

Mayor and Council Communication

DATE: 03/09/21

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LOG NAME: 13SECURITIES LENDING_2021

SUBJECT

(ALL) Authorize Execution of Professional Services Agreements with Citibank, N.A. for the City's Securities Lending Program

RECOMMENDATION:

It is recommended that the City Council authorize the execution of professional services agreements with Citibank, N.A. for the City's Securities Lending Program.

DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to authorize new agreements with Citibank, N.A. (Citibank) to continue providing professional services and function as agent and custodian for the City's Securities Lending Program (SLP).

The SLP is a portfolio management strategy involving the lending of the City's securities to a primary dealer with the substitution of securities of greater market value being safe-kept by a third party custodial bank in an account in the City's name. The program is designed so that the City earns supplemental income on the portfolio without losing ownership or interest payments on the loaned securities. The SLP entails the following services/functions:

- Negotiate rebates and/or lending fees with the borrowers
- Collect from borrowers the cash, securities or other financial instruments that services as collateral for the loans
- Enter into and sign, as agent for the City, such documents and instruments, including but not limited to repurchase agreements, tri-party agreements, subscription agreements, asset management agreements or other relevant agreements as are required for the investment of collateral
- Hold in custody and/or enter into any required agreement with a third party custodian that will hold in custody any and all loaned securities and collateral
- If requested by the City, to invest on the City's behalf all cash collateral delivered by borrowers in respect of loans
- Perform daily the "mark-to-market" function and to request and return collateral
- Collect or arrange for the collection of any interest, dividends or other distributions or other payments of any kind on loaned securities (including but not limited to manufactured dividends, if any, and other distributions due to the City in respect of the loan) and pay the same to the City
- Terminate or modify any loan at any time as required by the City
- Indemnify and hold the City harmless from and against damages, losses, costs, and fees incurred by the City that result from Citibank's negligence or willful misconduct in performing its duties as the agent

A securities lending program is very complex and requires an agent that has a robust network of borrowers along with a sizable portfolio of lendable assets.

Citibank has provided services for the City's SLP since 2011, when it was awarded the agreement following a competitive procurement process (M&C P11216). Some of the key benefits that have been provided during Citibank's tenure include the following:

- Since the inception of the SLP with Citibank, the City has earned more than \$14.5 million in lending income
- The City's SLP has outperformed the lending market in total return to lendable assets by an average of 15 basis points over the past five years, as reported by the independent industry benchmarking service DataLend
- Citibank's SLP is a premier provider of agency lending services, with over \$4 trillion of lendable assets (an increase of ~193% since 2015)
- Due to the customized reinvestment structure Citibank and the City treasury has implemented, the Citibank's lending program has nearly twice as many assets on loan (utilization) as compared to the industry average of other governmental entities with the same securities, as reported by DataLend
- The Citibank program has been designed to enable the City to offset custody charges directly from lending revenue with no out-of-pocket expenses

Staff has been satisfied with Citibank's performance under the current agreement. Citibank has agreed to continue under its existing compensation structure, which involves a 90/10 revenue split (the City receiving 90% of the revenue and Citibank receiving 10%) and custody fees of approximately \$2,000.00 per month per account. Staff conducted an informal survey of several other cities/organizations and has determined that the existing/proposed rates are substantially better than the 80/20 or 70/30 splits, which are most common. In addition to a less favorable revenue split, switching vendors would involve an estimated transitional period of up to six months, which could result in a loss of income of approximately \$500,000.00.

To retain the highly favorable fee structure and avoid loss of revenues due to a transition, staff highly recommends entering into new agreements with Citibank for the SLP to provide professional services as agent and custodian.

Staff recommends mirroring the structure of the current contract, with an initial term of one year and nine (9) one-year renewal periods, with each renewal at the City's sole option.

A Form 1295 is not required because: This contract will be with a publicly-traded business entity or a wholly-owned subsidiary of a publicly-traded business entity: Citigroup, Inc.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that upon approval of the above recommendation and execution of the professional services agreement, funds will be deposited into the City's operating funds. The Financial Management Services Department is responsible for the collection and deposit of funds due to the City.

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Expedited