

Testimony of Coconino County Treasurer Sarah Benatar
House Financial Services Committee
July 18, 2023

Mr. Chairman, Ranking Member, and distinguished members of the House Financial Services Committee, my name is Sarah Benatar and I serve as the Treasurer of Coconino County, the second largest county by area in the country with a county seat in Flagstaff, Arizona. In addition to this, I currently hold the role of President for both the Arizona Association of Counties and the National Association of Hispanic County Officials.

As a Treasurer I serve as the bank for the entire county, responsible for the safekeeping, disbursement, and investments of all public dollars on deposit with our office. This includes school districts, fire districts, hospital districts, water districts, and other special districts, as well as county departments and the courts. As the fiduciary of approximately \$500 million in assets and as the manager of over \$1 billion in financial transactions a year, we ensure that all taxpayer dollars are safe and accounted for so that local government entities can focus on the services they provide.

The duties of an Arizona Treasurer are not much different than those of county treasurers throughout the country. From California to South Carolina, county treasurers play a crucial role in fiduciary responsibility to not only our taxing districts, but to our taxpayers.

In managing public funds, it is important to always put the safety of public dollars first, followed by addressing liquidity needs, and lastly working towards a positive rate of return. In short, safety first, then liquidity, then yield. This necessarily includes considering all forms of risk including climate risk. From the banking services we provide, to the investment decisions we make, these priorities ensure that we are the best stewards of public funds.

Unfortunately, we are seeing a trend across the country that jeopardizes our top priority to ensure the safety of our taxpayers' dollars. Across the country, including states like Arizona and in Congress itself, we are seeing legislation being introduced that will greatly reduce the universe of banks with whom our treasury can do business, what we can invest in, and what policies we can even adapt to evaluate risks associated with public fund management.

In its most damaging form, anti-free market legislation misleadingly named "fair access" seeks to provide special access for special interests by threatening businesses with being blacklisted for considering real risk factors in their business decisions. Credit agencies like S&P have long considered risks like climate risk because it is common sense that you consider factors such as whether the location your investment is placed will be subject to damage or loss from catastrophic flooding, fires, or other natural disasters long before the term "ESG" became popular.

Further, when the rubber meets the road in implementing these bills, they raise costs for taxpayers. Every jurisdiction needs a servicing bank. The free-market RFP process is vital for ensuring the protection and efficient use of taxpayer dollars, but it only works if there are sufficient bidders for a free market to exist. Responses to government banking RFPs are already limited due to several reasons, such as collateralization and asset requirements. In Arizona currently there are only five banks providing

banking services to counties. Most counties, regardless of size, are receiving one or two responses for RFPs issued for banking services. Competition is already limited.

The introduction of anti-ESG legislation in states like Arizona will push numerous bidders out of the process entirely. At best counties like ours would have one option to select from and would have to suffer higher costs. As Louisiana Treasurer John Schroder noted, "If you take eight of these banks off my list, I'm handcuffed." When you remove competition in government procurement, our taxpayers pay through rising costs.

At worst, we would receive no bids for banking services, resulting in a complete change to local government services as we know it. Without a servicing bank, constituents would be limited in how they pay for government services. Our firefighters on deployment for weeks at a time to a wildfire would not be able to receive their paychecks directly into their accounts. Our local economies would suffer gravely as our costs would increase significantly. This reduction in size of the market for public banking services isn't a possibility but a reality that local governments are experiencing in states where anti-ESG legislation has passed.

In addition to servicing bank needs, treasurers are responsible for the investment of public funds. The foremost objective in government investing is the safety of principal. This means mitigating and evaluating risk of investment decisions in both the short term and long term. As a prudent fiduciary I believe that environmental risks are a part of that analysis of safety that must be considered to honor my duty of care and duty of loyalty.

I represent a county where over the last year we faced numerous wildland fires, flooding events, tornados, record snowfalls, record heat levels, and a drought. Thousands of residents have been displaced from their homes due to environmental events across our country. When looking to decide what corporate bond to purchase, environmental risk should be an option for me as an investment professional to consider. I should be able to ask, "is this bond with a company that is building a new manufacturing plant in a floodplain zone where a fire just occurred?" Safety of public funds is about evaluating risk with all the tools in our toolbox. It is up to us as prudent local investment officers to decide which tools we want to use. Yet across the country we are seeing legislation being introduced that forces us to walk away from valuable tools to evaluate risks.

Prohibitions on considering all risks and utilizing the full market have real costs. We've seen it in an ESI study that reported increased costs to taxpayers for these proposals of over \$700 million in bonding costs for Florida, Kentucky, Louisiana, Missouri, Oklahoma, and West Virginia. A Wharton study in Texas showed taxpayers there are paying an additional \$284 million for their bonds due to prohibitions passed in their state. For retirement systems, forced divestments targeted at preventing investment managers from considering ESG criteria are estimated to cost Arkansas APERS \$30-\$40 million a year. Over the next ten years, it is estimated that Indiana INPRS will have a reduction in returns of \$6.7 million, Kansas KPERS a reduction in returns of \$3.6 billion and Texas ERS a reduction in returns of \$6 billion.

These concerns in local government treasury and financial management are shared by local elected officials across the country regardless of party. We want what is best for our communities. We want to keep taxpayer money safe. We want free markets so that we can get the best value for our communities. We want the ability to make the choices ourselves in who we do business with and how we invest our public dollars. There is no better illustration of this than the bipartisanship between the

County Treasurers in Arizona as we have stood together to oppose legislation that will jeopardize our abilities to be good stewards of public dollars.

In America, we proudly let the wisdom of the free-market reign supreme. I urge you to listen to the dedicated public servants who are elected by communities within your districts, the associations of businesses that have spoken out against these measures in our states like the American Property Casualty Insurance Association and so many average citizens who really just want their taxpayer dollars protected.

Thank you for your consideration.