



## City and County Divestment Campaigns

Public anger toward Wall Street and the success of the local banking movement has generated significant political momentum for city and county level Wall Street divestment campaigns. Municipalities manage significant amounts of public funds which could be invested locally. There are a number of opportunities for change in this area as well as some challenges.

Municipal public funds fall into two main categories: deposits and investments. There are two types of deposits: checking accounts (contracts for banking services) and savings accounts. Within investments we see two main types: Government issued securities and Wall Street/corporate securities.

All municipalities have investment policies that govern how deposits and investments are managed and many hire a company to handle investments accordingly. All Oregon municipalities have similar investment policies, as they must be approved by the Oregon Short Term Fund Board. In addition to these policies, municipalities can pass resolutions which move funds into local financial institutions, filter the worst of the banks from being selected for banking services or holding public funds, or increasing transparency (see resources below).

### Local Campaign Possibilities:

#### **Divestment of checking accounts** (ie the banking service contracts)

Problem: Wall Street banks dominate these accounts and they get paid for them (there is no free checking for municipalities)

Hurdles:

- These are contracts through an Request for Proposal (RFP) process, so movement is slow.
- Most municipalities have an all-or-nothing approach, where bids are only accepted by institutions that can handle every single feature, which eliminates almost all but Wall Street banks.

Potential Strategy: Even if contracts are not broken into components, there may be ways to use “responsible banking resolutions” to prevent the most egregious of banks from participating. See Cleveland model.

Note: these accounts tend to be a very small portion of a municipality’s portfolio. For Portland, Wells Fargo has only 1-3% of Portland funds at any given time. Portland pays approximately \$150,000 a year in fees for their “checking” account.

#### **Divestment of savings accounts** from Wall Street banks and deposit in Oregon community banks and credit unions

Opportunity: This is typically an easy action up to the limits set by the investment policy, which usually means millions of dollars can be moved quickly.

Hurdles:

- City/county administrators perceive the opening and management of new accounts as a burden - public pressure and resolutions help get action. City/county leaders can help educate peers and community banks or credit unions can help make work easier.
- Some investment policies unintentionally limit which institutions can receive deposits of any size, including FDIC/NCUA insured deposits which are not at risk of being lost – policy changes may be needed.
- State policy limits the institutions which can receive public deposits in excess of insurance limits (\$250k), so some banks or credit unions may not be eligible for more. It appears that the CDARS program is often overlooked as a resource to solve this problem while keeping deposits insured.

- Many local financial institutions are struggling to make loans that regulators would approve (due primarily to drops in property values and any recent years with losses or low revenue), so an influx of new deposits might be an additional strain for them - this is where it would help to have a loan participation program so community banks could put these deposits right back into loans in Oregon.

**Divestment of Wall Street securities** as well as investment in more benign securities (like Treasuries that do not directly benefit our communities)

Problem: Our municipalities use investment money to directly finance the corporations that extract money from our communities.

Hurdles:

- Corporate investments are acceptable under all state/local investment policies. Third party investment managers (like Credit Suisse for the State of Oregon) know and prefer these types of investments – public pressure to divest from these and/or change investment managers.
- Corporate investment regulations eliminate almost all Oregon companies, so investment would be outside state.

Possible strategy: To eliminate non-Oregon corporate investments even if this means not investing in this type of investment.

### **Deposit/Invest in Oregon**

Opportunity: Most of the “safe” investments (US Government) flow money out-of-state for very small returns so divesting of these “not bad” investment in order to deposit or invest in Oregon would put more money in Oregon.

Hurdles:

- These investments are perceived as “easy” so municipal administrators will likely resist what appears to be more work – City/County leaders can help educate peers, community banks/credit unions can help make work easier.
- This is not “divesting from Wall Street” in the ways people want so additional education around building a vibrant and resilient local financial institution is needed.

Note: we use the terms city/county/municipal, but all of the above also applies to school districts, political subdivisions, special service districts such as water and sewer, and organizations formed for the purpose of intergovernmental cooperation.

### **Model resolutions:**

- Multnomah County's “Community Advantage Banking Program” - carves out \$10 million to be deposited around the state in Oregon community banks and credit unions.
- City of Portland's “Responsible Banking Resolution” - establishes intent and target to deposit certain funds locally (8/10 new \$250k accounts already established) and establishes intent to create parameters to evaluate banks when they bid for banking service contracts (in works).
- Cleveland, OH “Neighborhood Reinvestment Program” evaluates potential depositories for public funds according to their lending and investment practices in Cleveland and secures commitments to increase bank investment in the city's neighborhoods.
- Los Angeles, CA “Responsible Banking Act” requires all banks doing/seeking to do business with the city to report “the number, size and type of small business loans; home mortgages; home improvement loans; community development loans; and investments within the City of Los Angeles, to be provided by census tract for the year immediately predating the filing.”
- State of Massachusetts “Small Business Banking Partnership” moves \$100million into community banks, requiring them to report quarterly on new small business loans and to pay the state an interest rate no lower than prevailing overnight loan rates.
- Proposed for State of Oregon (along with MD, MN, NM) - Pricing preference bills to allow banking service contracts to go to local banks if they are within 10% of out-of-state headquartered banks.

