CITY COUNCIL COMMUNICATION:

98-520

AGENDA:

NOVEMBER 16, 1998

SUBJECT:

TREASURY MANAGEMENT SOFTWARE

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

KEVIN RIPER
TREASURER

ITEM _____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS -

To satisfy a new accounting requirement from the Governmental Accounting Standards Board, and to calculate more accurately the actual yield on the City's investment portfolio, the Treasury Division of the Finance Department needs treasury management software. A Request for Proposals (RFP) yielded a satisfactory package from Evare, LLC (41 2nd Avenue, Burlington, MA 01803; Joan Perez, President), including the lowest price offered.

FISCAL IMPACT -

A three-year lease of the software will cost $11,300. A lease is recommended, rather than an outright purchase, because if PeopleSoft creates treasury management software in the next few years, the City may benefit from switching to the PeopleSoft version, for closer integration with the rest of the City's new financial/accounting software. The annual cost of the lease will be funded by new revenue being earned each year by the Treasury Division for serving as registrar, paying agent, and trustee for the $42.7 million airport revenue bond issue last spring. Both the new revenue and the appropriation for leasing the software will be part of the City Manager's recommended budget, forthcoming in a few months.

RECOMMENDATION -

Approve the low compliant response from Evare, LLC, for a treasury management software package at a total cost of $11,300 for a three-year lease.

BACKGROUND -

There are two reasons to acquire treasury management software. First, the Governmental Accounting Standards Board (GASB) now requires municipalities to "mark to market" their investment portfolios at lease once per year. "Mark to market" means to record on the balance sheet the sum total of the market values of each investment in the portfolio, as opposed to the original cost of each investment. (Most municipalities, including the City, have recorded only the original cost of investments on their balance sheets, because their buy-and-hold-to-maturity investment policies have meant that changes in market value-resulting from market changes in the level of interest rates generally-were irrelevant to their financial performance. The GASB has ruled otherwise.) Treasury management software will automatically make these calculations, using information downloaded from the Internet.

Second, the City currently lacks the capability to compute precisely the actual yield on its overall investment portfolio. Instead, for many years, the Treasury Division has used as a proxy the actual yield on another entity's investment portfolio, which has a similar make-up to the City's investment portfolio. Henceforth, the City needs to be able to compute the actual interest earnings and yield on its own investment portfolio. This complex process-involving dates of purchase and maturity; premiums paid; discounts received; coupon yields; zero-coupon short-term securities; and other factors-requires a software package like Evare's. This capability is particularly important for computation and allocation of interest earnings retrospectively. Occasionally, a contractual agreement or law requires the City to compute and re-allocate interest earnings a number of years back in time. The new software will make that a less burdensome task. (In cases where interest-allocation decisions are not mandated by contracts or law, refinements to the City's existing interest-allocation model have been, and will continue to be, prospective in nature, not retrospective.)