City of Culver City, California
Agenda Item Report

Meeting Date: 01/24/2011	Item Number: J-1
JOINT CITY COUNCIL/REDEVELOPMENT AGENCY BOARD AGENDA ITEM: Approval of a Three Party Professional Services Agreement with Cutwater Asset Management to Provide Investment Advisory and Portfolio Management Services	
Contact Person/Dept.: Jeff Muir/Finance Department	Phone Number: (310) 253- 5865
Fiscal Impact: Yes [x] No []	General Fund: Yes [x] No []
Public Hearing: [] Action Item: [x] Attachments: []	
Commission Action Required: Yes [] No [X] Date: ________________	
Public Notification: (E-Mail) Meetings and Agendas – City Council (01/19/11); (E-Mail) Meetings and Agendas – Redevelopment Agency (01/19/11); (E-Mail) Cutwater Asset Management (01/19/11)	
Department Approval: Jeff Muir (01/13/11)	City Attorney Approval: Carol Schwab (by H. Baker) (01/19/11)
Chief Financial Officer Approval: Jeff Muir (01/13/11)	City Manager Approval: John M. Nachbar (01/19/11)

RECOMMENDATION:

Staff recommends the City Council and Agency Board approve a three party professional services agreement with Cutwater Asset Management to provide investment advisory and portfolio management services.

BACKGROUND:

Pursuant to the authority granted the City Manager by the City Charter, the City Manager has appointed the Chief Financial Officer as City Treasurer. Therefore, the Chief Financial Officer is responsible for the management of the cash and investment portfolio for the City and Redevelopment Agency. The combined investment portfolios for the City and Agency at the end of Fiscal Year 2009/2010 were approximately $100 million. While the City and Agency have a significant amount of cash and investments at any one time, the majority of this is reserved for particular purposes or projects. Cash to cover short-term operations is kept highly liquid, while the remainder can be invested with a longer-term approach.

Prior to the approval of the current City Charter by the voters in 2006, there was an elected City Treasurer until April 8, 2008 responsible for the investment portfolio. During this time there was also a Deputy City Treasurer that assisted with both the day-to-day management of the City Treasurer's Office as well as cash and investment management. With the elimination of the elected City Treasurer and creation of the Chief Financial Officer position, there continued to be a position dedicated to the day-to-day management of the investment portfolio and certain other cash related functions.

With the collapse of the economy and the subsequent budgetary issues for Culver City, departments were asked to consider ways to reduce costs. One of the concepts for the Finance Department was the elimination of the staff position dedicated to the management of the investment portfolio and outsourcing this function. It was anticipated that at least 50% savings could be achieved by outsourcing this function versus the dedicated positions. There are numerous cities, counties and other public agencies that outsource this function to a firm that employs investment professionals that are 100% dedicated to portfolio management. This was proposed and ultimately approved by the City Council in the Fiscal Year 2010/2011 Budget.

The Finance Department released a Request for Proposals in September 2010 with responses due on September 30, 2010. Seventeen firms submitted bids. The firms that responded, in alphabetical order, were:

1. American Beacon Advisors
2. BlackRock
3. BLX Group LLC
4. Chandler Asset Management
5. Cutwater Asset Management
6. Davidson Fixed Income Management
7. Federated Investors, Inc.
8. First Western Capital Management
9. HighMark Capital Management
10. LoganCircle Partners
11. Main Street Capital Advisors
12. Pacific Investment Management Company LLC
13. Payden & Rygel
14. Ramirez Asset Management
15. StoneRidge Investment Partners
16. The PFM Group
17. Wells Capital Management

The scope of services anticipated in the RFP included:

1. Managing the City and Agency portfolios with discretionary authority.
2. Assisting the City/Agency with cash flow/maturity analysis.
3. Providing credit analysis of investment instruments in portfolio.
4. Providing monthly/quarterly/annual reporting City/Agency funds managed.
5. Attending quarterly meetings (in person or via teleconference) with City staff and Investment Committee.

6. Evaluating market risk and developing strategies that minimize the impact on the portfolio.
7. Providing assurance of portfolio compliance with applicable policies and laws.
8. Establishing an appropriate performance benchmark.
9. Ensuring that the portfolio structure matches the City/Agency objectives.
10. Reviewing the City's Investment Policy and making recommendations for change as appropriate.
11. Assisting the City in establishing an authorized broker/dealer list pursuant to the Investment Policy.

Pursuant to Culver City Municipal Code Section 3.07.085, the City may award contracts in any amount for professional services without complying with formal bid requirements provided the contract is based upon competitive quotations, whenever feasible. A professional service is a service for which the City is contracting for the skill, integrity, judgment, and/or special technical ability of the professional. Investment advisory and portfolio management services are considered a professional service.

