a comprehensive investment program.

Attachments:

- 1) Investment Advisory Services RFP
- 2) Evaluation Results
- 3) City of Pomona Investment Policy