

PUBLIC DISCUSSION DRAFT #2 – RESPONSIBLE BANKING
CONSIDERED BY COUNCIL: 3:30 P.M. TIME CERTAIN, WEDNESDAY, MAY 9, 2012



OFFICE OF MAYOR SAM ADAMS
CITY OF PORTLAND

FREQUENTLY ASKED QUESTIONS
Responsible Banking Resolution

Background Information:

The City of Portland's Investment Policy goals are to maintain a portfolio that preserves principal while serving the City's liquidity needs and also generating a fair return. The City has a substantial amount of money invested in federal securities and on deposit with banks. While the City of Portland recognizes the importance of the federal securities markets, national banks and the indispensable services they provide, the City also recognizes the value of having a portfolio that includes more localized deposits.

In order to better serve these objectives—while still maintaining the stated principal, liquidity, and return goals of the Investment Policy—the City would like to have the flexibility to make deposits in other smaller financial institutions including credit unions up to the current NCUA and FDIC insurance caps of \$250,000. Deposits in financial institutions with localized decision making, have been correlated with positive impacts on local economies and job creation, through an increased proportion of loans to local businesses and focus on local customer needs.

Separately, when requesting bids for its banking and merchant services, the City would like to increase participation and competition in the process and include the proposing banks' policies and practices relating to our community as part of the evaluation criteria for selection. The Treasurer will research national best practices and include as part of the selection criteria for banking services other aspects of a financial institution's operations possibly including, but not limited to, community re-investment practices, small business loan programs, workforce data, and mortgage and interest rates and terms, to the extent they are available at the time of the solicitation process and which provide a reasonable basis of comparison and are allowed under law.

Allowing the City to explore the possibility of shifting a portion of its assets from federal securities to other smaller financial institutions and credit unions and separately, allowing the City to include evaluating proposals for banking services based on community re-investment practices, small business loan programs, workforce data, and mortgage and interest rates and terms, etc. may help achieve the City's goal of creating economically sustainable local and regional communities.

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Q: What is Mayor Sam Adams proposing?

A: Resolution Title: Declares intent for the Treasurer of the City of Portland to have the flexibility to make deposits in credit unions as allowed under Oregon House Bill 3700 in 2013; supports the Treasurer to amend the City's Investment Policy to allow for deposits in local credit unions and other financial institutions up to or above the applicable NCUA and FDIC insurance limits and declares intent to make up to 10 initial deposits in 2012; and supports changes in the solicitation process to increase competition and consider community reinvestment criteria when selecting financial institutions which provide the City's financial services.

The mayor's resolution covers several aspects of responsible banking for the City of Portland--it diversifies the City's practices on deposits as well as clarifies the solicitation process for its banking services (Note: these are separate aspects of the resolution and should be conflated):

- **With regard to deposits from the City:**
 1. The resolution changes the City's Investment Policy to allow the flexibility for the City of Portland to make deposits in credit unions.
 2. The resolution allows for the City Treasurer to make up to 10 initial deposits in other financial institutions (previously not allowed due to City Investment Policy but have been allowed under state law) including credit unions up to the NCUA and FDIC insurance limits during 2012. These 10 initial deposits will be shifted from the current pool of federal securities deposits.
 3. The resolution states that the City of Portland will enter into a relationship with at least one local credit union and submit a letter of intent to deposit more than \$250,000 in that credit union should it be accepted under the collateralization program established in House Bill 3700.
- **With regard to the City's banking and merchant services:**
 1. The resolution recognizes that a variety of financial institutions are uniquely situated to handle the City of Portland's banking and merchant services needs and encourages the City to bid out or send Requests for Proposals (RFPs) for services and projects in a way that encourages a diverse set of financial institutions to bid.
 2. This resolution supports researching national best practices and including as part of the selection criteria for banking services other aspects of a financial institution's operations -- possibly including, but not limited to, community re-investment practices, small business loan programs and terms, workforce data, etc., all based on what information is available, comparable and allowed under state law.
 3. The resolution states that a draft RFP for the City's banking services will be circulated to Council offices at the end of August 2012.
- **Increases transparency:**
 1. The City of Portland reviews and renews its Investment Policy annually. This resolution reconfirms that this annual review will include an opportunity for public input.
 2. This resolution adds transparency by stating that the City of Portland will publish on its Public Finance and Treasury website a monthly summary of its investment report.

[Here is a link to the full Resolution.](#)

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Q: What is the City’s investment policy and who is in charge of it?

A: The City’s Investment Policy is adopted by Council and implemented by the City Treasurer. The policy establishes the current criteria for the operation of the investment portfolio and applies to all City funds on deposit. The first and foremost objective of the policy is to establish a conservative set of investment criteria that will protect the City’s cash assets. A copy of the City’s current Investment Policy can be found [here](#).

