

D I V E S T L A

We are submitting this proposal to promote and develop a socially and environmentally principled framework to guide all financial services and investments made by the City of Los Angeles, from short-term cash management to the City's investment portfolio. The institutions that the City chooses to support with public funds reflects its values, and it is therefore incumbent on the City to ensure that the institutions we support with taxpayer dollars promote socially and environmentally responsible practices and policies, and desist from those that violate these principles that Angelenos hold. In short-- it is time to align our dollars with our values. We look forward to working with you to accomplish the following:

Summary

I. Reinvest City Bank Deposits:

- a) ***Divest*** from institutions with a history of corruption and fraud, from investors in the Dakota Access Pipeline (DAPL) and other fossil fuel projects and any institutions whose business practices are socially or environmentally harmful,
- b) ***Reinvest*** according to a ***Strengthened Responsible Banking Ordinance*** by using a tiered approach to placing city funds into a new financial institution, with the most ethical financial institutions getting priority.

II. Develop ethics standards for the City's investment portfolio- Implement social and environmental criteria. Divest from socially and environmentally destructive institutions and reinvest into renewables and social good funds.

III. Create a Municipal Public Bank- A public bank with a mandate for social good in its charter can encourage community development, save tens of millions in fees, tailor its strategy to city needs, and invest in public works more cost effectively while encouraging and incentivising sustainable development.

The Standing Rock movement that opposes DAPL has highlighted our lack of integrity: we financially support institutions that perpetuate fossil fuel development and unethical business practices. Divest LA therefore does not merely seek a symbolic divestment from DAPL investors but new standards to proactively support social and environmental institutions and a refusal to be complicit in transgressions against people or the planet. Only a full commitment to people and the planet will vindicate a divestment motion as morally and intellectually consistent with its values.

Since there are financial institutions that are capable of receiving public deposits that also have credible and ethical business practices, the financial services that the City requires can be provided without compromising moral integrity.

We recommend a tier system of financial institutions when determining the placement of public deposits, in which the highest Tier possible gets priority.

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I. Reinvest City Bank Deposits

Three Tiers of Banks in Order of Priority:

When considering placement of City funds, the City would prioritize prospective banks in this order:

Tier 1: Explicitly socially responsible institutions. B-Corps, Community Development Financial Institutions (CDFI's), and other financial institutions centered around ethics and community development.

Here are some examples:

- Amalgamated Bank \$4B
- Urban Partnership Bank \$1.4B
- Sunrise Community Banks \$844M

Community Development Financial Institutions

A Community Development Financial Institution (CDFI) is a mission-driven financial institution that is committed to economic (and often environmental) justice. To earn the designation of "CDFI," an institution must submit to a rigorous certification process by the federal government, which affirms that the CDFI is investing the majority of their lending and services in a socially responsible manner.

There are four types of CDFIs—banks, credit unions, loan funds and venture capital funds are all eligible to become certified as CDFIs via the U.S. Treasury's certification program. Once certified as a CDFI, CDFIs are eligible for investments from several financial awards, bond programs, and tax credits that are only available via the CDFI Fund within the office of the U.S. Treasury.

The CDFI industry has experienced exponential growth since its early days as an industry 30 years ago. The industry has grown over 500% in the last 20 years, from 196 CDFIs in 1996 to over 1,000 CDFIs in 2016. Total assets under management by CDFIs is currently \$108 billion and growing. There are currently 21 CDFIs in the United States with an asset size of \$1-5 billion, and one with an asset size in excess of \$5 billion, according to the U.S. Department of Treasury.

Three large CDFIs with a presence in Los Angeles and California:

- **Beneficial State Bank:** Certified CDFI bank with \$653 million in net assets. Beneficial State Bank operates ten branches in California, including two in Los Angeles.
- **LISC-** Certified CDFI loan fund with \$531 million in net assets. LISC operates three offices in California, including one in Los Angeles.

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- **Self-Help Federal Credit Union-** Certified CDFI credit union with \$717 million in assets, and over \$2 billion in net assets including all Self-Help entities (2 Credit Unions and Self-Help Venture Capital Fund). Self-Help FCU operates 19 branches in California, including three in Los Angeles.

If a Tier One financial institution is capable of receiving deposits for a city account, it is to get first priority for the contract. If no banks in Tier One are capable of handling the account, then Tier Two banks are considered.

Tier 2: Financial institutions with a good record on both internal and external ethics. Not explicitly social in nature but with a benign record. *No investment in DAPL, private prisons, arms, no record of fraud, risky speculation, predatory lending, predatory sales goals or laundering.* Examples of Tier 2 financial institutions are:

- City National Bank (the City currently does business with this bank) \$45.1 B in assets
- First Republic Bank
- Pacific Western Bank
- Prosperity Bank
- Western Alliance Bank
- Old National Bank

If no banks in Tiers One or Two are capable of handling the account, then Tier Three banks are considered.

Tier 3: Financial institutions with few infractions that have made a contractual obligation to improve their ethics standards.

The City will not engage in business or investment with any banks that are not in Tiers One, Two or Three.

While there is no guarantee that the highest scoring financial institutions can handle every account, if the City uses this model, it will always ensure the highest possible ethical standards available.

II. Portfolio Reinvestment Policy

According to the “City’s Statement of Investment Policy” the criteria for city investments are:

1. Preservation of Principal
2. Liquidity
3. Returns

We are proposing additional criteria for the City’s investment portfolio and a social good and renewable quota. We propose the City **divest** from fraudulent financial institutions, fossil fuels and tobacco and refrain from all future such investments including other socially and

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environmentally damaging enterprises such as private prisons, military-industrial-complex and other ethically questionable industries. Furthermore, we propose that the City take proactive steps to **invest** in social good and renewable energy funds pursuant to the City's claim to be a leader in environmentalism.

