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OFFICE OF THE
CITY TREASURER

THOMAS P. FRIERY
TREASURER

June 18, 1998
A2838JNW.DOC

CITY OF SACRAMENTO
CALIFORNIA

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APPROVED
BY THE CITY COUNCIL

JUN 23 1998

OFFICE OF THE
CITY CLERK

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Re-engineering the Office of the City Treasurer

LOCATION / COUNCIL DISTRICT: Citywide

RECOMMENDATION The City Treasurer recommends that the City Council adopt the attached Resolution which:

1. Authorizes reclassification of Investment Officer II position to Chief Investment Officer; and
2. Authorizes equity adjustments for the Assistant City Treasurer and the Deputy City Treasurer; and
3. Authorizes a Typist Clerk III position; and
4. Authorizes offsets through an increase in the City Treasurer's investment management fee from 18 Basis Points (BP) to 20 BP, potential salary savings, and/or other cost recoveries to be implemented FY 1998/99.

CONTACT PERSON: Thomas P. Friery, City Treasurer (916) 264-5168

FOR COUNCIL MEETING OF: June 23, 1998

SUMMARY

This report describes the phased re-engineering of the Office of the City Treasurer. The recommended position classification and the equity adjustments will result in a General Fund cost of \$44,072 for FY 1998/99. The new Typist Clerk III will result in a General Fund cost of \$45,470 for FY 1998/99. A combination of an increase in the City Treasurer's investment management fee, potential salary savings and/or other cost recoveries will be implemented in FY 1998/99 to make the proposal cost neutral.

COMMITTEE / COMMISSION ACTION: None.

BACKGROUND INFORMATION

In 1979, the City Council directed the City Treasurer to organize his Office so that treasury operations did not hinge on one individual. Each year since 1979, City Council has affirmed that direction and provided the Treasurer with the necessary funding to accomplish this process. In October 1989, the City Council approved the current organization and structure of the Office of the City Treasurer. At that time, the City Treasurer indicated that the changes should be viewed as the first phase in a re-engineering of the Office. The goal of the re-engineering process is to provide the City with an office that is professionally managed and not primarily reliant on a single individual. This report addresses the next phase in the overhaul process.

The October 1989 phase placed emphasis on improvement of administration and created a basic support structure for the financing and operational functions. It did not address the long-term investment management function nor did it address the day-to-day management responsibility of the financing and operational functions as these functions remained heavily supported by the Treasurer. The investment management function remained the principal duty of the City Treasurer and the financing and operational functions became somewhat less supported by the Treasurer because of the ability to delegate some of the work.

The next phase of the re-engineering includes a structure for investment management function and shifting the emphasis of the investment function from the City Treasurer to the Chief Investment Officer, thus freeing the City Treasurer for policy issues and providing administrative direction. The Chief Investment Officer position is a reclassification and major responsibility upgrade of the now recent Investment Officer II position. Further, this phase will put in place the issues related to the long-term financing and operational structures associated with the office.

This phase is necessary due to the continued and expanded involvement of the City Treasurer on special projects for City Council including economic development projects. Further, it should be considered that both the sophistication and growth of work in all the areas of Treasury responsibility requires this type of organizational structure.

For example, since July 1, 1994, the City Treasurer has been involved in the following major projects:

1. Packard Bell
2. Gas Tax financing for Truxel interchange
3. Development Fee financing
4. Southern Pacific site development
5. CalEPA Building financing
6. Sacramento Symphony Association
7. Blue Diamond Growers
8. Sacramento Ballpark Authority
9. ARCO Arena financing
10. Civic Center financing
11. Discovery Museum's Challenger Project
12. Solid Waste RFP review
13. Olympic Trials 2000 - Track

Each of these projects required a substantial commitment in addition to the responsibility for managing \$604.7 million in City funds, \$231.9 in SCERS corporate bonds, \$36.1 million in a large capital/growth portfolio, \$31.1 million in a utility equity portfolio, overseeing four external equity managers with aggregate portfolios in excess of \$106.7 million, \$64.1 million in SHRA funds, \$3.6 million in Public Trust finds, direction for the operations of the Office, responding to City Council requests, issuing state-mandated investment reports and the like.

