



Financial Services Audit Committee Communication

Date: June 15, 2018

To: Great Lakes Water Authority Audit Committee

From: Deirdre Henry, Treasury Manager

Re: Proposed Contract Extension and Increase with PFM Asset Management LLC
GLWA Contract No. GLWA CS-022

Background: In November 2015, Great Lakes Water Authority (GLWA) engaged PFM Asset Management LLC (PFM) as a registered investment advisor to assist with 1) identifying portfolio and cash management optimization opportunities, 2) overcome personnel resource constraints during the stand-up of both GLWA and DWSD-Retail, 3) expand the transparency and capacity of investment portfolio reporting, and 4) provide an added level of controls.

PFM has worked with the 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, and 5) develop quarterly investment report package. With PFM's assistance, GLWA earned \$4.3 million in investment income for fiscal year 2017. The projected investment earnings for fiscal year 2018 are \$11.8 million.

The original PFM contract amount in 2015, which did not contemplate PFM actively managing the portfolio, was \$250,000 with an expiration date of December 2017. In November 2017, the PFM contract was extended to July 2018 and was increased by \$350,000 to bring the contract total to \$600,000. This contract increase was to accommodate PFM's active management of the portfolio and continued investment advisory services.

Analysis: The use of a registered investment advisor has proven to be a cost effective and efficient approach to portfolio management. The use of an investment advisor allows GLWA to have direct access to financial market expertise while allowing the treasury team to focus on the development of cash flows, treasury internal controls, and process improvements.

We are requesting to extend the PFM contract period to December 2018 while we complete an RFP to solicit competitive proposals for Investment Advisory Services. This contract extension would require an increase to the contract of \$100,000. The total life-to-date PFM contract amount after this increase would be \$700,000.

<u>Portfolio Income</u>	
FY 2017	\$4,300,000
Projected FY 2018	<u>11,800,000</u>
Total Portfolio Income	<u><u>\$16,100,000</u></u>
<u>PFM Contract</u>	
Original Contract Amount - November 2015	\$250,000
Contract Extension & Increase - November 2017	350,000
Proposed Contract Extension & Increase - June 2018	<u>100,000</u>
Total PFM Contract	<u><u>\$700,000</u></u>
PFM Contract as % of Portfolio Income	<u><u>4.3%</u></u>

Calculation of Contract Increase - Invested Portfolio				
	<u>Estimated Portfolio \$</u>	<u>Rate</u>		<u>Fee \$</u>
1st	\$ 100,000,000	0.08%	\$	80,000
2nd	100,000,000	0.06%		60,000
above 2nd	550,000,000	0.05%		275,000
Portfolio Balance	<u>\$ 750,000,000</u>		\$	<u>415,000</u>
		Monthly	\$	<u><u>34,583</u></u>
Projected billings through December 2018	\$			277,000
Remaining Balance on Current Contract				<u>(190,000)</u>
Additional Contract Funds Needed	\$			<u><u>87,000</u></u>
		Requested Increase		\$100,000

The total contract amount of \$700,000 is 4.3% of the total portfolio income for FY 2017 and FY 2018. The estimated annual fee of \$415,000 is .04% of the March 2018 investment portfolio balance.

This contract extension and increase in fees does not require action by the GLWA Board. Staff did want to report this update that achieves a desired outcome of increased investment earnings while preserving compliance with GLWA's investment policy and Michigan Public Act 20, *Investments of Surplus Funds of Political Subdivisions*.

Proposed Action: Receive and file report.