Meeting Date: December 18, 2007

TOWN OF MORAGA STAFF REPORT

To: Audit & Finance Committee

From: Emily Boyd, Finance Director

Subject: **Review of potential investment advisor / broker.** Review three types of potential facilitators for investment of One-Time Developer Fees and provide direction to staff.

Request

Review three types of potential facilitators for investment of One-Time Developer Fees and provide recommendation.

Background

The Town will be receiving $17 million over the course of the next 6 years from the Palos Colorados residential development. Before the Town Council decides how to apportion these funds, an appropriate and sound investment strategy must be considered by Staff and the Audit & Finance Committee.

The Town currently uses LAIF (Local Area Investment Fund) which is administered by the State Controller's Office as a place to invest unneeded funds. LAIF is an investment pool consisting of 2,620 participants and $19 Billion invested as of the end of September, 2007. As of December 7, 2007, LAIF rates were 4.85% daily and 5.03% quarterly. Due diligence, once again, would suggest that the Town investigate whether LAIF is the best investment vehicle for the large anticipated One-Time Developer Fees. To date, the Town has received $3,750,000 from the Palos developer and these funds are currently invested at LAIF.

In its meeting on August 7, 2007, the Audit & Finance Committee was still uncertain whether the Town needed an investment advisor or a broker and asked staff to contact other cities to find out what they were doing. Staff put the question out on the California Society of Municipal Officer's list serve and

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received dozens of responses. To summarize the responses: larger cities had one or more investment advisors; moderate to small cities were using brokers or their banks; and many cities were members of a California Joint Powers Authority called CAMP (California Asset Management Program).

Discussion

Staff has collected information on three distinct types of investment facilitators as follows:

1) Mechanics Bank Investment Portfolio Management
2) Morgan Stanley Brokerage
3) CAMP as administered by Public Financial Management (PFM)

Mechanics Bank: The Town currently has its general and payroll checking accounts, and a money market account, at Mechanics Bank. The Bank has previously provided the AFC with general information regarding its Wealth Management program. Brooks Haden, a Vice President at Mechanics Bank, has prepared a more comprehensive outline of the services the Bank can provide. (See Attachment A) Their services are those of an investment manager and fees are based upon the total market value of the portfolio. The minimum annual fee is $2,000.

Morgan Stanley: Many of the cities polled used Morgan Stanley (various individual brokers). Staff has been in contact with Stephen Bernstein, Vice President and Financial Advisor, in Morgan Stanley's New Jersey offices. Mr. Bernstein has worked with many government agencies, including the City of Clayton. Through Morgan Stanley the Town could purchase any and all of the investment vehicles listed as allowable in the Investment Policy. Fees would be per transaction and Mr. Bernstein would provide minimal advisory services.

CAMP as administered by Public Financial management (PFM): Nancy Jones, Managing Director, of PFM met with the Town Manager, the Town Treasurer and the Finance Director to explain their program. (See Attachment C) The program contains two basis elements:

- Money Market Portfolio that provides public agencies with daily liquidity and competitive yields. The annualized yield, as of December 7, 2007, was 4.91%. PFM's fees are 10 Basis Points.

- Individual Portfolio Management tailored to the Town and governed by the Town's Investment Policy. PFM's fees are 15 Basis Points. Custodial services are provided by the Bank of New York Trust Company at a rate of $750 per year.

Fiscal Impact

Until a particular investment facilitator is selected, and a particular investment plan developed, Staff is unable to predict the fiscal impact. Even then, the fiscal impact of investment earnings is subject to the vagaries of interest rates and the

market.

Alternatives

Do not contract with an investment facilitator. Instead, allow the Town Treasurer and the Finance Director to oversee the Town's collective investment portfolio.

Recommendations

Given certain Staff constraints with time, Staff recommends that the AFC endorse opening an account with PFM. With the AFC's endorsement, Staff would take this option to the Council for approval.

Report reviewed by: Town Manager

Attachments:

A. **Mechanics Bank Investment Services Information**
B. **Morgan Stanley Information**
C. **The PFM Group Information**