

Sustainable Banking and Investment Task Force Meeting Minutes

January 24, 2022

The Task Force (TF) meeting was held at 7 pm by Zoom. The meeting was open to the public. Present were Victor Thuronyi (Chair), Michael Ashford (Vice Chair), Rachel Fredman Lyngaas (Secretary), Christine Pendzich, Jessica Clarke (Deputy City Manager), Amber Cameron, Paul Gunter, William Girardo, Lesley Hunter, David Bend, and Susan Cheung (City of Takoma Park Finance Director).

1. Meeting Minutes

TF members unanimously approved the minutes of the January 10, 2022 meeting.

2. Update from Working Group 1 (Factual and Historic Background) and Comments from City Finance Director Susan Cheung

Susan Cheung mentioned that she had reviewed the draft document from Working Group 1 and made some edits to the section focused on banking services. She added that the City requires liquidity in its general checking account needed for daily operations, especially for payroll and weekly accounts payable check issuance. Liquidity is thus necessary to ensure funds are available for daily, monthly, and weekly operations.

Victor asked about the City requirement that certificates of deposit (CDs) be FDIC-insured. He noted some credit unions are not FDIC-insured and asked if the City can invest in credit union CDs. Susan responded that CDs in the United States are monitored by the National Credit Union Administration (NCUA), which holds a similar oversight role as the FDIC. If a single depositor makes a deposit of more than \$250,000, the amount in excess is not covered by insurance. This helps to ensure that depositors are ensured, and the State of Maryland does allow the City to hold CDs with credit unions. She added that many smaller cities use credit unions, including the State Employees Credit Union of Maryland, which is local. The City could look at a credit union for its financial services, but unlike SunTrust Bank, there are no credit unions in proximity of Takoma Park. She added that the proximity of SunTrust enables City finance staff to have close physical access to payroll, and make deposits (as often as daily, and at least once a week). Therefore, the City has had a long relationship with SunTrust as its financial service provider.

Rachel asked if Multi-Bank Security, Inc. (MBS) was a brokerage firm or name of a security. Susan responded that MBS is a small brokerage firm that invests for the City. The City uses MBS for its CD investments. When the City's CDs mature, the Finance Department always reinvests the proceeds. Because of interest rate fluctuations, the City does not always get the best yield on its CDs. However, the City relies on CDs because they are relatively liquid, and MBS helps by providing options to the City once each CD matures. MBS provides a choice of terms and investment yields. The Finance Department decides to invest in CDs based on their term and yield. Each CD is less than \$250,000, and the City always receives back its principal invested and earns interest. Victor asked how much choice MBS has in its relationships with banks that issue CDs. Susan responded that it typically depends on the needs of the banks, and when they need money for their loan portfolio. To provide loans to customers, banks need deposits. Thus, when the banks need money, they come to the City via MBS. At any given time, there could be a dozen or more than 100 banks issuing CDs. Sometimes they need more money, and sometimes less. Victor asked if Susan could provide more details on which banks MBS had relationships

with. Susan responded that she would ask Marshall Hoffman, the City's broker. William asked if MBS had relationships with credit unions. Susan responded that to date, MBS primarily had relationships with community banks.

Rachel asked for more information on the terms of the City's CD investments. Susan responded that the City cannot invest for longer than five years, so the Finance Department typically looks for shorter-term but more frequent investment opportunities. In certain months, especially the end of the fiscal year, the City's cash flow is the lowest, so the Finance Department looks for CDs to invest in with very short terms. She added that she can invest in CDs with up to a three-year time, but any term beyond that would make her uncomfortable from a cash flow perspective.

Victor asked if the City had much choice on how funds are invested in the Maryland Investment Pool. Susan responded that she had not looked into the choices, but historically the Pool has been held at PNC Bank, where the City holds a checking account and money market mutual fund. She added that she could check if there were other options.

Rachel asked if the Finance Department was in a different position now to consider an alternative financial service provider than it was in 2017, when the Nuclear-Free Takoma Park Committee recommended that the City switch to Sandy Spring Bank. Susan responded that she formerly worked as an investment officer at Sandy Spring Bank and supported the idea of switching to it, but there were complications. Switching from SunTrust to another institution required holding excess funds in both banks, creating difficulties when the City was short on cash. She added that switching banks was a major endeavor, as it would require changing accounts with vendors, adjusting direct deposit information, etc. At the time of the initial proposal, the Finance Department was also short-staffed. This, she added, was why the project was put on hold, but she was nonetheless supportive of switching banks. Christine asked if receiving money under the American Rescue Plan Act (ARPA) had provided the City with additional liquidity to better manage the transition. Susan responded that the Finance Department is still short-staffed and has had lots of turnover during the pandemic. She also clarified that the City's ARPA money was a different fund devoted to community needs of the pandemic and is therefore separate from the City's general fund. The City's ARPA Fund is monitored by the ARPA Manager, Renee Martin. Susan recommended checking with Renee for any questions about the ARPA Fund. Susan added that the City is in a similar financial condition as it was in 2017, when it was considering switching to Sandy Spring Bank. Jessica added that one ARPA project involves upgrading the City's financial system, and it is therefore unlikely that the City could do both projects (upgrade its system and switch banks) at the same time.

