

**OFFICE OF THE CITY TREASURER  
FISCAL YEAR 2016 BUDGET TESTIMONY  
APRIL 8, 2015**

**EXECUTIVE SUMMARY**

**DEPARTMENT MISSION AND FUNCTION**

**Mission:** To manage the City's interactions with the capital markets for debt, liquidity and cash investments, and manage the City's commercial banking relationships and services. Additionally, the Treasurer's Office safeguards City funds, and serves as the disbursing agent for City payments.

**Description of Major Services:** The Office of the City Treasurer (CTO) manages new and outstanding City debt in accordance with the City's Debt Management Policies, maximizes the value received from new financings and minimizes interest and transaction costs, and interacts with and oversees the Sinking Fund. CTO manages the cash and investment balances of the City through its interaction with commercial banks, investment managers and custody banks, which includes management of operating and bond proceeds. CTO maximizes amounts of cash available for investment after meeting daily cash requirements. CTO serves as the disbursing agent for payments from the City Treasury by distribution of checks and electronic payments in the most modern, secure, effective, and efficient method.

**PROPOSED BUDGET HIGHLIGHTS/FUNDING REQUEST**

**Budget Highlights:** The FY16 Proposed Budget increases the General Fund allocation for CTO by 19.5% as a result of an increased transfer from the Office of the Director of Finance.

Fund	Class	FY14 Actual	FY15 Current Projection	FY16 Proposed Budget	FY16-FY15 Change	FY16-FY15 Percent Change
General	100	785,368	802,019	985,689	183,670	22.9%
	200	93,707	118,444	118,444	0	0.0%
	300/400	15,068	22,224	22,224	0	0.0%
	Total	894,143	942,687	1,126,357	183,670	19.5%
	Positions	14	16	16	0	0.0%

**Staff Demographics Summary (as of April 2015)**

	Total	Minority	White	Female
Full-Time Staff	15	6	9	6
Executive Staff	5	0	5	1
Average Salary - Executive Staff	\$107,078	\$0	\$107,078	\$148,523
Median Salary - Executive Staff	\$103,500	\$0	\$103,500	\$148,523

**Employment Levels (as of April 2015)**

	Budgeted	Filled
Full-Time Positions	16	15
Part-Time Positions	0	0
Executive Positions	5	5

**Contracts Summary (\*as of December 2014)**

	FY10	FY11	FY12	FY13	FY14	FY15*
Total amount of contracts	3,453,425	\$848,085	\$2,488,601	\$1,841,517	\$2,292,640	\$2,067,899
Total amount to M/W/DBE	\$528,552	\$205,773	\$696,030	\$598,456	\$513,886	\$350,261
Participation Rate	15%	24%	28%	32%	22%	17%

\*Through December 2014 - Participation rate shows a decline for the first half of FY15 versus the full year for FY14. However, the majority of our bond transactions for the fiscal year will occur in the second half of FY15, and we anticipate being on target to approximate last year's performance when the full year is complete.

## **PERFORMANCE, CHALLENGES AND INITIATIVES**

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### DEPARTMENT PERFORMANCE (OPERATIONS)

**Bonds** – CTO is managing a very large debt issuance calendar for calendar year 2015 which may include up to ten bond and note issuances. CTO has added a dedicated bond analyst, providing needed staff support and analytical capabilities, but this substantially increased level of bond activity will still present a challenge.

**Banking/Investments/Treasury Accounting** – Leading into FY15, the CTO reworked job descriptions and reclassified positions enabling CTO to better meet the talent need within key roles. A Deputy City Treasurer for Banking, Investments and Treasury Accounting was hired. Additionally, during the first half of FY15 there has been an emphasis on cross-training staff to reduce the dependency on individuals and siloed processes within the department, and thus reducing operational and service delivery risks. With the cross-training of the group and the insights and experience from new hires filling the revamped roles the CTO has been delivering quality service and is establishing more comprehensive processes to better utilize and protect the City’s monetary assets, in the banking , investment and treasury accounting areas.

