

# AGENDA REPORT BUDGET COMMITTEE

<b>AGENDA CATEGORY:</b> BUDGET RESOLUTION <b>ITEM NO:</b>
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**ORIGINATING DEPARTMENT:** BUDGET OFFICE

**DATE ACTION REQUESTED:** 04/07/2015                      **DATE ACTION TAKEN:**

**ISSUE:**            Adopt a supplemental budget within General Fund Treasurer Department.

**BACKGROUND & CONCLUSIONS:**    The Treasurer has completed an analysis of the costs and investment risks associated with managing the investment portfolio and desires to renew the contract with US Bank for day to day management of the portfolio. US Bank has offered to renew the contract at the existing price.

**FISCAL IMPACT:**    **General Fund, fiscal impact increased revenues and expenditures of \$65,000.**

**RECOMMENDED MOTION:**    Approve the supplemental budget as outlined in the attached document for changes to the General Fund, Treasurer department, fiscal impact increased revenues and expenditures of \$65,000.00.

**DEPARTMENT HEAD APPROVAL:** \_\_\_\_\_

**BUDGET OFFICER APPROVAL:** \_\_\_\_\_

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**KLAMATH COUNTY  
BUDGET TRANSFER/RESOLUTION**

Resolution # \_\_\_\_\_

JE# \_\_\_\_\_

POSTED BY: \_\_\_\_\_ Date: \_\_\_\_\_

**DATE:** 4/7/2015  
**DEPARTMENT:** Treasurer

**SIGNATURE:** \_\_\_\_\_

<u>BUDGET NUMBER</u>	<u>LINE ITEM NAME</u>	<u>INCREASE</u>	<u>DECREASE</u>
1000-1010-1011-1000-43980	Intradepartmental Service Chg	\$65,000.00	
1000-1010-1011-1000-62500	Contract Maintenance	\$65,000.00	
<b>TOTAL</b>		\$130,000.00	\$0.00

**REASON FOR TRANSFER:** Maintain service contract with US Bank for day to day management of investment portfolio.

THEREFORE, BE IT RESOLVED THAT THE FORGOING HEREBY IS APPROVED \_\_\_\_\_ DISAPPROVED \_\_\_\_\_ THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2015

**BUDGET COMMITTEE MEMBERS**

_____ CHAIRMAN	_____ COMMISSIONER	_____ COMMISSIONER
_____ LAY MEMBER	_____ LAY MEMBER	_____ COMMISSIONER

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	US Bank Cash Interest Receipts (1)	US Bank Non-Cash Investment Amortization Adjustment (2)	US Bank Net Cash Investment Earnings (3)	US Bank Non-Cash Gain/Loss Market Adjustment (4)	US Bank Management Net Interest Earnings (5)	County Bank Interest (6)	Gross Earnings (7)	US Bank Contract Fees (8)	Bank Fees (9)	Audit Fees (10)	Treasurer Fees (11)	Distribution (12)
FY 2013	\$2,311,330.52	(\$1,656,951.09)	\$654,379.43	(\$237,146.42)	\$417,233.01	\$139,783.60	\$557,016.61	(\$59,000.04)	(\$67,641.91)	(\$10,850.00)	(\$30,826.94)	(\$388,679.61)
FY 2014	\$1,890,861.09	(\$1,451,279.49)	\$439,581.60	\$75,354.66	\$514,936.26	\$169,166.07	\$684,102.33	(\$59,000.04)	(\$36,769.14)	(\$5,625.00)	(\$47,083.00)	(\$535,687.09)
FY 2015 (Mar)	\$1,172,175.50	(\$799,321.60)	\$372,853.90	\$45,966.95	\$418,820.85	\$166,800.46	\$585,621.31	(\$42,750.03)	(\$41,548.90)	(\$5,800.00)	(\$171,487.09)	(\$324,035.29)

(1) US Bank Cash Interest Receipts - Cash receipts from investments

(2) US Bank Non-Cash Investment Amortization Adjustment - Adjustments from amortization of premiums/discounts/accrued interest.