In today's highly volatile and complex financial markets, the City's investment programs require constant monitoring. The economic development projects make it extremely difficult, at best, for the City Treasurer to provide adequate vigilance of the financial markets. A Chief Investment Officer is needed to perform this task under the general direction of the City Treasurer.

The addition of the Chief Investment Officer will allow the City Treasurer to focus on the City's broad financial policy issues and to coordinate and monitor the daily implementation of fiscal policy within the Office. This in turn will free up the Assistant City Treasurer, who currently coordinates and monitors the daily implementation of fiscal policy within the office, to concentrate on transitioning the administrative tasks to the City Treasurer, the Chief Investment Officer; the Debt Management Officer and the Operations Officer; the financial review of SCERS, and planning and implementation of the final phase of the re-engineering. Phase II organization is shown on Attachment 1.

The clerical workload in the office has steadily increased over the last twelve years without the addition of additional clerical support. The increase was partially offset by improved technology, electronic calendars and voice mail. However, for the last several years, the workload has overloaded the clerical staff resulting in missed deadlines, using management staff for clerical functions and staff burnout.

Examples of additional workload include:

Large Capital/Growth Fund added in December, 1992.

HART Endowment Fund added in May 1996.

State mandated monthly and quarterly investment reports required as a result of the Orange County investment fiasco.

Packard Bell Loan added in January, 1995.

Arco Arena Loan added in July, 1997.

Negotiation and assistance in Sacramento 2000 Track Project

Each of these additional tasks require extensive clerical support for producing and distributing reports, telephone traffic, filing, etc. The final phase of the re-engineering is the restructuring of the position classifications within the Office.

Currently, the Office position classifications reflect, at the entry and staff levels, a typical civil service organization. The detailed banking and operations, investment and financing functions are classified as Account Clerks and Treasury Operations Officers. Both positions are filled from civil service lists that attract candidates whose career expectations are limited. The individuals must be trained in the specific duties required to record, account for and report banking and operations, financing and investment activities. The individuals become trapped in the positions since the unique skills necessary for these tasks do not train them for promotional examinations.

A typical private investment firm or banker recruits individuals with career aspirations in the banking, investment or financing industry to perform similar duties. The firm invests in the specific training of the individuals with a view towards eventual promotion to the professional and management positions. In order to facilitate recruitment of qualified individuals at the entry level for eventual promotion within the Office, entry- and staff-level positions should be reclassified to a Treasury Associate series.

The result of this difference between the civil service structure and private industry is that turnover in the Office occurs in the professional and management ranks; in private industry, turnover occurs in the entry-level ranks. In the City Treasurer's Office, time devoted to training of professional and management staff far exceeds the time devoted to training at the entry-level ranks. Furthermore, this is a hidden cost. In private industry, quite the opposite applies.

This phase of the re-engineering -- estimated to take 12 months -- will require extensive redefinition of position descriptions and duties, training and development of staff in order to prepare them adequately for the re-engineered position, and involvement with other departments and entities, specifically recognized employee groups.

Once the final phase is completed, it is envisioned that the Assistant City Treasurer position will be eliminated.

FINANCIAL CONSIDERATIONS

The Office of the City Treasurer has contributed and is expected to continue to contribute substantially to the economic benefit of the City and the City's General Fund. As shown on Exhibit 1, for FY 1996/97 the Office returned \$10.2 dollars for every \$1.00 expended. During my tenure, the Office has averaged a return of \$8.50 for every \$1.00 expended.

