Audit Committee

Thursday, October 31, 2019 at 12:00 p.m.

5th Floor Board Room, Water Board Building
735 Randolph Street, Detroit, Michigan 48226
GLWater.org

AGENDA

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES
    A. None
5. PUBLIC PARTICIPATION
6. OLD BUSINESS
7. NEW BUSINESS
    A. Proposed Contract for Investment Advisor Services Request
8. REPORTS
9. LOOK AHEAD
    Next Audit Committee Meetings
    A. Regular Meeting November 15, 2019 at 8:00 a.m.
10. INFORMATION
11. OTHER MATTERS
12. ADJOURNMENT

GLWA
Great Lakes Water Authority

Financial Services
Audit Committee Communication

Date: October 31, 2019

To: Great Lakes Water Authority Audit Committee **From:** Deirdre Henry, Treasury Manager

Re: Proposed Contract for Investment Advisor Services Request

Background/Analysis: The following is attached.

1. Proposed Board Letter for November 13, 2019
2. Procurement Report

Budget Impact: The proposed award is within the budget category as noted in the attached Board Letter.

Proposed Action: The Audit Committee recommends that the Board of Directors for the Great Lakes Water Authority approve a three-year contract with two one-year extensions with PFM Asset Management, LLC in the amount of $2,200,000 for the period January 1, 2020 through December 31, 2024, and authorizes the Chief Executive Officer to take such other action as may be necessary to accomplish the intent of this vote.

..Title

Contract No. 1902721
Investment Advisor Services
CIP# N/A/ BCE Score

..Body

Agenda of:	November 13, 2019	
Item No.:	2019-	
Amount:	3-Year Contract	$1,320,000.00
	First Year Renewal Option	$ 440,000.00
	Second Year Renewal Option	$ 440,000.00
	Total	$2,200,000.00

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Sue F. McCormick
Chief Executive Officer
Great Lakes Water Authority

DATE: **November 13, 2019**

RE: **Contract No. 1902721**
Investment Advisor Services
Vendor: PFM Asset Management LLC

MOTION

Upon recommendation of the Audit Committee, the Board of Directors (Board) of the Great Lakes Water Authority (GLWA), authorizes the Chief Executive Officer (CEO) to enter into **Contract No. 1902721, to secure a contract, at a cost not to exceed $1,320,000 for a duration of three years with two-one year renewals at a cost of $440,000 for each renewal year for total contract amount of $2,200,000 with PFM Asset Management LLC,** and authorizes the CEO to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

The Great Lakes Water Authority (GLWA) has worked with an investment advisor since the stand-up of the organization to assist in the management of its investment portfolio. The use of a registered investment advisor has proven to be a cost effective and efficient approach to portfolio management. The investment advisor allows GLWA to have direct access to financial market data sources, technology and expertise while allowing the treasury team to focus on the development of cash flows, treasury internal controls, and process improvements. Using an investment advisor has helped GLWA to achieve higher portfolio returns, properly manage market risk and diversify portfolio holdings. The contract with the current investment advisor, PFM Asset Management, LLC expires December 31, 2019.

In keeping with GLWA's ongoing cycle to solicit proposals for key professional services, a Request for Proposal (RFP) for Investment Advisor services was posted August 26, 2019 on Bonfire. Nine proposals were received. Each proposal was evaluated on criteria that included experience and qualifications (20%), technical work plan (20%), experience of project team and key individuals (15%), and pricing (10%). Based on the evaluator scoring, the top three firms were invited to participate in oral interviews. Oral interviews (35%) were included in the final scoring.

JUSTIFICATION

After completing a review of the nine proposals and oral interviews, PFM Asset Management, LLC was selected to continue as Investment Advisor for GLWA. The fee for investment advisor services is billed monthly based on the actual managed portfolio balance. The annual fee, calculated using a maximum portfolio balance of $1 billion, would be $440,000. The fees are inclusive of all investment advisor services to GLWA including managing the portfolio, preparation and presentation of investment reporting and other requested presentations to the audit committee and board, as well as travel and incidental expenses. As shown in the attached table, *"PFM Asset Management – Fees"*, PFM and the GLWA team were able to agree upon a reduced pricing structure.

PFM Asset Management, LLC has performed well for GLWA. PFM's team has collaborated with the GLWA treasury staff to 1) negotiate and increase bank earnings credit rates, 2) invest debt service and debt reserve funds, 3) transition balances in bank deposit accounts to higher yielding government money market and local government investment pools, 4) invest funds in construction and trust accounts into longer term investment securities, 5) develop quarterly investment report package and 6) identify a portfolio strategy appropriate for GLWA. With PFM's assistance, GLWA investment income earnings have grown from $4.4 million in FY 2017 to $22.3 million in FY 2019.