The City Council will consider this [resolution](#), which edits the City’s Investment Policy for 2012, on May 9 at 3:30 p.m. as well. The redlined version of the proposed new Investment Policy is [here](#).

Q: Where is the City of Portland’s money invested now?

A: Investments are made in accordance with the City’s Investment Policy as well as Oregon Revised Statutes. The objectives of the investment portfolio are to preserve principal and serve the City’s liquidity needs, while generating a fair return within these confines. In order to achieve these objectives, the City invests in a diversified portfolio of conservative investments, most heavily in US government securities or US government-backed securities. While the vast majority of City funds are invested in federal securities, there is an element of our portfolio that deposits money in banks.

As of the end of March 2012, the City investments were in the approximate mix of:

<u>INVESTMENTS</u>	<u>3/31/2012</u>
US Treasuries and Government Agency Securities	58.4%
CD’s / Bank Deposits (DDA + Interest Bearing)	5.5%
Corporate Indebtedness	21.3%
Corporate Debt Guaranteed by US Govt.	10.3%
LGIP (State of Oregon Local Govt. Pool)	4.6%

As you can see from this breakdown, the vast majority of the City’s investments are in Federal Government issued or backed securities. Further, our investment policy establishes limits as to what we are allowed to invest in specific categories of investment.

As it pertains to the current investment mix, the applicable limits (as a percentage of the total portfolio) are as follows:

<u>APPLICABLE LIMITS</u>	
US Treasuries and Government Agency Securities	100%
CD’s / Bank Deposits (DDA + Interest Bearing)	50%
Corporate Indebtedness	35%
Corporate Debt Guaranteed by US Govt.	25%
Banker’s Acceptances	25%
LGIP (State of Oregon Local Govt. Pool)	Limit Established by State Treasurer

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As of the end of March 2011 the City maintained the following bank balances:

<u>BANK BALANCES</u>	<u>3/31/2012</u>
Wells Fargo	\$20,587,000
Albina Community Bank	250,000
Key Bank	6,000
Umpqua Bank	29,990,000
US Bank	<u>49,000</u>
Total Balances	\$50,882,000

Wells Fargo Bank is the City’s primary bank relationship, providing accounts used to collect and disburse funds, and to meet short term funding needs. Wells Fargo was selected through an open RFP process, requesting banking and treasury management services, which was conducted in 2008 and approved by Council on March 25, 2009. Unsuccessful bidders for that contract were Bank of America, US Bank and Key Bank.

The Umpqua Bank deposit is a collateralized public money market savings account and is used as an alternative cash management account.

Q: Why can’t the City of Portland invest all its money in credit unions?

A: When it comes to bank deposits the City, under Oregon Statute, is allowed to deposit in any bank authorized to transact business in the State of Oregon up to the limit of insurance (FDIC). The City can deposit funds in excess of that limit only if the bank meets certain collateralization requirements and is also approved by the Oregon State Treasurer. This collateralization of funds in essence provides additional security for the City’s deposits should the bank fail. As such, all banks deposits listed above, including the \$20.5 million in Wells Fargo and \$29.9 million in Umpqua, have securities pledged as collateral to backstop those deposits as required by State Statute.

As it pertains to credit unions, the current law only allows local governments to deposit up to the limits of the credit union’s insurance (NCUA) which is currently set at \$250,000. This will change in 2013 when HB 3700 takes effect, allowing credit unions to become approved by the State Treasurer for deposits in excess of the \$250,000 limit if they meet the same collateralization requirements as banks.

While Oregon Statute does allow the City of Portland to deposit up to \$250,000 in local credit unions, the City’s Investment Policy currently does not specifically address this point. With [this draft resolution](#) and the accompanying [Investment Policy resolution](#) we are now making amendments to the [City’s Investment Policy](#) that will allow the City to deposit up to or above the \$250,000 limit in credit unions.

Also, with this resolution and the change to the City’s Investment Policy, Council would direct the City Treasurer to make up to 10 initial deposits in local credit unions and other local financial institutions in 2012, up to (or above with the full execution of HB3700 in 2013) the NCUA and FDIC insurance limits.

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Q: When will Council consider adoption of this resolution?

A: The public discussion draft of the [Responsible Banking resolution](#) along with the accompanying resolution for edits to the [City's Investment Policy](#) will be released on April 26, 2012.

The Mayor's office is accepting public comment until 5 p.m. on May 2, 2012 (please email jeana.thayer@portlandoregon.gov) and the Council will consider the resolution and accompanying City Investment Policy edits at 3:30 p.m. on Wednesday, May 9, 2012.

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