

**CITY OF CORVALLIS
INVESTMENT COUNCIL MEETING
NOVEMBER 8, 2012
MINUTES**

The City of Corvallis Investment Council meeting was called to order at 7:30 a.m. on November 8, 2012, in the Madison Avenue Meeting Room, 500 SW Madison Avenue, Corvallis, Oregon.

ROLL CALL

Present: Jim Patterson, Nancy Brewer, Scott Fewel, Bill Mercer, Mark O'Brien, Janet Chenard, Staci Voight, and Jeanna Yeager; Minutes transcribed from recording by Teresa Nix

Absent: None

SUMMARY OF DISCUSSION

Agenda Item	Information Only	Held for Further Review	Recommendations
Approve Minutes of August 7, 2012			Approved as drafted.
Fiscal Year 2012-2013 First Quarter Review	X		
Local Banking Initiative	X		
Open Discussion	X		
Adjournment – 8:00 a.m.			

CONTENT OF DISCUSSION

I. APPROVE MINUTES OF AUGUST 7, 2012

City Manager Jim Patterson invited any corrections to the minutes from the August 7, 2012 meeting. There being none, the minutes were approved as drafted.

II. FISCAL YEAR 2012-2013 FIRST QUARTER REVIEW

Budget Analyst Staci Voight read the following statement regarding the economic outlook:

Following their September meeting, the Federal Open Market Committee released in their October 24th statement that economic activity has continued to increase at a moderate pace in recent months. Although employment has risen slowly, the unemployment rate is still high. Housing market conditions continued to improve slightly, but construction activity was still at a low level, reflecting tight credit standards for mortgage loans and a large inventory of foreclosed properties. Inflation has picked up somewhat, mainly reflecting higher energy prices, and longer-term inflation expectations have remained stable. To support continued progress toward maximum employment and price stability, the Committee expects to maintain a highly accommodative stance of monetary policy and plans to keep the federal funds rate exceptionally low through mid-2015, in the 0 to quarter percent range.

Ms. Voight presented the Quarterly Portfolio Summary for the quarter ending September 30, 2012 (Attachment A). For book yields rates remained flat compared to the end of the fiscal year. The Total Portfolio and Core Portfolio saw no change in book yields. The State's Local Government Investment Pool (LGIP) remained at 0.6%. The 2-Year Treasury, which is used as a benchmark, went down 2 basis points. Total Portfolio balances ended at just over \$31 million; this will be the lowest point for the year as property tax dollars come in during November. Per the Investment Council's recommendation, the Umpqua Money Market account was closed, and now has a zero balance, because the previously offered rate of 10 basis points above the LGIP is no longer available. Those funds have been moved into the LGIP for now. Core investments ended at a \$13 million balance. There was a call on August 8 and another on September 19, each with a \$2 million par value. Staff talked with the investment advisor and decided to roll over one of those investments into a new investment that has a continuous call. The goal is to get investments back to \$15 million but they are now at \$13 million. Budget and Financial Planning Manager Janet Chenard added that part of the strategy with holding off on the other \$2 million investment is to hopefully attain a marginally better rate than was available at the time of the call, but at a reasonable maturity which will continue the laddering structure that the financial advisor is promoting and that staff thinks is prudent.

III. LOCAL BANKING INITIATIVE

Finance Director Nancy Brewer reviewed her memorandum dated November 1, 2012, regarding Local Banking (Attachment B). Because several requests have been filed with the City Council for a local banking initiative, staff has begun to research what other communities do as part of their local banking initiatives in both depository banking and investment activity. With regard to depository banks, communities doing significant work on local banking are considerably larger than Corvallis and include Boston, Philadelphia, Cleveland and Los Angeles. These communities have multiple bank accounts and multiple staff working on the local banking initiative. Corvallis has one depository account (with a payroll subaccount) at a single bank, and about .25 FTE dedicated to banking services. On the investment side, local governments are strictly governed by state law with preservation of principal holding the highest priority. It appears some cities invest locally in money markets, similar to what Corvallis has done with the Umpqua money market account. These investments must be earning at least close to what the LGIP is earning for short-term investments to be palatable in the face of the increased risk. Corvallis closed its money market account with Umpqua when they changed their practices and decreased the City's earnings rate to considerably less than the LGIP.

Ms. Brewer said that the OSU Federal Credit Union has expressed an interest in being the City's depository bank. Staff has shared information with them and has signed a letter of potential commitment which will help them in the process of being placed on the State's list of approved depositories for local governments. OSUFCU has indicated informally that they are a couple of years from being prepared to offer banking services to the City. Staff has issued an open invitation for their representatives to sit with staff to better understand the City's service needs and be prepared to respond the next time the City issues a request for proposal (RFP) for banking services. Staff has also talked with OSUFCU officials about potential investment activity. Any investment relationship with OSUFCU would require them to first get State approval and then would come to the Investment Council for consideration.

In response to inquiries, Ms. Brewer said that the banking services contract is a three-year term with an option to extend for two years and the City will generally exercise the option to extend. She noted that to unwind and change bank accounts is a complex and significant work effort and the City does not have the staff depth to do that work on a routine basis.

Scott Fewel said he would like to discuss what the groups making requests for a local banking initiative are trying to accomplish and why the City is in the position of trying to satisfy them. Ms. Brewer said the

groups that are pushing for local investments are looking at local economic sustainability. There is a lot of dissatisfaction with the bank practices of some of the large banks, in particular the mortgage meltdown, and some people would prefer to not have City money go to those banks. The challenge for the City is with the book of business that the smaller local banks have. When the City banked with Citizens Bank, the staff/human service was phenomenal but they do not have the technology or tools at the level needed by the City to most efficiently manage its work. Local banks have to consider how much of an investment they are willing to make in order to be able to offer the services needed by the City. The bigger banks have corporate banking offices with government banking subgroups that know what governments need and, because they provide service to hundreds of governmental entities, it is worthwhile for them to invest in the higher end software needed.

Mr. Fewel further noted that he felt there were three aspects to consider in respect of potential banking involvement with the City: depository services, investments and debt issuance. The latter was an element that hadn't been touched on as part of the staff memo or in the meeting so far, but was then briefly discussed by Ms. Brewer and Ms. Chenard from both the possibility of:

- Underwriting City bond issues – in the most recent bond sale, with a significant number (11) bidders, there were no local entities among them; and
- Purchasing of City bonds that come to market as a “local investment” by local banks. The City has no knowledge as to whether local banks acquired any of the 2012 Series bonds on the secondary market, though they would at least theoretically have had the opportunity to do so.

Mr. Patterson said that the City must meet its fiduciary responsibility and work with partners who can help to do that. With all of the regulations and rules, it isn't easy for local banks to provide the services needed by the City. Yet, as a result of this issue being brought to the City's attention, staff is clearly trying to reach out to potential local partners and willing to consider changes as long as they can meet the City's financial objectives. Mr. Patterson suggested that we find ways to communicate to people that the City is open to banking local if it makes sense to do so, and that staff is working with a local credit union to help them figure out if it is feasible for them to offer banking services to the City. Brief discussion followed.

IV. OPEN DISCUSSION

There was no additional discussion.

V. ADJOURNMENT

The meeting was adjourned at 8:00 a.m.