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**Title:** CONSIDER APPROVING A CONTRACT AMENDMENT FOR SERVICES WITH FTN FINANCIAL MAIN STREET ADVISORS TO CONTINUE TO PROVIDE INVESTMENT ADVISORY SERVICES FOR THE CITY AND ITS REPORTING ENTITIES, AND THE CARSON RECLAMATION AUTHORITY (CITY COUNCIL)

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3/6/2018	1	City Council		

**Report to Mayor and City Council**

Tuesday, March 06, 2018

Discussion

**SUBJECT:**

**CONSIDER APPROVING A CONTRACT AMENDMENT FOR SERVICES WITH FTN FINANCIAL MAIN STREET ADVISORS TO CONTINUE TO PROVIDE INVESTMENT ADVISORY SERVICES FOR THE CITY AND ITS REPORTING ENTITIES, AND THE CARSON RECLAMATION AUTHORITY (CITY COUNCIL)**

**I. SUMMARY**

The City is currently contracted with FTN Financial LLC (“FTN”) for investment advisory services relating to the City, Housing Authority, Successor Agency and Reclamation Authority. This contract was entered into on January 24, 2017, for an initial term of one year with four options to extend of one year each. At the end of the first year, the contract was extended so that it would expire on February 28, 2018, and the compensation under the contract was increased by \$4,000 such that the total compensation under the Agreement is \$52,000. Because FTN’s contract will expire on February 28, 2018, in order to continue receive services, the contract must be extended so that it expires on January 24, 2019, and the compensation under the contract must be increased by \$44,000 for a total compensation of \$96,000. However, it was also determined that FTN’s registration/status with the California Secretary of State as a registered foreign corporation (FTN is a Nevada LLC) authorized to do business in the State of California is currently

“SOS/FTB FORFEITED.” This means that FTN is not authorized to conduct business within the State of California. FTN is currently in the process of restoring its status to active.

Therefore, in order to continue to receive services from FTN and due to FTN’s status with the Secretary of State as “SOS/FTB FORFEITED,” the City Council is asked to approve, subject to the City Attorney’s approval as to form, Amendment No. 1 to FTN’s contract which extends the contract’s term so that it expires on January 24, 2019, and, contingent upon FTN’s re-establishment of its status as an active foreign corporation authorized to conduct business within California by the California Secretary of State, increases the total compensation to \$96,000.

## **II. RECOMMENDATION**

APPROVE, subject to City Attorney’s approval as to form, Amendment No. 1 to the Contract Services Agreement with FTN Financial Main Street Advisors, LLC, which extends the term such that it will expire on January 24, 2019, and, contingent upon FTN re-establishing its status as an active foreign corporation authorized to conduct business within California by the California Secretary of State, increases the compensation by \$44,000 so that the total compensation is \$96,000.

## **III. ALTERNATIVES**

TAKE another action the City Council deems appropriate and consistent with the requirements of law.

## **IV. BACKGROUND**

On January 24, 2017, the City Council approved investment advisory services with FTN Financial to assist the City Treasurer in managing the investments of the City, the Carson Housing Authority, the Carson Successor Agency, and the Carson Reclamation Authority (“CRA”). This contract was approved for and entered into with an initial term of one year with four options to extend of one year each. The services provided to the City by the investment advisor include:

- Development and implementation of investment strategies for the funds under management that will seek to enhance performance under current and future market conditions within the parameters of the Investment Policy and cash flow needs.
- Technical and fundamental market research, including yield curve analysis.
- Provide monthly/quarterly/annual reporting of City, its reporting entities and CRA funds under management.
- Credit analysis of investment instruments in the portfolio.
- Meetings with the City’s Investment Team, which consists of the City Treasurer, City Manager and Finance Director, twice a year to review the investment program and portfolio performance.
- Evaluate market risk and develop strategies that minimize the impact on the

portfolio.

- Review the City's Investment Policy and makes recommendations for change as appropriate.

### Portfolio Performance

FTN has assisted the City Treasurer and City staff in managing a total combined investment portfolio of \$143,371,107. The City has \$33,866,378 in the portfolio, while the Housing Authority has \$6,429,265 in the portfolio. The largest amount in the portfolio is \$86,770,136 in Reclamation Authority funds, while the Successor Agency has \$16,305,107 invested. It should be noted that this is the par value of the accounts as of January 31, 2018.

It is also important to note that there have been several large drawdowns to these funds to pay for major capital improvement projects. For example, the Successor Agency funds were drawn down to complete the Carson Street Improvement Project late last year, along with the Wilmington/405 Interchange Project. The Housing Authority is also moving forward on two major affordable housing projects and the Carson Reclamation Authority continues making progress on the plans for the 157-acre project.

Over the past twelve months this combined portfolio earned an additional \$219,550, in average yields, as opposed to the starting yields. The starting yield for the City was .92%, while its current average yield is now 1.06%. The Housing Authority yields have dropped, from 1.04% to 0.92%, as the portfolio is being drawn down. The starting yield of the Reclamation Authority was .80% and is currently averaging 1.00%; while the Successor Agency starting yield was 0.82%, with a current average yield of 0.90%.

The investment returns need to be balanced with the liquidity required for a number of major projects. The Reclamation Authority is scheduled to begin grading for the 157-acre site in the early Spring. It is difficult to achieve greater yields since we need to keep our cash liquid in order to meet construction contract drawdowns.

It should also be noted that the City is limited by State law and our own investment policies to conservative investment instruments in order to protect public funds. The markets have been roiled by various events outside of the control of the City, including the recent changes to Federal tax law. During this period of time the assistance of an investment advisor is crucial to protect the City's combined investments.

### Contract Extension Discussion

At the end of the first year, FTN's contract was extended so that it would expire on February 28, 2018, and the compensation under the contract was increased by \$4,000 such that the total compensation is \$52,000. Because FTN's contract expires on February 28, 2018, in order to continue receiving services, the contract must be extended so that it expires on January 24, 2019, and the compensation under the contract must be increased by \$44,000 for a total compensation of \$96,000. However, during the drafting process, it was determined that FTN's registration/status with the California Secretary of State as a registered foreign corporation (FTN is a Nevada LLC) authorized to do

business in the State of California is currently “SOS/FTB FORFEITED.” This means that FTN is not authorized to conduct business within the State of California. FTN is currently in the process of restoring its status to active.

As a result of FTN’s current status as “SOS/FTB FORFEITED,” it is recommended that the City Council’s approve the attached Amendment No. 1 which extends the term such that it will expire on January 24, 2019, and, contingent upon FTN re-establishing its status as an active foreign corporation authorized to conduct business within California by the California Secretary of State, increases the compensation by \$44,000 so that the total compensation is \$96,000.

## **V. FISCAL IMPACT**

In simple terms the costs of the investment advisor were \$52,000, while the additional investment returns in the combined portfolio were \$219,500. However, FTN has provided the City Treasurer and City staff with a series of new services that were not previously available to the City.

## **VI. EXHIBITS**

1. Contract Services original Agreement. (pgs. 4-23)
2. Contract Services amendment. (pgs.24-30)
3. Power Point Presentation. (pgs. 31-43)

1.

Prepared by: City Treasurer