## Doing the research:

Questions to answer:

- Total "Cash and Investment" amounts (ie not capital assets like roads and buildings). Ok to use snapshot as of reporting period – ie June 30 is the report date for the standardized Consolidated Annual Financial Report (CAFR). Some Municipalities report more frequently and some give high/low/average balances.
- What other deposits are there? How much and where? Include Local Government Investment Pool and list each bank.
- Total investments in Government securities (issued by US Govt as well as municipal)
- Total corporate investments. Look for following categories: corporate debt, repurchase agreements, reverse repurchase agreements, bankers' acceptances (which banks). Note that some of these are guaranteed by the FDIC.

Harder to find:

Which bank handles "checking account" (banking services) and how much funds are deposited?  
How much do these services cost the municipality each year.  
Total costs for investment management services

Documents to look in and people to talk to (keep track of all sources where they are reports, emails or conversations!):

Financial reports, investment summaries, or treasury reports. Some municipalities have more transparency than others and post these reports occasionally or frequently. Sometimes the management company hired to handle investments produces the reports.

Consolidated Annual Financial Report (CAFR). These standardized documents are dated 6/30 each year (lag time in publishing can be up to six months). They cover a lot of territory and tend to be long. Specific places to look:

"Statement of Net Assets" usually found in: Basic Financial Statements-Government Wide  
Financial Statements-Statement of Net Assets

"Notes to Basic Financial Statements" found after all the various fund statements. This will occasionally detail where deposits and investments are. Specifically look for detailed notes on funds or cash and investments.

Google searches for XX city/county:

XX Treasury report

XX Financial report

XX Investment Policy

XX "banking services" or "merchant services" (try with or without the word "contract")

XX CAFR

When you cannot find something, give the municipality a call. Different sized entities have different positions. Look online for: treasurer, finance director, city manager, or administrative services. You might stumble across which office by doing the above document searches.

<b>Examples</b> (rounded to 1,000s)	<b>City of Portland as of 5/31/12</b>		<b>City of Corvallis as of 5/31/12</b>	
<b>Total Investments:</b>	<b>100%</b>	<b>\$878 million</b>	<b>100%</b>	<b>\$38 million</b>
<b>Deposits w financial institutions:</b>	<b>10%</b>	<b>\$87,295,000</b>	<b>60.4%</b>	<b>\$23,042,000</b>
Operating/Demand Deposit/Checking Accounts:				
Wells Fargo (banking svcs)	\$11,183,000	1.3%	WF (banking svcs)	\$1,135,000 3.0%
US Bank	\$28,000		BofA	\$192,000 0.5%
Key Bank	\$12,000			
Umpqua Bank	\$29,992,000	3.4%	Umpqua	\$3,285,000 8.6%
Local Govt Investment Pool	\$44,080,118	5%	LGIP	\$18,430,000 48.3%
Responsible Banking Resolution Accounts:				
Advantis Credit Union	\$250,000	0.03%		
Albina Community Bank	\$250,000	"		
Capital Pacific Bank	\$250,000	"		
Columbia Bank	\$250,000	"		
One PacificCoast Bank	\$250,000	"		
OnPoint Community CU	\$250,000	"		
Sterling Savings Bank	\$250,000	"		
West Coast Bank	\$250,000	"		
Total Wall Street Banks (excl LGIP)		1.3% \$11,223,000		3.5% \$1,327,000
Total Community Banks/CUs (excl LGIP)		3.6% \$31,992,000		8.6% \$3,285,000
<b>Investments:</b>	<b>90%</b>	<b>\$790,875,000</b>	<b>39.6%</b>	<b>\$15,116,000</b>
US Govt Treasuries	\$10,033,000	1%		
US Govt Agencies	\$519,318,000	59%	US Agencies	\$15,116,000 39.6%
Corporate Bonds	\$120,001,000	14%		
Corporate Debt	\$68,654,000	8%		
Commercial Paper	\$62,887,000	7%		
Bankers' Acceptances	\$9,982,000	1%		
Total Govt Issued		\$529,351,000		\$15,116,000
Total Corporate		\$261,524,000		\$0

**Divestment and community investment potentials** (note that these are maximums and that there are practical limitations that may reduce these figures):

Divest from Wall Street/Corporate (deposits & investments)	\$273 million	\$1.3 million
Invest/Deposit directly in community Banks/CUs (max 50% per policy)	\$439 million	\$19 million

Sources: City of Portland Investment Portfolio Summary, May 31, 2012 <http://www.portlandonline.com/omf/index.cfm?c=26610&a=401169>;  
City of Corvallis Investment Council Treasury Report, May 2012 [http://www.ci.corvallis.or.us/downloads/fin/FY%2011-12/Treasury/May\\_Treasury\\_Report.pdf](http://www.ci.corvallis.or.us/downloads/fin/FY%2011-12/Treasury/May_Treasury_Report.pdf)