

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: DEBORAH LAUCHNER, CHIEF FINANCIAL OFFICER,
FINANCE DEPARTMENT
SUBJECT: CONTRACT EXTENSION – FIFTH AMENDMENT TO
PROFESSIONAL SERVICES AGREEMENT 008687 WITH PFM
ASSET MANAGEMENT, LLC FOR INVESTMENT ADVISORY
SERVICES

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Chief Financial Officer that the Council, by resolution, authorize a waiver of competitive process and approve a fifth amendment to Contract Number 008687 - Investment Advisory Services, with PFM Asset Management LLC, San Francisco, California, extending the term of the contract for one additional year from October 9, 2017 to October 8, 2018, with fees, based on assets managed, not to exceed \$215,000 for the one-year extension.

EXECUTIVE SUMMARY

This item recommends authorization to waive competitive bidding and approval to extend the current contract with PFM Asset Management, LLC (PFM) for investment advisory services for one year in order for there to be sufficient time to go through the request for proposal process. The contract pricing terms for the one year extension remain unchanged.

BACKGROUND

The City has a contract with PFM to manage a portion of the City's investment portfolio. The City entered into this agreement to utilize PFM's expertise and resources in order to ensure the preservation of capital and to maximize investment returns. In addition to managing the City's investment portfolio, PFM produces the City's monthly Investment Reports, provides analysis, and helps answer investment-related questions from the Council and the public.

ANALYSIS

The annual fee paid to PFM under this contract is based on the value of assets in the City's investment portfolio managed by PFM. The current fees are based as follows: 0.075% on the first \$100 million; 0.06% on assets managed between \$100 million and \$300 million; and 0.04% on assets managed in excess of \$300 million.

The proposed new fee structure will result in an overall reduction in costs due to the size of our portfolio. PFM currently manages approximately \$351 million of the City's \$380 million portfolio. Under the current structure, the fees based on \$350 million assets managed would be approximately \$215,000.

Since PFM became the City's investment advisor, the portfolio has outperformed its benchmark by 0.39%, producing an average annual return of 1.37% and generating over \$26 million in earnings for the City.

The existing contract was originally approved in 2007, with a term of five years with five one-year optional extensions. The final approved optional extension expires on October 8, 2017. This fifth amendment adds an additional one-year extension to allow enough time to solicit proposals and bring a new contract back to the City Council for adoption. It should be noted that PFM has provided excellent service both in terms of their interactions with staff, producing the monthly Investment Report, and producing strong investment returns.

PRIOR CITY COUNCIL REVIEW

The City Council awarded the original contract, as a result of a competitive bidding process, on September 11, 2007. The contract has been amended by the City Council on three subsequent occasions: on September 13, 2011 to add funds; on October 2, 2012 to extend the contract for one year and adjust fees; on October 8, 2013 to extend the contract for two years and adjust fees; and on October 6, 2015 to extend the contract for two years and adjust fees.

FISCAL IMPACT

The cost associated with this contract does not impact the General Fund. The fees for investment services are paid for out of the Pooled Investment Fund, and there is sufficient appropriations in the Fiscal Year 2017-18 to pay for this extension.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not Applicable

NOTIFICATION

Not Applicable

ATTACHMENTS

- Resolution/Exhibit A - Fifth Amendment to Contract Number 8687

CONTACT

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