As with ethical banks being able to handle our public deposits, or as with the public bank option's dual moral and financial rationales for implementation, investment in socially responsible investing and renewable energy is not only more moral but provides opportunities for profitable returns.

Samples of Municipal Socially Responsible Investment Ordinances

- **Boulder, Colorado**

https://www.municode.com/library/co/boulder/codes/municipal_code?nodeId=TIT2GOOR_CH10INFU_2-10-10SORE

- **Portland, Oregon**

<https://www.portlandoregon.gov/omf/67101>

- **San Francisco, CA**

<http://sftreasurer.org/sites/default/files/Investment%20Policy.pdf>

- **Norway's Pension Fund**

<https://web.archive.org/web/20080421040730/http://www.regjeringen.no/en/dep/fin/Selected-topics/andre/Ethical-Guidelines-for-the-Government-Pension-Fund---Global-/The-Ethical-Guidelines.html?id=434894>

Disqualified Sectors

- Fossil Fuels
- Tobacco
- Defense/Weapons
- Private Prisons
- Gambling
- Alcohol

Disqualified Historical Business Practices

- Fraud
- Predatory Lending
- Market Rigging
- Collusion
- Pollution
- Unethical Labor Practices

Encouraged Sectors

- Renewable Energy

Encouraged Business Practices

- Community Investment
- Ethical Labor Practices
- Environmental Sustainability
- Consumer Protection
- Human Rights

Socially Responsible Investing (SRI) Funds

Nearly every type of investment vehicle is available as an investment with a pre-screened socially and environmentally responsible lens. And the field is growing: SRI strategies totaled nearly \$7 trillion in 2014, a 76% jump in just two years, according to the Forum for Sustainable and Responsible Investment. One out of every six dollars managed professionally in the U.S. is invested using an SRI strategy (Source: [Kiplinger's](#)).

This list includes but are not limited to 6 examples of social responsibility funds:

Parnassus Endeavor (PARWX) note: California headquartered, great market returns.
TIAA-CREF Social Choice Bond Fund (TSBRX)
iShares MSCI USA ESG Select ETF (KLD)
iShares MSCI KLD 400 Social ETC (DSI)
Eventide Gilead (ETGLX)

An extensive list of sustainable and responsible Mutual Funds can be found at <http://charts.ussif.org/mfpc/>

III. Municipal Public Bank

A municipal public Bank of Los Angeles, chartered with a social good mission statement, would be able to align its practices with the City's needs. Benefits of a public bank include:

Provide local businesses improved access to credit

A city bank can develop the local economy by providing credit as a public service to the community.

Help fund city government through profits

According to the City Controller, *in 2016 Los Angeles paid fees to private banks in the amount of \$109,821,552* (City Controller, <http://lacity.spending.socrata.com/#!/year/2016/>.) The profits of a municipal public bank constitute revenue for the city- saving vast sums that can either reduce the tax burden or provide funding of community services.

Instead of borrowing at 3 percent or 5 percent or 8 percent in the case of infrastructure bonds,

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the city could borrow at bankers' rates – currently 1 percent. It could do that by forming its own chartered bank, authorized to accept government funds as deposits.

Only one public bank exists in the United States that now does this-in North Dakota. The state-owned Bank of North Dakota has successfully acted as the state's banker for nearly a century. The Bank of North Dakota is currently making 2 percent loans to local North Dakota communities for infrastructure. Compare that to the 8 to 18 percent that private equity investors are looking for as a return on their infrastructure investments today.

Public banking is not a radical idea, as public banks are also a part of economically strong nations like Germany and Switzerland- however, the public banking option for the City will provide radically upgraded alternatives for the placement of city deposits and investment into the community.

Stabilize and encourage city economy

With the positive development of the city at the core of its vision, a municipal city bank would provide funding and development of sectors deemed important for the local economy.

Mission statement of acting for social good rather than private profit

By establishing a culture of ethical and sustainable community development, a public Bank of Los Angeles will allow the city to control its own destiny and embody higher values through its investment choices, while saving the city tens of millions in fees and interest.

The case for a public bank is both moral and financial. Not only does it actively encourage ethical local investment but it has the potential to save the city significant money.

This is why we ask the Council to propose a feasibility study for a municipal public bank. Since there are so many potential benefits in the public bank option, it is worth assessing its feasibility to provide insight for future council decisions. Santa Fe has already conducted a similar feasibility study and assessed the option as doable, furthermore, the Roosevelt Institute released a step by step guideline for a municipality to develop a public bank. In short, the public banking option has many potential upsides, precedents of a successful feasibility study and an already released thought-out framework for implementation. A feasibility study will mark the first step towards this viable solution.

Conclusion

The purpose of this document is to provide an addendum to the request for a motion including viable alternative solutions to the City's current allocation of funds in unethical businesses- immediate reinvestment of public deposits and investment funds into ethical institutions as well as real world examples of alternatives, and the development of a municipal public bank. We recognize the challenge that may come with discovering new solutions. We aim to show that solutions are available if there is vision and will to create them.

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Resources

Principles for Responsible Investment

https://en.wikipedia.org/wiki/Principles_for_Responsible_Investment

Environmental, Social and Corporate Governance (ESG)

https://en.wikipedia.org/wiki/Environmental,_social_and_corporate_governance

Social Responsible Investing

https://en.wikipedia.org/wiki/Socially_responsible_investing#Current_strategies

Impact Investing

https://en.wikipedia.org/wiki/Impact_investing