However, this is only the directly measurable return. Not included in this analysis are the benefits of:

1. Low cost borrowing due to the prudent management of City debt; and
2. Economic development projects involving the City Treasurer which include Packard Bell, Sacramento Kings, CalEPA Building, Truxel Interchange, etc.; and
3. Efficient money management and banking service such as lock box, electronic payment processing, etc. which result in lower costs

Another method to evaluate the effectiveness of the Office is to estimate the cost of out-sourcing the activities managed.

ESTIMATE OF COSTS - OUT-SOURCING

| <u>Activity</u> | <u>Amount Managed</u> | <u>Fee</u> | <u>Estimated Cost</u> |
|---|-----------------------|------------|-------------------------------|
| <u>Investment Management</u> | | | |
| City Fixed Investments | \$604.7 million | .005 | \$3.024 million |
| SHRA Fixed Investments | 64.1 million | .0025 | .160 million |
| <u>SCERS</u> | | | |
| Fixed | 231.9 million | .0045 | 1.044 million |
| Equity | 67.1 million | .0070 | .470 million |
| Real Estate | 21.1 million | .0025 | .053 million |
| Public Trusts | 3.6 million | .01 | .036 million |
| | | | <u>\$4.734 million</u> |
| <u>Financing</u> | | | |
| Financial Advisor Fees @ 10 per year | \$25,000.00 | | <u>\$.250 million</u> |
| <u>Economic Development</u> | | | |
| Consultant Fee @ 3 per year | \$50,000.00 | | <u>\$.150 million</u> |
| <u>Cash Management and Banking</u> | | | |
| Unable to estimate cost due to lack of external service providers | | N/A | |
| TOTAL ESTIMATED COSTS | | | <u>\$5.134 million</u> |

RATIO: Office of City Treasurer costs v. Estimated Costs - Out-Sourcing: .21 to 1

The research to determine an appropriate salary range for the Chief Investment Officer position disclosed that the salaries of the management professionals within the Office are not competitive with similar positions in the City and the Sacramento area government employment market. Attachments 2 through 6 summarize comparisons of the City Treasurer's Office to

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other City positions and Sacramento area government employees. The City Treasurer believes the six-city comparisons traditionally used by the City Human Resources staff do not reflect the true competition for these skilled professionals.

Attachment 7 compares the current and proposed annual salaries for each position.

The proposed increases are the result of the increased workload for special projects, increased responsibility for investments new investment reporting requirements, new cash management services offered, more complex financing issues, and new financing disclosure requirements.

Unlike two other Charter Officers, the City Treasurer has not been able to exercise the administrative authority to implement management salary increases for additional responsibilities granted by Resolution No. 97-052 on February 4, 1997 due to budget constraints. The City Council generously approved an increase for the City Treasurer on November 13, 1997. The increase at the top level without corresponding historical adjustments for the balance of the Treasury management staff erodes the comparative value relationship of these positions.

The additional General Fund costs total \$89,542 for FY 1998/99. The reclassification of the Investment Officer II position to Chief Investment Officer and the equity adjustments for the Assistant City Treasurer and the Deputy City Treasurer will require an additional General Fund appropriation of \$44,072 for FY 1998/99. The additional Typist Clerk III position requires an additional \$40,470 for salary and \$5,000 for operating General Fund expense of supplies and equipment. The City Treasurer, with the co-operation of the City Manager will present and implement a detailed plan to offset the increase through a combination of an increase in the City Treasurer's investment management fee, salary savings and/or other cost recoveries in FY 1998/99.

POLICY CONSIDERATIONS

Should equity adjustments be made?

The City Treasurer has contributed considerable effort and expended significant monies on the development and training of the professional staff. The pro-active approach of making equity adjustments will avoid the cost of the reactive approach of waiting until turnover exists to raise salary ranges to market levels for recruitment purposes.

Should the Chief Investment Officer position be established in light of the review of SCERS?

