



Agenda Item 3b

June 17, 2014

ITEM NAME: Contract Administration: Altus Group U.S. Inc.

PROGRAM: Investment Office

ITEM TYPE: Action Consent

RECOMMENDATION

Approve staff's recommendation to authorize an increase of an existing contract amount for Altus Group U.S. Inc. (Altus) from \$8.3M to \$35.5M.

EXECUTIVE SUMMARY

The Altus contract for Real Asset Valuation Management and Consulting Services was reported on the June 2012 Report of Prospective Contract Activity (Prospective Report) to the Finance & Administration Committee (FAC) with a value greater than \$1 million. Services provided by Altus include, Management of Annual Appraisal Schedule, Management of Ad Hoc Appraisals, Independent Appraisal Reviews, and Advisory and Consulting Services. The contract amount was determined based on services and fees proposed during the competitive bidding process. These fees were not inclusive of the annual appraisal costs of approximately \$5.5M per year.

CalPERS has historically directly engaged third party appraisal firms. As required by the CalPERS Board of Administrative Contract Activity Reporting Policy, this Agenda Item notifies the Board that the Investment Office (INVO) plans to increase the Altus contract for Real Asset Valuation Management and Consulting Services to reflect the annual appraisal costs paid to appraisal firms by Altus but reimbursed by CalPERS.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to cultivate a high-performing, risk intelligent and innovative organization. Approval of the increase to the existing contract supports CalPERS mitigation of investment and operational risks by ensuring the continuation of services.

BACKGROUND

In support of the Real Assets Program (Real Assets), CalPERS established an Appraisal of CalPERS Real Estate Interests Program (Program) that engaged third party appraisal firms and historically has cost approximately \$5.5M a year. In December of 2011, CalPERS released a Request for Proposal to procure Real Asset Valuation Management and Consulting Services in order to better support this Program. These services were procured through a competitive bid, under Request for Proposal to No. 2011-6149, CalPERS Real Assets Valuation Management & Consulting Services, which was released on December 16, 2011. Firms were asked to provide proposals that included the following services:

- Management of Annual Appraisal Schedule
- Management of Ad Hoc Appraisals
- Independent Appraisal Reviews
- Advisory and Consulting Services

In addition, the services to be provided specified that the vendor would make payment to third party appraisal firms that would be reimbursed by CalPERS.

The contract was awarded to Altus as a result of this firm's capabilities and proposed fees. These fees were specific only to the services to be provided by Altus and the contract's maximum value was listed as \$8.3M. This value did not take into account the \$5.5M annual appraisal fees that would be paid by Altus but subsequently reimbursed by CalPERS

ANALYSIS

Staff has reviewed costs associated with Altus and the associated appraisal costs and determined the expenditure for this service will reach \$35.5M by the end of the contract's term on June 30, 2017. The original contract amount did not include the reimbursements of the third party appraisal firms as required by the contract terms. Therefore, CalPERS is unable to pay third party appraisal costs associated with the program, which is a critical function supporting Real Assets.

Given the total cost of services exceeds \$1M, OSSD is currently unable to process an amendment to the contract that is necessary to process payments related to this service until Board notification has occurred, as stipulated in the CalPERS Board of Administrative Contract Activity Reporting Policy (Attachment 1).

BUDGET AND FISCAL IMPACTS

Estimated annual costs associated with both the Altus provided service and reimbursed appraisal fees are \$1.6M and \$5.5M respectively. INVO is amending the existing contract to \$35.5M in order for Real Assets to manage the portfolio consistent with the Board's Policies.

BENEFITS/RISKS

Approval of the increase of the contract will support the continuation of services through June 30, 2017 which are critical to Real Assets.

Failure to approve the increase of the contract amount will result in default of payment and impede staff's ability to properly manage Real Assets.

ATTACHMENTS

Attachment 1 – CalPERS Board of Administration Contract Activity Reporting Policy

Wylie Tollette
Chief Operating Investment Officer