<u>DISCUSSION:</u>

Because of the large number of proposals, an initial ranking was completed based on price. Based on this ranking, staff completed an in-depth review of the top five proposals that included:

1. American Beacon Advisors
2. BLX Group LLC
3. Cutwater Asset Management
4. Davidson Fixed Income Management
5. Main Street Capital Advisors

Finance Department staff reviewed all proposals and evaluated them based on:

- Understanding of the work required by the City and the overall investment program objectives.
- Proposed approach to managing the portfolio
- Quality, clarity and responsiveness of the proposal
- Experience and qualifications
- Recent experience in managing portfolios of similar sized California cities.
- References
- Background of assigned individuals
- Proposed Compensation

After careful consideration, it was determined that Cutwater Asset Management (Cutwater) is the firm that can provide the greatest level of service and expertise to the City and Agency.

American Beacon Advisors manages significant equity, however they appear to handle almost exclusively institutional accounts. They did not list any references where they provided discretionary portfolio management to a city government in any state. Staff did not feel they were qualified to provide the services required.

BLX Group LLC does have California city government clients, however the portfolio size they manage is smaller than the other top five proposers, and the internal resources of the company were not as broad as the top two proposers. Main Street Capital Advisors also provided a good response and has existing clients where they perform the requested services. However, the majority of the portfolio managed by Main Street is concentrated in one client. Davidson Fixed Income Management also has a number of city clients where they provide the services requested. However, they are based in Oregon and the majority of their client base appears to be located in the Oregon/Washington area. While they do work for the State of California, the only other California client reference they provided was a water district. Staff felt that while BLX Group LLC, Davidson Fixed Income Management, and Main Street Capital Advisors could perform the services, the expertise and demonstrably larger client base for discretionary portfolio management of Cutwater made it the best alternative for the City.

Cutwater has provided fixed income portfolio management services primarily to the public sector for 20 years. They have nearly $42 billion in fixed income assets under management for governmental clients in California and throughout the country. Cutwater is a leading provider of investment management services nationwide and specializes in investment strategies for operational funds, capital project funds, self insurance funds, bond proceeds, and local government investment pools. Their California client list includes cities such as Arcadia, Lancaster, Murrieta, Rancho Cordova, Newport Beach, Lathrop, Westminster, San Pablo, San Mateo, San Rafael and Poway.

Cutwater staff is experienced and knowledgeable of the California Government Code Section 53601 which restricts how local agency funds can be invested. Our main representative is located in San Diego, so quarterly, in-person meetings can be accommodated with no additional travel costs. They are a full-service firm, meaning they do not engage outside parties.

Cutwater will receive compensation for its investment management activities solely through direct advisory fees paid by the City. Cutwater does not have any ‘soft dollar’ arrangements with brokers. Investment transactions are coordinated through the City’s custodial accounts with Union Bank. While Cutwater will be authorized to make certain investment decisions, they will never have custody or possession of City funds.

The services provided by Cutwater will include a careful analysis of the City’s current and projected cash flow needs. Based on this analysis, the portfolio can be efficiently invested in securities with proper and varying durations to ensure the safety and liquidity needs of the City and Agency are met, while maximizing the available yield within these constraints. Staff does not have the expertise that Cutwater does in analyzing and researching investments, particularly in the area of corporate notes. Quarterly investment reporting will greatly improve, and staff will only need to provide oversight to the investment function. More efficient investment of the portfolio will be achieved with Cutwater, and additional yield will be picked up that would not have otherwise been achieved. While there is a cost for Cutwater's services, the Chief Financial Officer believes the additional yield will exceed the cost of the agreement over the long term.

FISCAL ANALYSIS:

Cutwater's annual fee schedule is all-inclusive and is as follows:

Assets up to and including $60 million……………….0.80%
Assets over $60 million………………………….……...0.60%

The combined portfolio for the City and Agency is over $100 million. Therefore the 6 basis point fee would apply. With a portfolio of $100 million, for example, the annual cost would be $60,000. The City will be invoiced monthly. The total cost of the position that was eliminated in the Fiscal Year 2010/2011 budget was over $150,000 annually. Therefore the 50% savings assumption will be exceeded. The monthly fee will be split accordingly between the City and Redevelopment Agency based on the total share of the value of the portfolio for the period being invoiced.

MOTION:

That the City Council and Agency Board:

1. Approve a three party professional services agreement with Cutwater Asset Management; and

2. Authorize the City Attorney and Agency General Counsel to review/prepare the necessary documents; and,

3. Authorize the City Manager/Executive Director to execute such documents on behalf of the City and Agency.