Amber asked what would be required for the Finance Department to feel comfortable in switching to Sandy Spring Bank. Susan responded that she was not sure about the City's condition or other banking facilities, but if the City is going to switch banks, they must send out an RFP to different banking facilities or credit unions to find the most suitable option. One requirement would be that the financial institution be stable and of a certain size, under state law. Another requirement would be the accessibility of the financial institution.

Victor asked for more details about the City's procurement requirements. Susan responded that an RFP would be needed for any large investment or procurement. Changing financial service providers would qualify as a large investment and procurement. Under City policy, they would need to have at least three options for financial institutions. The City follows similar practices when procuring its auditor. Most local governments have similar requirements, which prevents them from making a hasty

procurement decision. There is a need to gather all of the relevant information and have a committee decide what is the best option for the City.

Christine noted that she agreed with the process of transparent and competitive procurement. She asked if within the procurement process, the City could specify other requirements or preferences, including that the financial institution demonstrate that it has a socially responsible investment policy and that it has been acting on that policy. She asked if there was any reason why such language could not be included in an RFP. Susan responded that they could include language in an RFP specifying that the City is considering using socially responsible investment. They cannot specify this as the preferred option for the City unless the institution also meets other criteria specified in the RFP. Christine agreed that the banking institution would need to meet all other criteria of reliability and service as well, but recommended that a criterion on social responsibility be added to the list of overall evaluation factors or as “socially responsible is preferred, all other factors equal.” Among other factors, they would need to consider the financial institution’s credit terms, and proximity. Susan added that she could discuss this with the City attorney, who could propose language for an RFP.

3. Update from Working Group 2 (Learning from other Jurisdictions)

Lesley noted that Working Group 2 had focused on how other cities have divested and looked into ESG portfolios for their investment portfolios. She added that she has been saving a lot in the Task Force’s shared drive. For the Working Group’s draft section, they are focusing on the broader picture, including how federal government regulation might impact our work. Under the previous Administration, the Department of Labor ruled that ESG cannot be enforced for pension funds. She added that currently, the Police Pension Fund must comply with this requirement, however the Biden Administration had issued an executive order challenging this rule. There are also ongoing international regulations, in addition to examples of what other cities are doing in the draft report.

David Bend noted that, when looking at the history of the fossil fuel divestment movement, we are still in the very early days. Nonetheless, the argument has shifted. Initially, it was more focused on morality. Now the argument is that when a city or endowment acts as a fiduciary, it should consider climate change scenarios.

David noted that the organization C40 Cities has a point of contact that helps cities go through this process. This information will be included in Working Group 2’s draft section. He added that as we answer questions around what divesting means for us, there is more that can be done. He asked if the ESG criteria we select would result in performance better than today. He added that the City’s responsibility is to act as a fiduciary, and it cannot invest in something that has a likely poor performance.

William asked for more clarity on the timeline for divesting, given that people’s pensions are at stake and rapid divestment could be costly. Victor responded that with respect to the Policy Pension Fund, it is not for the City to decide. The City can make a recommendation to the Police Pension Fund Board. He added that the Policy Pension Fund is a defined benefit plan, and thus the City would be on the hook for poor performance, not retired police officers. Christine added that fossil fuel divestment is usually a slow and gradual process to divest, with divestment timed when the price of a stock is down. She referenced a PowerPoint presentation provided to Montgomery County on this topic that she would find and share with the Task Force.

4. Update from Working Group 3 (Defining Sustainability)

Rachel noted that with respect to the draft section that Working Group 3 had circulated, the wording that sustainable investing has a “proven track record” may be too strong. Just because resources are flowing into sustainable investing does not mean it has a proven track record, and more even-handed language may be needed.

5. AOB

Victor asked what might be necessary for other Working Groups to move forward on drafting their sections. Paul mentioned that Working Group 3 could make a recommendation on how we define “socially responsible,” which could be included in language for the City’s RFP for financial service providers. Victor and Rachel also mentioned that the report’s focus on CD would need to be changed in light of the conversation with Susan Cheung. Rather than interview banks, the Task Force should make recommendations on how to screen CDs.

Paul noted he would work on a draft of the nuclear-free section of the report.

Jessica had reached out for a meeting with the Police Pension Fund lawyer, who had availability next week for a meeting. Lesley, Amber, William, and Christine noted that they would want to join the meeting.

William asked for an updated list of nuclear-free financial institutions. Paul suggested including this information in the meeting minutes.¹

Victor mentioned that he could circulate updated information to Task Force members about which members were joining each Working Group. Amber also suggested that Victor circulate an updated outline of the report.

Victor confirmed that the next Task Force meeting would be held on February 7. He motioned to adjourn, which was supported by other Task Force members.

¹ <https://www.dontbankonthebomb.com/perilous-profiteering/>.