It is uncertain at this time that any investment programs will be reduced. In any event, the earliest likely date for a reduction in SCERS is July 1999. The Chief Investment Officer position is needed to properly manage the current investment programs. Further, it should be considered that a 1% investment management fee for Equity Investments would generate \$10 thousand of revenues on \$10 million of investment resources. Therefore, it is possible that enough revenues would be earned and changes would be made to the staffing.

ENVIRONMENTAL CONSIDERATIONS

Ongoing administrative and maintenance activities which are not for purposes of a public works construction project do not constitute a "project" and are exempt from the California Environmental Quality Act (CEQA). CEQA Guidelines, Sections 15061(b)(1), 15378(b)(3).

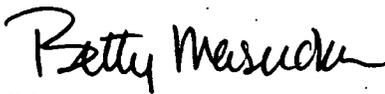
MBE / WBE EFFORTS

Because this transaction does not involve the purchase of goods or services for the City, M/WBE efforts are not applicable.

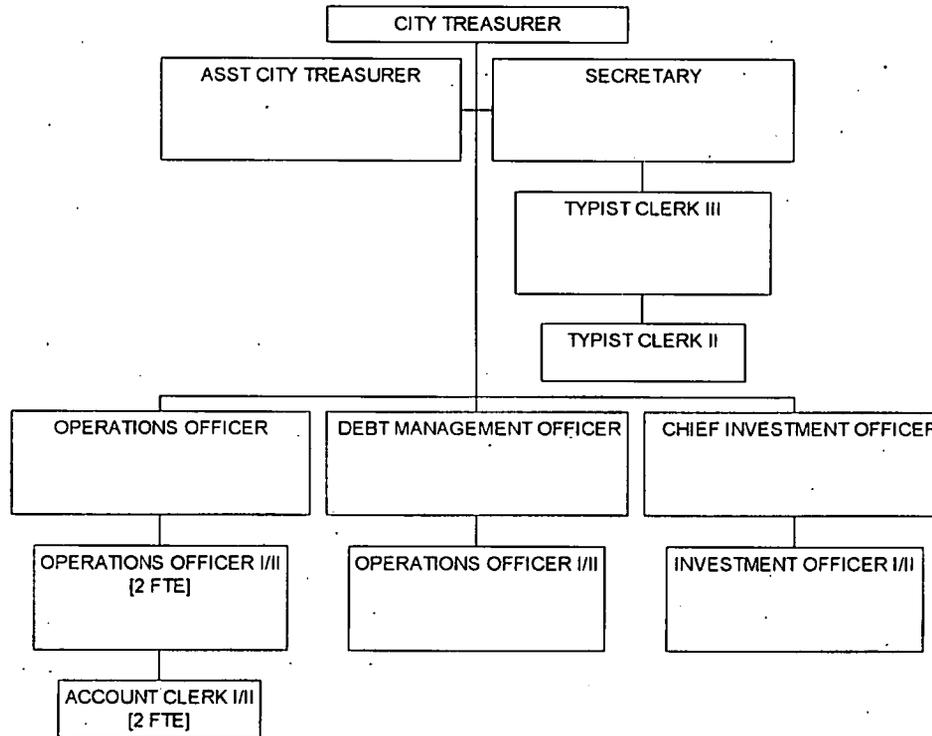
Respectfully submitted,


Thomas P. Friety
City Treasurer

Recommendation Approved


for William H. Edgar, City Manager

OFFICE OF CITY TREASURER--PHASE II



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CITY TREASURER

The City Treasurer is appointed by and serves at the pleasure of the City Council.

The City Treasurer is responsible for all City investments, financing and banking relationships. The City Treasurer is the independent fiscal advisor to the City Council on fiscal policies and economic development.

| <u>Agency</u> | <u>Position</u> | <u>Salary</u> |
|--------------------|--------------------------|-------------------------------------|
| City of Sacramento | Deputy City Manager | \$119,580 |
| SMUD | Treasury Manager | \$ 87,747 - \$109,583 |
| Sacramento County | Director of Finance | \$ 99,852 |
| PERS | Chief Investment Officer | \$185,000 - \$250,000 plus bonus |
| STRS | Director | \$102,000 plus bonus |
| State Treasurer | State Treasurer | \$ 95,000 - \$125,000 |

The City Treasurer position is unique. SMUD Treasury Manager does not have responsibility for equity investments. Other jurisdictions' treasury managers have other substantially different duties. Valid comparison is to Deputy City Managers who also have high-level policy responsibility and direction of other high-level exempt management.