### DEPARTMENT CHALLENGES

CTO manages investments of the City’s General Fund, Grants Fund, Special Funds and Enterprise Funds, accounting for both operating cash and bond proceeds accounts. These funds may not be commingled, meaning that there are a large number of accounts with their own underlying cash flows that must be managed and invested separately. The best way to manage this large responsibility efficiently would be to implement a Treasury Management System (TMS), to preserve principal and maximize returns. This will also mitigate operational risk, and will enable performance of management reviews and compliance, which are difficult to accomplish with current systems. This would also assist in monitoring banking services and expenses. The City’s low operating cash balances pose daily monitoring and management needs.

On the bond side, CTO’s biggest challenge will be implementing best practices in financial disclosure across every City issuing credit (a major goal) in conjunction with the heavy issuance calendar for this coming year. This process involves onboarding specialized counsel to dig through the underlying finances and operations of each issuing credit of the City, and requires substantial assistance from most departments in the City, as well as a need to continually review the rating agency and investor dialogue for the City.

### ACCOMPLISHMENTS & INITIATIVES

**Strategic Management of Bond Issuance, Refunding and Credit Strategies:** CTO managed the City’s bond issuance, refunding and credit strategies, saving approximately \$34 million (General Fund) and \$26 million (Enterprise Funds) since FY11 in budgeted debt service. This included renegotiating the City’s letter of credit fees, reducing annual costs for the General Fund from \$4.7 million in 2011 to \$1.7 million in FY14. These transactions have resulted in overall net present value savings of approximately \$146 million, which will be experienced over the term of the outstanding debt.

**Monetizing the City’s Improved Credit:** The City issued nearly \$750 million in bonds in calendar 2014, monetizing the City’s improved credit with refundings generating \$26.92 million in present value savings and providing unique solutions to capital needs for high-priority items such as the new Public Safety Complex and School District operating funding needs.

**Bond Rating Upgrades:** CTO manages the City’s relationships with rating agencies, leveraging the City’s improved economic picture into four rating upgrades since FY08:

- **Moody’s** recalibrated the City’s bond rating to “A1” in 2010 but this rating was subsequently downgraded to “A2” that fall, over concerns about the City’s limited budgetary options in the midst of the recession.
- **Standard & Poor’s (S&P)** upgraded the City from “BBB” to “A-” in June 2013 and gave the City a double upgrade to “A+” in December 2013, its highest level in 30 years, noting improved revenues and successful cost containment.

- **Fitch** recalibrated the City's rating from "BBB" to "A-" in April 2010. This was expressly not a credit rating upgrade.

For the first time, the City is rated in the "A" category by all three agencies.

**Improving Investor Relations:** CTO also worked to continue improving the City's Investor Relations, including hosting the City's first ever Investor Conference in April 2013, resulting in significantly lower interest costs for the City's bonds. The rate the city pays on its GO bonds has been reduced approximately 90 basis points, reducing the premium the City pays over a "AAA" rate from approximately 175 basis points to 85-90 basis points.

**Contracting of Commercial, Investment and Custodial Services:** The CTO is in the final leg of completing the contracting process for all of the City's commercial banking, investment management and safekeeping services provided by various vendors. Contracts for Investment Managers will provide for lower overall fees paid for the investment of the City's excess liquidity. Also, this initiative provides for the first time contracting for all banking services with Master agreements with various partners in the investment and banking area.

**Implementing a Prepaid Debit Card Program:** During FY15, CTO is implementing a Prepaid Debit Card program, as an additional benefit to all City employees. The first phase of the project is concentrated on providing an additional form of payment for non-represented and exempt employees to comply with the Civil Service and Administrative Board regulations which stipulate an end to paper bi-weekly payroll checks for employees in these classes. The program is expected to commence in May 2015.

**Managing Considerable Number of Debt Issuances:** CTO plans to manage 10 debt issuances in 2015, about double the typical five to seven issuances a year. While the level of savings will depend on market conditions, it is likely that refundings during 2015 will save substantial amounts for the General, Water and Aviation funds, and PGW.

