

Agenda Report

October 29, 2012

TO: HONORABLE MAYOR AND CITY COUNCIL

THROUGH: FINANCE COMMITTEE (October 22, 2012)

FROM: HOUSING DEPARTMENT

SUBJECT: TRANSFER OF THE HUMAN SERVICES ENDOWMENT FUND TO THE PASADENA COMMUNITY FOUNDATION

RECOMMENDATION:

It is recommended that the City Council approve the transfer of the Human Services Endowment Fund (the Fund) to the Pasadena Community Foundation and find that the transfer is in the interest of the public and City in that it presents the best option to ensure the continued viability of the Fund, PCF is a non-profit, public benefit, foundation uniquely placed to both market and manage the fund in a way that will allow for greater investment returns, as well as the ability to pursue other ways of attracting donors and income which will enable the Fund to continue to serve the purposes for which it was originally established.

ADVISORY COMMISSION RECOMMENDATIONS:

On October 10, 2012, the Human Services Commission approved the staff recommendation to transfer the Human Services Endowment Fund to the Pasadena Community Foundation. The Human Services Commission respectfully requests that it continue to serve as the advisory body for expenditures from the Human Services Endowment Fund.

BACKGROUND:

The Human Services Endowment Fund was established by the City Council in 1992 for the purpose of funding human and social services programs in Pasadena. The fund consists of moneys appropriated from several bequests the City has received over the years; Lind Bequest, Holmes Bequest and the Williams Bequest, as well as other funds previously directed by the City Council.

Awards from the Fund are made annually and are incorporated into the process of awarding Community Development Block Grant and Emergency Solutions Grant funds. Consistent with City Council policy, only investment earnings may be expended from the Fund, while the principal balance of roughly \$1.9 million remains invested. The value of the Fund peaked at \$2.6 million in fiscal year 2002.

Since 2002, financial awards have not exceeded \$113,200 per year. Unfortunately, with the annual financial payout and relatively low investment returns, the Fund has been reduced to its principal balance. Therefore, allocations from the Fund will not be possible in Fiscal Year 2014, and no additional financial disbursements will be made until investment earnings reach a more significant level.

Staff believes the best option to ensure the continued viability of the Fund, is to transfer its management to the Pasadena Community Foundation (PCF). PCF is uniquely placed to both market and manage the fund.

As proposed the transfer of the Fund to the PCF will allow for greater investment returns, as well as the ability to pursue other ways of attracting donors and income. This transfer will not affect the purpose of the Funds, the method in which the Funds are awarded and who will make allocation recommendations.

The proposal to transfer management of the Fund contemplates investing the funds in the stock market and in certain fixed income sectors that are inherently more volatile and riskier than the investments authorized in the City's investment policy and the State Government Code. Traditionally, investing in the stock market comes with inevitable and unavoidable risks that may impact the overall Fund's investment earnings. To mitigate these risks, PCF management proposes a diversification strategy to limit the Fund's exposure to high-risk, high-return investment vehicles. However, risk cannot be eliminated and the potential for negative returns and investment losses exists on any given month, quarter, or year.

PCF will hold the Fund as a Designated Fund, which will allow for bi-annual allocations while preserving the principal and investing in long-term growth. The City of Pasadena will continue to specify how Funds will be used/ granted while PCF will manage the investment. To ensure compliance with the Williams Bequest, Holmes Bequest and Lind Bequest PCF will continue to follow the guiding policy of "non-invasion of principal," and utilization of Funds will continue to address unmet human services needs in Pasadena. Concurrent with the transfer would be the suspension or partial reduction in annual allocations for approximately up to two years in order to conserve and grow the Fund.

PCF predicts a higher growth rate for the Fund, as well as increased oversight on the amount allocated out each year. This higher growth rate is due in part to the PCF's ability to utilize investment and fund raising strategies not available to the City. These different strategies will help reverse the current decline and increase the fund over time.

If at any point in the future, the City desires to take back the funds from PCF, it would be subject to approval by the PCF board.

Under PCF's management, the Fund will incur a 1 percent flat fee, which at current levels would be approximately about \$20,000 annually. While being managed by the City, the Fund incurred a management fee ranging between \$6,000 and \$9,000 over the last fifteen years, or about 0.5 percent.

COUNCIL POLICY CONSIDERATION:

This proposed action supports the City Council Strategic Planning Three-Year Goals, specifically in the areas of supporting the quality of life and maintaining fiscal responsibility and stability.

FISCAL IMPACT:

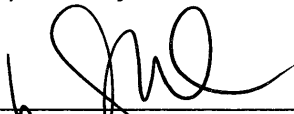
The Human Services Endowment Fund is classified as a non-major government special revenue fund. As such, the proposed action will have no impact on the City's General Fund. This action is intended to maintain the viability of the Fund and increase its size through charitable donations. In the near-term there may be an impact to the funding for social service programs based on the limited availability of Funds, however, over time this action is intended to increase available social service funding.

Respectfully submitted,



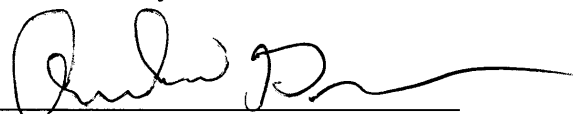
William K. Huang
Housing Director

Prepared by:



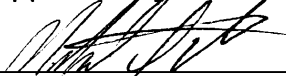
Valerie Babinski
CDBG Program Coordinator

Concurred by:



Andrew Green
Finance Director

Approved by:



MICHAEL J. BECK
City Manager