



**TO:** Board of Contracts and Awards  
**FROM:** Teresa Sedmak, City Treasurer, Finance  
Andy Cherullo, Finance Director  
**COPY:** City Council, City Manager, City Clerk, SBE Coordinator, LEAP Coordinator, and Alex Clark, Finance/Purchasing.  
**SUBJECT:** Increase Contract for Investment Advisory Services – Contract #4600011095, Request for Proposals FI15-0289F - City Council, September 18, 2018.  
**DATE:** September 4, 2018

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**RECOMMENDATION SUMMARY:**

The Finance Department/Treasury Division requests to increase the contract with Chandler Asset Management Inc., San Diego, CA, (Chandler) by \$470,000. The increase will bring the contract to a cumulative contract total of \$1,170,000.00, sales tax not applicable, for investment advisory services related to approximately \$480 million in assets in the Core Tier of the City’s investment portfolio. Costs for these services will be allocated to funds based on their invested balances.

**STRATEGIC POLICY PRIORITY:**

- Encourage and promote an efficient and effective government which is fiscally sustainable and guided by engaged residents.

This service supports the City's strategic policy priority for fiscal sustainability by partnering with a firm that will assist in achieving market investment returns while maintaining safety of principal and providing sufficient liquidity to meet all reasonably anticipated cash flow needs of the City.

**BACKGROUND:**

The City’s investment policy (The Policy) has three primary objectives which in order are: Safety, Liquidity, and Yield. In order to meet those objectives, The Policy defines eligible investments and limits the concentration of investments in terms of issuers, investment sectors, maturity and credit quality, and more.

The Policy divides the portfolio into two component segments, as follows:

- Liquidity Tier: Investments structured to meet expected liabilities that may occur over the immediate 12-month period.
- Core Tier: Investments of a longer maturity horizon (maximum maturity of five years), designed to capture the higher returns generally associated with longer-term investments.

The Liquidity Tier and the Core Tier have different performance benchmarks, based upon their credit parameters and portfolio duration, against which investment returns are measured.

The City relies upon the advice of Chandler on the investments comprising the Core Tier of the portfolio.

In addition to quality advice and enhanced investment returns, Chandler provides the City with:

- Active Management Advantages: Professional advisors like Chandler may deliver stronger performance through the active trading of securities. Typically, the City employs a “buy and



- hold” or more passive, investment approach. Active managers may capture additional value as markets move relative to each other, providing relative value benefits of one security versus another, allowing them to provide optimal transaction selections.
- Sophisticated Investment Analysis and Reporting: Investment reporting software is expensive to purchase and maintain and, especially in times of fiscal challenges, often not prioritized in the budgeting process.
  - Credit Analysis on Corporate and Municipal (non-U.S. Treasury or Agency) Securities: Corporate securities were recently added to the list of eligible public funds investments under the Revised Codes of Washington. Chandler provides credit analysis in order to select corporate securities which offer the potential to increase yield, while limiting exposure to market risk.
  - Third-Party Evaluation of Compliance with the Investment Policy.
  - Market Value Reporting: Chandler provides market valuations on securities contained within the City’s Liquidity Tier and Core Tier investments, information which is required for the City to remain compliant with GASB accounting guidance.

Between the times the City initiated the contract with Chandler and June 30, 2018, the firm has returned an annualized total of 65 basis points (0.65%) versus its benchmark return of 52 basis points (0.52%), an out-performance of 13 basis points (0.13%).

ISSUE: Finance Department/Treasury Division needs to increase the contract with Chandler by \$470,000 to fund services through September 30, 2020. With asset management and active investment strategies services from Chandler, the City will gain quality advisory services, third-party compliance and policy review, and detailed credit analysis which is required in evaluating the market risk of securities which add value to the City’s investment portfolio.

ALTERNATIVES: The City could issue a new request for proposal (RFP), but for continuity of operations it's more practical to exercise the allowed renewal options. As outlined earlier in this memorandum, Chandler has provided value to the City, as evidenced by its outperformance of returns as measured against its benchmark index, resulting in increased investment income to the organization.

**COMPETITIVE SOLICITATION:**

This contract was originally awarded to Chandler as a result of RFP FI15-0289F. Three companies were invited to bid in addition to the normal advertising of the project. Five proposals were received. The selection advisory committee, made up of four city staff members, evaluated the proposals and deemed Chandler to be the most capable and qualified to provide the advisory services to the City.

CONTRACT HISTORY: City Council adopted Resolution No. 39257 in August 2015 authorizing the award of a contract for investment advisory services to Chandler for a three year contract term, with the option to renew the contract for two additional one-year terms for a contract total of \$700,000.

SUSTAINABILITY: Not applicable for this increase.

SBE/LEAP COMPLIANCE: Not applicable for this increase.



**FISCAL IMPACT:**

Costs of these services will be allocated to funds based on their invested balances.

**EXPENDITURES:**

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
5800 – Internal Services Fund	598506 - Treasury	5310100	\$470,000.00
<b>TOTAL</b>			<b>\$470,000.00</b>

\* General Fund: Include Department

**REVENUES:**

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
5800 – Internal Services Fund	598506 - Treasury	5950075- 5950078	\$470,000.00
<b>TOTAL</b>			<b>\$470,000.00</b>

**FISCAL IMPACT TO CURRENT BIENNIAL BUDGET:** Expectation that investment income will continue to outperform benchmark index, providing value above and beyond cost of services.

**ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED?** Yes.

**IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.**