Market range: \$87,747 - \$250,000

Approved Annual Salary: \$110,040

ASSISTANT CITY TREASURER

The Assistant City Treasurer serves under broad policy direction of the City Treasurer. Responsible for staff development, administration, and special projects.

| <u>Agency</u> | <u>Position</u> | <u>Salary</u> |
|-------------------|--|-----------------------|
| SMUD | N/A | |
| Sacramento County | Assistant Treasurer | \$ 69,720 |
| PERS | Deputy Executive Director Of Administration | \$ 64,811 - \$116,784 |
| STRS | N/A | |
| State Treasurer | Chief Deputy Treasurer | \$100,000 |

Market Range: \$64,811 - \$116,784

Broadbanding Range: M4 - \$52,183 - \$104,385

Requested Annual Salary: \$85,117
Budgeted Salary: \$80,358

CHIEF INVESTMENT OFFICER
(Reclassification of Investment Officer II)

The Chief Investment Officer serves under broad direction of the City Treasurer and plans and formulates recommendations for overall investment policy and strategy; analyzes securities and financial markets, industries, and financial and economic conditions and recommends and negotiates purchase, sale and exchange of securities for various funds administered by the Office of the City Treasurer, and supervises and trains assistance.

| <u>Agency</u> | <u>Position</u> | <u>Salary</u> |
|-------------------|-----------------------------------|----------------------|
| SMUD | Assistant Treasurer | \$62,101 - \$77,556 |
| Sacramento County | Chief Investment Officer | \$94,500 |
| PERS | Director of Investment Operations | \$57,732 - \$116,784 |
| STRS | Investment Officer III | \$65,904 - \$76,296 |
| State Treasurer | Director of Investments | \$89,244 - \$116,784 |
| Market Range: | \$57,732 - \$116,784 | |

Broadbanding Range: M3 - \$45,239 - \$90,479

City Treasurer Range: \$60,000 - \$95,000

Requested Annual Salary: \$76,362

Budgeted Annual Salary: \$54,655

DEBT MANAGEMENT OFFICER

The Debt Management Officer is responsible for planning, organizing, managing, and directing programs and activities related to debt management, fiscal analysis, and asset management; evaluating financial structures and making recommendations; providing service to bond holders, and training and supervising assigned staff.

| <u>Agency</u> | <u>Position</u> | <u>Salary</u> |
|-------------------|-------------------------|-----------------------|
| SMUD | Assistant Treasurer | \$62,101 - \$77,556 |
| Sacramento County | Deputy County Executive | \$84,844 |
| PERS | N/A | N/A |
| STRS | Division Manager | \$100,000 - \$110,000 |
| State Treasurer | Deputy Treasurer | \$80,376 - 88,608 |
| Market Range: | \$62,101 - \$110,000 | |

Broadbanding Range: M4 - \$45,239 - \$90,479

City Treasurer Range: \$62,000 - \$80,000

Requested Annual Salary: \$65,530

Budgeted Annual Salary: \$61,991

OPERATIONS OFFICER

The Operations Officer serves under broad direction of the City Treasurer and plans and formulates recommendations for overall cash management, banking relations, oversees the accounting and reporting of City investments, is responsible for custody of City investments and supervises and trains assistants.