See attached Procurement Report for details related to the RFP process.

BUDGET IMPACT

The fees for the investment advisor services are within the FY 2020 Budget and Five Year Plan amount in the contractual services category in the Treasury cost center (884131) in the amount of $440,000 annually.

COMMITTEE REVIEW

This matter was presented to the Audit Committee at its meeting on October 31, 2019.

SHARED SERVICES IMPACT

This item does not impact the shared services agreement between GLWA and DWSD.

PFM Asset Management - Fees

		Current Pricing		RFP Proposal		Negotiated	
	Maximum Portfolio $	Rate	Fee $	Rate	Fee $	Rate	Fee $
1st Tier	$ 100,000,000	0.08%	$ 80,000	0.08%	$ 80,000	0.07%	$ 70,000
2nd Tier	100,000,000	0.06%	60,000	0.06%	60,000	0.05%	50,000
3rd Tier	800,000,000	0.05%	400,000	0.05%	400,000	0.04%	320,000
Portfolio Balance	$ 1,000,000,000	Annual	$ 540,000	Annual	$ 540,000	Annual	$ 440,000

Financial Services Group
Procurement
735 Randolph Street, Suite 1508
Detroit, Michigan 48226
Phone: 313-964-9157

Procurement Report

Date: November 13, 2019
To: Sue McCormick, Chief Executive Officer
From: Dan Edwards, Procurement Manager
Re: Procurement Report

General Information			
Contract Number:	1902721	Project Owner:	Deirdre Henry
Contract Title:	Investment Advisor Services		
Vendor:	PFM Asset Management LLC		
Budget:	Operations and Maintenance		
Contract Length:	Three Years with Two One-Year Renewal Options		

Procurement Method

Competitively bid – Request for Proposal (RFP)			
Advertised:	8/26/2019	Addendums released:	4
Distributed to:	46	Downloaded by:	9
Response due date:	10/2/2019	Responses received:	9

Negotiated Cost Schedule

Note: This schedule is based on an illustrative portfolio balance. The actual fee will vary based on the actual amount under management.

PFM Asset Management LLC					
		Original Proposal		Negotiated	
Average Assets Under Management	Illustrative Portfolio	Rate	Annual Fee	Rate	Annual Fee
1st Tier	$100,000,000	0.08%	$80,000	0.07%	$70,000
2nd Tier	$100,000,000	0.06%	$60,000	0.05%	$50,000
3rd Tier	$800,000,000	0.05%	$400,000	0.04%	$320,000
Portfolio Balance	$1,000,000,000		$540,000		**$440,000**

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Evaluation and Scores

Evaluation Committee: (Designation – Organization)
A – GLWA
B – GLWA
C – GLWA
D – GLWA
E – DWSD

The Evaluation Committee independently reviewed and scored the proposals in accordance with GLWA's policy. This evaluation was a two-step process. The rankings are below.

Maximum Score Possible: 100

Vendor (Highest to Lowest Score) **The top 3 was short-listed for oral interviews**	**Technical Score**	**Oral Interview**	**Score**
PFM Asset Management LLC	56.56	33.25	89.81
Public Trust Advisors, LLC	53.35	22.75	76.10
Chandler Asset Management	53.29	21.00	74.29
Meeder Investment Management	47.20	n/a	47.20
RBC Global Asset Management (U.S.) Inc.	42.80	n/a	42.80
Hilltop Securities Inc.	42.58	n/a	42.58
Columbia Threadneedle Investments	36.11	n/a	36.11
Garcia Hamilton & Associates, LP	33.29	n/a	33.29
Stifel Financial Corp	31.22	n/a	31.22

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Other Data Requested by GLWA Board Members

Minority Business Enterprise (MBE): No
Detroit Based Business (DBB): No
Small Business Enterprise (SBE): No

Sub-Contractor(s) List: Not Applicable

Vendor Response Survey: Not Applicable

Litigation

This vendor is not currently nor has been previously involved in any litigation with the GLWA.

Financials

A financial risk assessment was performed by the GLWA via Dun & Bradstreet and was determined that the selected vendor has the financial capacity to perform the tasks under this contract. This information is available for the Board of Directors to review upon request.

Previous Contract

Previous contract holder: PFM Asset Management

The previous contract, GLWA-CS-022, Investment Services, was for the period of 11/30/2015 through 12/31/2019, for $1,417,062.50. The cost difference between the two contracts is shown in the table below.

Investment Advisor Services	**2015 – 2019** Total Cost	**2020 – 2024** Total Cost
PFM Asset Management	$1,417,062.50	$2,200,000.00