(3) US Bank Net Cash Investment Earnings - Formula (1) - (2)

(4) US Bank Non-Cash Gain/Loss Market Adjustment - Change in Unrealized Gain/loss on portfolio for fiscal year

(5) US Bank Management Net Interest Earnings - Formula (3) + (4)

(6) County Bank Interest - Interest earnings on bank accounts managed by County.

(7) Gross Earnings - Formula (5) + (6)

(8) US Bank Contract Fees - US Bank investment fees allocated to Treasury Portfolio.

(9) Bank Fees - Bank charges paid by Treasury Portfolio.

(10) Audit Fees - Contract audit fees paid for Treasury Portfolio.

(11) Treasurer Fees - Management fees charged by Treasurer Office to cover expenditures not identified elsewhere in this calculation.

(12) Distribution - Distribution of net investment earnings out to Treasury Portfolio participants.

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	US Bank	Self Managed	Fiscal year	US Bank Average Portfolio Value	US Bank Net Cash Investment Earnings	Earnings Rate Percentage	LGIP Rate Percentage
Dealer Mark-Up	-	4,488.00	2013	106,000,000.00	\$654,379.43	0.62%	0.54%
Clearwater Reporting Charge	7,050.00	14,100.00	2014	94,000,000.00	\$439,581.60	0.47%	0.54%
Bank Custodial Charge	4,700.00	-	2015	92,000,000.00	\$372,853.90	0.41%	0.50%
Management Fee	50,025.00	-					
KC - Supervision	4,000.00	4,000.00					
KC - Investment Management	-	8,000.00					
KC - Investment Risk Premium 5 basis points	-	47,000.00					
	65,775.00	77,588.00					

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March 19, 2015

Jason Link, CPA  
Klamath County, Oregon  
Chief Financial Officer 19-0190  
305 Main Street

Jason:

We have completed an analysis of eConnectDirect. Here are our conclusions:

This looks like a sufficient option if you and Klamath County want to manage the Treasury portfolio on your own. The commission costs are relatively low when compared with retail commission structures. They also apparently have access to a broad inventory.

Although they do have reps available by phone, it would not be a managed money relationship. They can't manage the money for you or provide you with the type of bond management experience that a money manager like U.S. Bank can.

US Bank does provide the following services that eConnectDirect does not:

- 1) No commissions. A flat and extremely competitive asset management fee is our only compensation. As a result, we have no incentive to initiate trades simply to generate commissions. We are incented to initiate trades only if it can improve the performance of the portfolio.
- 2) No inventories. Because we don't maintain any inventories of securities, we are not incented to purchase any specific securities to fill an inventory. We always review the securities available from a huge universe of dealers. We always purchase those securities at the best available offering price without any additional mark-up/spread. In fact, because we frequently purchase for multiple clients in one transaction, we often obtain even lower prices than those listed.
- 3) Fiduciary responsibility: U.S. Bank provides service that is held to a higher duty to avoid conflicts of interest, impartiality and prudence. U.S. Bank assumes responsibility for the portfolio so that you don't have to. I have also attached a more detailed explanation of U.S. Bank's fiduciary services to this email.
- 3) Yield curve positioning. Our expert bond traders and portfolio managers collaborate to position the portfolio optimally. This is particularly important now that the Fed has announced that they will be raising interest rates. We have the experience and expertise to reposition the portfolio properly in a shifting interest rate environment that is likely to be extremely challenging.



- 4) Customized reporting included. We have the ability to provide Klamath County with customized reporting formats that may not be available through a brokerage channel.
- 5) Investment policy input. We have and can continue to provide input and counsel for the county's investment policy statement for the Treasury portfolio.
- 6) No custodial fees. Because we have our own internal custody services, Klamath County's custody services are included for the county's Treasury portfolio without charging any additional fees. If you need a third party custodian (as all broker/dealers do, because they don't have custodial services of their own.) That service gets paid for one way or another, and whether you see it or not.
- 7) Time savings. Time is money, and you and your staff have a lot of demands on your time. Managing a short-term bond portfolio like the Treasury portfolio is time intensive due to the short-term maturity structure with frequent maturities. Keeping on top of the markets and positioning the portfolio optimally is a time consuming job. It may not be the best use of your time. Also, trying to manage this portfolio by himself created problems for your predecessor.

