



August 30, 2016

Report to City Council

Prepared by Brian Carlson, Finance Director

Re: Treasury Management

SUMMARY:

Staff is proposing a gradual return to in-house treasury management, so as to reduce fees and improve yield and cash-flow management in this historically low-yield environment. While code permits the Finance Director to direct investment management, staff wishes to engage Council on the topic prior to initiating the proposed change.

This report is informational and requires no Council action.

BACKGROUND:

The City's *Treasury* represents all cash on hand, excluding the Permanent Fund. The balance ranges from \$130 million to \$180 million, and the fluctuation is driven primarily by the timing of the annual lump-sum TAPS property tax remittance. Treasury management guidelines are articulated in *City Code 2.020.020 (H)* and *3.040.050*. These code sections assign treasury management functions to the Finance Director, and establish permissible investment vehicles.

For several years the City has contracted with ***Alaska Permanent Capital Management*** (APCM) for treasury management, as the City has lacked staff with the needed level of investment management experience. APCM invests City funds in US Treasury Securities (Treasury Bonds), Agencies (i.e. FNMA), and allowable corporate securities (i.e. commercial paper and corporate bonds), pursuant to City Code. The City's APCM portfolio is intermediate-term, with an average maturity ranging from two to three years.

The City also retains short-term, highly liquid balances in the ***Alaska Municipal League Investment Pool*** (AMLIP). AMLIP balances represent two to three months of liquidity needs. The AMLIP yield has been effectively zero for over a year, but is back in positive territory as of mid-2016.

The City also keeps one to two months of liquidity in its general checking balance with *Wells Fargo*. These balances are "swept" daily and placed in overnight-maturity vehicles so as to capture some yield. These yields have been effectively zero for over a year.

Staff has initiated contact with **Time Value Investments** (TVI), located in Seattle, to discuss facilitation of in-house treasury management. TVI offers competitive fees, and a flexible structure of services ranging from fully managed (like APCM) to un-managed/transactional. By engaging TVI, the City will also introduce competitive pressures to its current sole-sourced treasury management.

ANALYSIS:

Client/Broker relationships commonly reside along a spectrum of *managed* to *un-managed* accounts. *Managed* accounts are full-service and entail higher fees; the broker structures the portfolio, selects and purchases securities, and provides detailed reporting and analysis. *Un-managed* accounts are transactional in nature; the client places an order, and the broker fills it and delivers the securities to third-party safekeeping, often with no further reporting or analysis.

APCM offers the following fee structure for its *management* of the City’s treasury:

<u>Fee:</u>	<u>Based on:</u>
0.25 of 1% (twenty-five basis points)	Up to \$10 million under management
0.15 of 1% (fifteen basis points)	Over \$10 million, up to \$100 million under management
0.10 of 1% (ten basis points)	Over \$100 million, up to \$300 million under management

Based on an average balance of \$150 million under management, annual APCM fees are:

	<u>Charge</u>	<u>\$ Under Management</u>	<u>Fee</u>
	0.0025	10,000,000	25,000
nominal fee	0.0015	90,000,000	135,000
	0.0010	<u>50,000,000</u>	<u>50,000</u>
average fee	0.0014	<u><u>150,000,000</u></u>	<u><u>210,000</u></u>

Staff believes that APCM has done an excellent job for the City, often with little or no guidance from City staff. However, the City’s current Finance Director has sufficient educational and industry background to perform some or all of the Treasury management in-house, at a substantial savings to the City. This can be done gradually and incrementally, structured in such a way as to increase staff familiarity with all aspects of structuring a bond portfolio. It can also increase the City’s options by establishing a new broker relationship.

TVI clears its transactions through *ProEquities Inc.*, whose parent company is *Protective Life Corporation*. Through these relationships, TVI has access to numerous broker inventories, and can therefore pursue competitive pricing for its clientele, rather than being limited to selling from its own limited inventory, as is typically the case with “captive” brokers.

RECOMMENDATION:

Staff is proposing establishing a new *un-managed* account relationship with TVI. TVI would fill client-directed transactions, and would offer limited reporting. Staff has negotiated a fee of three basis points, and proposes establishing an account with \$32 million, as shown below:

	<u>Charge</u>	<u>\$ Under Management</u>	<u>Fee</u>
APCM	0.0010	32,000,000	32,000
TVI	0.0003	32,000,000	<u>9,600</u>
		Annual fee savings	22,400

Though the proposed account is *un-managed*, staff and TVI have agreed to certain additional reporting and transaction confirmation services while staff gains a threshold familiarity with the processes. These “extras” are factored into the three-basis-points fee. If/when these services are no longer requested, reduced fees will be negotiated.

TVI is also able to immediately accommodate a *managed* account structure, with corresponding higher fees, in the event that there is any disruption in City staffing.

Staff considers this recommendation to be the first step toward a more cost-effective treasury management structure, while increasing staff’s direct engagement in the process. Over time, staff will pursue the following objectives:

<u>time frame</u>	<u>objective</u>
immediate (3 to six months)	increase staff familiarity with open-market bond purchases, portfolio structure, cash-flow management
near-term (six to twelve months)	reduce or eliminate unnecessary outside management and related fees
long-term (twelve to twenty-four months)	establish an open bid among multiple brokers for each purchase

This report is informational, and is meant to keep council apprised of substantive changes to Finance Department efforts. No Council action is required.