| <u>Agency</u> | <u>Position</u> | <u>Salary</u> |
|-------------------|------------------------|-----------------------|
| SMUD | Assistant Treasurer | \$62,101 - \$77,556 |
| Sacramento County | Deputy Treasurer | \$69,720 |
| PERS | Director of Accounting | \$75,918 - \$153,570 |
| STRS | Operations Manager | \$59,264 - \$71,479 |
| State Treasurer | Deputy Treasurer | \$105,694 - \$116,520 |
| Market Range: | \$45,240 - \$116,784 | |

Broadbanding Range: M3 - \$45,239 - \$90,479

City Treasurer Range: \$50,000 - \$75,000

Requested Annual Salary: \$65,530

Budgeted Annual Salary: \$61,991

OFFICE OF THE CITY TREASURER

COST COMPARISON OF PROPOSED EQUITY SALARY ADJUSTMENTS

| | <u>Budgeted Annual Salary</u> | <u>Proposed Annual Salary</u> | <u>Percent Increase</u> |
|--------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Assistant City Treasurer | 80,358 | 85,117 | 5.9% |
| Chief Investment Officer | 54,655 | 76,362 | 39.7% |
| Debt Management Officer | 61,992 | 65,530 | 5.7% |
| Operations Officer | 61,992 | 65,530 | 5.7% |

APPROVED
BY THE CITY COUNCIL

RESOLUTION NO. 98-307

JUN 23 1998

ADOPTED BY THE SACRAMENTO CITY COUNCIL

OFFICE OF THE
CITY CLERK

ON DATE OF _____

A RESOLUTION AUTHORIZING THE CHIEF INVESTMENT OFFICER POSITION, EQUITY ADJUSTMENTS FOR SPECIFIED CITY TREASURY EXEMPT MANAGEMENT STAFF, AUTHORIZING A TYPIST CLERK III FOR THE OFFICE OF THE CITY TREASURER, AND APPROVES OFFSETS THROUGH INCREASED FEES, SALARY SAVINGS AND/OR OTHER COST RECOVERIES TO BE IMPLEMENTED IN FY 1998/99

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

WHEREAS, in 1989, the City Council approved a reorganization which improved office administration and created the basic structure for the financing and operational functions but because of budget constraints, did not address the investment management function, which remains as the principal duty of the City Treasurer; and

WHEREAS, this proposed re-engineering includes a structure for investment management function and shifts the emphasis of the investment function from the City Treasurer to the investment manager; and

WHEREAS, the salaries of the City Treasury management professionals are not competitive with similar positions in the Sacramento area government employment market, the proposed salary increases are the result of increased workload, responsibility, reporting requirements, new services offered, more complex financing issues and disclosure requirements; and

WHEREAS, the City Council approved a salary increase for the City Treasurer on November 13, 1997 and without corresponding historical adjustments for the balance of the Treasury management staff, the comparative value relationship of these positions is distorted; and,

WHEREAS, the clerical workload has increased significantly without corresponding increase in clerical resources; and

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

WHEREAS, the increased costs of investment management and reporting should be borne by the funds which the City Treasurer serves as an investment manager.

NOW, THEREFORE, as detailed and described the attached report hereby incorporated into this resolution by reference the City Council hereby approves:

1. The Investment Officer II position is authorized for reclassification to Chief Investment Officer.
2. Equity adjustments are authorized for the Assistant City Treasurer and Deputy City Treasurer positions.
3. A Typist Clerk III position is authorized for the office of City Treasurer
4. Offsets through an increase in the City Treasurer's investment management fee from 18 Basis Points (BP) to 20 BP, potential salary savings, and/or other cost recoveries to be implemented in Fiscal Year 1998-99.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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1. The Investment Officer II position is authorized for reclassification to Chief Investment Officer.
2. Equity adjustments are authorized for the Assistant City Treasurer and Deputy City Treasurer positions.
3. A Typist Clerk III position is authorized for the office of City Treasurer.
4. Offsets through an increase in the City Treasurer's investment management fee from 19 Basis Points (BP) to 20 BP, potential salary savings, and/or other cost recoveries to be implemented in Fiscal Year 1998-99.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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