**Overhauling Financial Disclosure Processes:** CTO is overhauling the City's financial disclosure processes and documents to ensure the City's continued compliance with increasingly complex Securities and Exchange Commission regulation and Internal Revenue Service (IRS) audits. CTO anticipates that the new policies and procedures will be in place for the 2015 issues.

**Municipal Continuing Disclosure Cooperation ("MCDC") Initiative:** In response to the unprecedented, SEC-mandated examination of results of continuing disclosure efforts over the past five years, CTO and the Sinking Fund Commission worked together to analyze the City's continuing disclosure. At the same time, all underwriters of municipal bonds had to examine the issuers' (for which they served as lead underwriter) continuing disclosure efforts, and if they found any deficiencies, the underwriters had to report them to the SEC separately from the issuer. After concerted efforts by CTO and the Sinking Fund Commission, as well as by a number of different parties throughout the City and outside counsel, the City's dissemination agent, and working closely with the underwriters engaged by the City, it was determined that the City had no material non-disclosures in the reporting of reportable events over the past five years, and as such, no reports were filed to the SEC by the City or any of its underwriters. Currently, the City is in compliance in all material respects with its previous undertakings with regard to continuing disclosure for prior obligations issued. The City has reviewed and updated its disclosure policies and procedures to ensure that the City remains in compliance with its continuing disclosure undertakings in the future.

**IRS Examinations:** In late 2014, the City received a targeted audit from the IRS examining the Water & Wastewater Revenue Bonds Series 2010A. This was a targeted audit, meaning the IRS notified the City it had reason to believe that certain aspects of this bond issue might cause the IRS to rescind the tax-exempt status of the bonds. The IRS did not reveal to us what it was that led to the targeted audit. Working with outside counsel, the Water Department, the Law Department and the Director of Finance, CTO and the Sinking Fund Commission, with the assistance of outside counsel, answered the questionnaire and supplied the IRS with the information they needed in order for the IRS to deliver to the City a 'No Change' letter, meaning there was no change in the tax-exempt status of the bonds. This was the first targeted audit, and sixth overall audit since FY2010, and the City has received "no change" letters for each audit.

**STAFFING**

The staff of CTO is currently at 15 people. Of those, only 3 were with CTO on July 1, 2010. While the rapid turnover of staff has led to some growing pains, it along with the re-engineering of job descriptions, has also allowed the department to bring in staff with diverse opinions and significant external experience in their fields.

**Staff Demographics (as of April 2015)**

<i>Full-Time Staff</i>				<i>Executive Staff</i>			
<b>Male</b>		<b>Female</b>		<b>Male</b>		<b>Female</b>	
	<b>African-American</b>	<b>African-American</b>			<b>African-American</b>	<b>African-American</b>	
<i>Total</i>	1	2		<i>Total</i>	0	0	
<i>% of Total</i>	6.7%	13.3%		<i>% of Total</i>	0.0%	0.0%	
	<b>White</b>	<b>White</b>			<b>White</b>	<b>White</b>	
<i>Total</i>	5	4		<i>Total</i>	4	1	
<i>% of Total</i>	33.3%	26.7%		<i>% of Total</i>	80.0%	20.0%	
	<b>Hispanic</b>	<b>Hispanic</b>			<b>Hispanic</b>	<b>Hispanic</b>	
<i>Total</i>	1	0		<i>Total</i>	0	0	
<i>% of Total</i>	6.7%	0.0%		<i>% of Total</i>	0.0%	0.0%	
	<b>Asian</b>	<b>Asian</b>			<b>Asian</b>	<b>Asian</b>	
<i>Total</i>	2	0		<i>Total</i>	0	0	
<i>% of Total</i>	13.3%	0.0%		<i>% of Total</i>	0.0%	0.0%	
	<b>Other</b>	<b>Other</b>			<b>Other</b>	<b>Other</b>	
<i>Total</i>	0	0		<i>Total</i>	0	0	
<i>% of Total</i>	0.0%	0.0%		<i>% of Total</i>	0.0%	0.0%	
	<b>Bi-lingual</b>	<b>Bi-lingual</b>			<b>Bi-lingual</b>	<b>Bi-lingual</b>	
<i>Total</i>	2	0		<i>Total</i>	0	0	
<i>% of Total</i>	13.3%	0.0%		<i>% of Total</i>	0.0%	0.0%	
	<b>Male</b>	<b>Female</b>			<b>Male</b>	<b>Female</b>	
<i>Total</i>	9	6		<i>Total</i>	4	1	
<i>% of Total</i>	60.0%	40.0%		<i>% of Total</i>	80.0%	20.0%	

