



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: September 5, 2023

TO: Paul Buddenhagen, City Manager

FROM: Lawrence Chiu, Finance Director

SUBJECT: **Resolution Of The City Council Of The City Of Emeryville Authorizing The City Manager To Execute A First Amendment To The Contract With Chandler Asset Management Increasing The Current Investment Limit On The Amount Of Assets To Be Managed By Chandler To \$200 Million, Extending The Contract Term To June 30, 2027, And Increasing The Total Contract Amount By \$220,000 From \$260,000 To \$480,000 For Investment Advisory And Management Services**

RECOMMENDATION

Staff recommends that the City Council adopt the above-entitled resolution authorizing the City Manager to execute a First Amendment to the Contract with Chandler Asset Management (Chandler) increasing the current limits on the amount of assets to be managed by Chandler by \$150 million from \$50 million to \$200 million, extending the contract term to June 30, 2027, and increasing the total contract amount by \$220,000 from \$260,000 to an amount not to exceed \$480,000 for investment advisory and management services.

BACKGROUND

On July 19, 2022, the City Council of the City of Emeryville approved Resolution 22-108 authorizing the City Manager to enter into a one-year contract with an option to extend the contract for two additional years at the discretion of the City Manager, until June 30, 2025, for investment advisory services with Chandler Asset Management to manage and invest \$50 million of the City's funds and a total contract amount not to exceed \$260,000.

Since July 2022, Chandler has collaborated with the City staff to ensure compliance with California Government Code 53601 (Government Code) and the City's investment policy, diversify the investments into additional asset classes allowed by the Code, recommend edits to the City's investment policy, and optimize the City's investments for higher return, while complying with the City's Investment Policy and Code mandated objectives of safety, liquidity, and yield.

DISCUSSION

Prior to engaging Chandler, City staff managed the City's investments internally. However, City staff realized that increased complexity in the capital markets and constrained staff time were limiting staff's ability to capture investment opportunities,

increase diversification, and optimize the City's investment portfolio. As a result, the decision was made in 2022 to hire a professional money manager through a competitive bid process to help the City optimize its investment program.

When the City initially contracted with Chandler, City staff envisioned gradually transitioning the management of the City's investments over a three-year period to Chandler. Reasons for this approach included balancing a desire to gain familiarity with working with a professional money manager while at the same time leveraging Chandler's capabilities in market and credit analysis as well as access to the markets in order to increase safety, liquidity, and return.

At the time, the City invested in a money market mutual fund that provided next-day availability, but the allocation exceeded the 20% limit imposed by the Government Code. The City believed that contracting with Chandler would help address this overallocation. As a result, the City opted to expand the size of funds managed by Chandler over time in order to address immediate operational needs while adapting to using a professional money manager.

Chandler was engaged at a fee schedule of

- 8 basis points (0.08%) for the first \$50 million,
- 6 basis points (0.06%) for the next \$50 million, and
- 4 basis points (0.04%) for assets over \$100 million.

In addition, the contract with Chandler limited the funds to be managed to:

- \$50 million for the first year of the engagement,
- \$75 million for the second year should the City decide to extend the contract, and
- \$100 million for the third year.

The contract's fee schedule was capped at \$40,000 for the first year, as City staff envisioned Chandler only managing \$50 million ($\$50 \text{ million} \times 0.08\% = \$40,000$). The fees after the first year were calculated using the contract's fee schedule based on the financial assets managed by Chandler but capped at \$110,000 annually. The contract included a total amount not to exceed amount of \$260,000.

The table below shows an investment return for the Chandler managed investment portfolio of 2.25% compared with the benchmark index of 1.73% since the inception of the investment program on September 30, 2022 through June 30, 2023.

City of Emeryville
Investment Return (9/30/2022 - 6/30/2023)

Chandler Managed Investment Portfolio	2.25%
ICE BofA 1-3 Yr US Treasury & Agency Index	1.73%

The City's operating environment has changed since initially engaging Chandler and the City's funds for investment continue to grow. In May 2023, the City received \$50 million in bond proceeds from Measure C general obligation bonds. Part of the financing strategy related to the bonds includes professional management of the bond proceeds over a multi-year period. As a result of these changes, staff recommends that Chandler manage a greater amount of the City's investment portfolio, which are higher than the investment limits under the contract.

As a result, staff recommends that the City Council:

- (a) increase the current limit on investment assets to be professionally managed by Chandler to \$200 million;
- (b) extend the contract term to June 30, 2027; and
- (c) increase the contract amount by \$220,000 from \$260,000 to \$480,000 with fees capped at \$110,000 annually.

OPERATIONAL IMPACT

If the City Council approves the contract amendment, Chandler will continue to manage City funds with no changes to the fee schedule though the larger amount of the City's investment portfolio managed by Chandler will increase Chandler's management fee.

Chandler will continue to:

- Provide monitoring regarding changes to the California Government Code and recommend changes to the City's investment policy to include best practices for managing credit and market risk and explore the possibility of including more asset classes for investment.
- Bring the City's investment portfolio into compliance with the Government Code by reducing investments in money market mutual funds.
- Explore a longer-duration investment strategy with the City to enhance diversification of maturities and risk, depending on such factors as liquidity needs, volatility, and return potential.

- Enhance financial reporting for the City's investments.

FISCAL IMPACT

The basis upon which fees are calculated will not change under this proposed amendment. The current fee to manage the City investment portfolio of \$50 million is \$40,000 annually. If the City were to increase the investment portfolio managed by Chandler to \$200 million, the fees would increase to \$110,000 annually. The additional fees would be offset by increased investment earnings.

ADVISORY BODY REVIEW

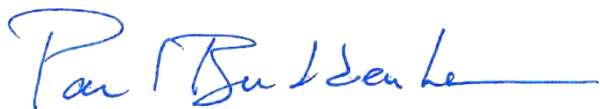
The Budget and Governance Committee reviewed and discussed Chandler's investment authority on July 18, 2023, and approved the report resolution.

CONCLUSION

Staff recommends that the City Council adopt the resolution authorizing the City Manager to enter into a First Amendment to the contract with Chandler Asset Management to increase the investment limit on the amount of assets to be managed by Chandler to \$200 million, extend the contract term to June 30, 2027, and increase the total contract amount from \$260,000 to \$480,000.

PREPARED BY: Lawrence Chiu, Finance Director

**APPROVED AND FORWARDED TO THE
CITY COUNCIL OF THE CITY OF EMERYVILLE:**

A handwritten signature in blue ink, reading "Paul Buddenhagen", is written over a horizontal line.

Paul Buddenhagen, City Manager

ATTACHMENTS

- Professional Services Contract with Chandler
- Draft Resolution
- First Amendment to Professional Service Contract with Chandler