In summary, we believe that the flat management fee that we are charging for a larger than anticipated Treasury portfolio is extremely competitive, and well worth the cost for the comprehensive fiduciary and investment management services that we are providing for Klamath County.

We very much value our relationship with you and Klamath County. Please let me know if you have any questions or comments. Thank you.

Todd R. Blickenstaff  
Senior Portfolio Manager  
U.S. Bancorp Asset Management

Enclosures

# Is Your Advisor a Fiduciary?

U.S. Bank's role as a fiduciary is a critical aspect of our relationship with you. Whether we are administering a trust or managing an agency portfolio, we are bound to provide a higher standard of care and act in your best interests.

Our fiduciary role is grounded in several principles, but the following are paramount:

- The duty of loyalty – We will act in good faith for the benefit of you and your beneficiaries.
- The duty to avoid conflicts of interest – We will always put your interests and the interests of your beneficiaries first.
- The duty of impartiality among beneficiaries – We will act in the best interest of all beneficiaries, taking into account their differing rights, needs and interests.
- The duty of prudence – We will act with reasonable care, skill and diligence at all times.

## Why is this important?

- U.S. Bank Trust powers are fiduciary powers and Trust Officers and Portfolio Managers must adhere to fiduciary standards at all times. We are obligated to put you and your beneficiaries' interests first and are committed to ensuring the appropriateness of actions taken today, tomorrow and well into the future.
- The standard of care may differ from one investment manager to another. For example, brokers operate under a "know your customer" or suitability standard governed by the Financial Industry Regulatory Authority. While brokers are required to provide suitable investment products to you, they are not held to fiduciary standards at this time.

## Checks and balances

Your Trust Officer and Portfolio Manager support and maintain the fiduciary standard via specific processes and procedures. However, our fiduciary role is also heavily regulated by the Office of the Comptroller of the Currency (OCC) and examined on a frequent basis by government regulators to ensure compliance with our responsibilities.

## Safety and security

There is a difference in the safety of assets held in bank deposit accounts versus those held in bank fiduciary accounts. Specifically, client assets held in:

- Bank deposit accounts become assets and liabilities of the bank and are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per individual per bank.
- Bank fiduciary accounts are segregated from the bank's assets and do not become assets or liabilities of the bank. While the bank is acting as a fiduciary, account ownership ultimately remains vested in the account beneficiaries.

## Trusted advisor

If you name U.S. Bank as your Trustee or Agent, we will serve as your trusted guide and advisor. This trusted advisor role is further complemented by our fiduciary responsibilities. We are committed to understanding your short- and long-term needs and providing comprehensive wealth management strategies. You can expect that a relationship with us is built on trust, integrity and transparency.

### More than 100 years of experience

U.S. Bank brings more than 100 years of professional experience, which is grounded in the solid knowledge of the fiduciary relationship, trusts, estate management, investment management, wealth planning and cash management. We also value the importance of building strong partnerships with your tax and legal advisors to ensure that we have a broader perspective and understand your entire situation. And our knowledge is supported by a strong relationship management approach in which we purposely surround you with a team that knows you, your family and your community.

For more information about our fiduciary standard, please contact your Wealth Management Advisor or Trust Officer.

Bound by regulatory and common-law standards, fiduciaries are required to act in the best interests of the individuals being served. Is your advisor a fiduciary?



Investment products and services are:

NOT A DEPOSIT	NOT FDIC INSURED	MAY LOSE VALUE	NOT BANK GUARANTEED	NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
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U.S. Bank and its representatives do not provide tax or legal advice. Each individual's tax and financial situation is unique. Individuals should consult their tax and/or legal advisor for advice and information concerning their particular situation.