**CONTRACTING**

Please note that the majority of payments (including those listed in the Contract Summary on page 2) are for bonds/banking, for which the firms have zero dollar contracts. The contracts listed above are the only ongoing contracts funded above \$1,000 per year.

**M/W/DBE Participation on Large Contracts  
FY15 Contracts**

Vendor	Service Provided	Amount of Contract	RFP Issue Date	Contract Start Date	Range s in RFP	% of M/W/DBE Participatio n Achieved	\$ Value of M/W/DBE Participation	Total % and \$ Value Participation - All	Living Wage Compliant?
Econsult	Lending Report - Authorized City Depositories	\$46,340	9/3/14	12/15/14	MBE:	50%	\$23,170		Yes
					WBE:	0%	\$0	50%	
					DSBE:	0%	\$0	\$23,170	
PFM Asset Management LLC	Arbitrage Rebate Services	\$40,000	8/29/11	7/1/12	MBE:	0%	\$0		Yes
					WBE:	0%	\$0	0%	
					DSBE:	0%	\$0	\$0	
Swap Financial	Swap Advisor	\$15,000	7/2/12	1/1/13	MBE:	0%	\$0		Yes
					WBE:	0%	\$0	0%	
					DSBE:	0%	\$0	\$0	
SS&C Technologies	Debt Management Software	\$8,875	7/2/12	12/1/12	MBE:	0%	\$0		Yes
					WBE:	0%	\$0	0%	
					DSBE:	0%	\$0	\$0	
DAC	Dissemination Agent	\$6,000	2014	2015	MBE:	0%	\$0		Yes
					WBE:	100%	\$6,000	100%	
					DSBE:	0%	\$0	\$6,000	

**OTHER BUDGETARY IMPACTS**

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FEDERAL AND STATE (WHERE APPLICABLE)

N/A

OTHER

N/A

**OTHER RELEVANT DATA AND CHARTS**

Year	Moody's	S&P	Fitch
1984	Baa	BBB+	--
1985	Baa	BBB+	--
1986	Baa	BBB+	--
1987	Baa	BBB+	--
1988	Baa	BBB+	--
1989	Baa	BBB+	--
1990	B	CCC	--
1991	B	CCC	--
1992	B	B	--
1993	Ba	BB	--
1994	Ba	BB	--
1995	Baa	BBB-	--
1996	Baa	BBB-	BBB-
1997	Baa	BBB	BBB
1998	Baa2	BBB	BBB+
1999	Baa2	BBB	BBB+
2000	Baa1	BBB	A-
2001	Baa1	BBB	A-
2002	Baa1	BBB	A-
2003	Baa1	BBB	A-
2004	Baa1	BBB	BBB+
2005	Baa1	BBB	BBB+
2006	Baa1	BBB	BBB+
2007	Baa1	BBB	BBB+
2008	Baa1	BBB	BBB+
2009	Baa1	BBB	BBB
2010	A2	BBB	A-
2011	A2	BBB	A-
2012	A2	BBB+	A-
2013	A2	A+	A-
2014	A2	A+	A-

  

Investment Grade Ratings
Aaa/AAA Minimal Risk
Aa/AA Very Low Risk
A/A Low Risk
Baa/BBB Moderate Risk
Ba/BB Substantial Risk
B/B High Risk
Caa/CCC Very High Risk