

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



Work Session: Fossil Fuel Divestment Initiative

Meeting Date: July 16, 2014
Department: Central Services
www.eugene-or.gov

Agenda Item Number: A
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ISSUE STATEMENT

This work session provides an opportunity for the City Council to review and discuss potential fossil fuel divestment policy actions.

BACKGROUND

At the January 13, 2014, work session on Fossil Fuel Divestment, the City Council received information on a divestment initiative that encourages local governments to immediately freeze any new investment in the top 200 fossil fuel companies and to divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within five years in general, retirement, utility and pension funds as well as the City's exposure to fossil fuel investments in those areas. At the end of the work session, the City Council directed staff to bring back a policy on fossil fuel divestment for further discussion.

Direct City Investments

Under Oregon Revised Statutes the City may not invest in equities (common stock) of any company but may invest in corporate bonds or commercial paper of highly rated corporations for a period of up to 18 months. Although public entities are allowed under state law to purchase bonds of fossil fuel companies (e.g. Shell, BP, Chevron), City staff have not purchased those securities in recent years. Usually, the yields of those securities are at or below similarly rated corporate bonds and for this reason as well as industry uncertainty due to events over the past few years such as the BP oil spill, staff has avoided purchasing fossil fuel investments. While this is an informal practice, it can be formalized in the investment policy by adding a provision prohibiting direct investments in the top 200 fossil fuel companies as listed on the Carbon Tracker List. Should the City Council approve the attached proposed resolution, the City Manager intends to add such a provision to the City's Investment Policy by Administrative Order.

Indirect City Investments

The City is indirectly invested in fossil fuel investments through participation in the Local Government Investment Pool (LGIP), a portion of the Oregon Short Term Fund. At the end of April 2014, the Oregon Short Term Fund of \$13.8 billion included holdings in the top 200 fossil fuel companies of \$337 million or 2.4% of the total portfolio.

Jurisdictions in California and Wisconsin have passed resolutions prohibiting investment in co-mingled assets that include fossil fuel companies; however, Local Government Investment Pools in those states either do not currently invest in corporate debt or do not hold fossil fuel investments, so those jurisdictions are able to retain local funds in that state-managed resource without being exposed to fossil fuel investments.

City staff does not advise removing City funds from the Oregon LGIP. The City currently holds \$45 million in the LGIP at a yield of 0.54%. To achieve the same yield in an alternative investment staff would have to purchase a security that matures in over two years. In addition to the rate of return, the state pool offers safety, liquidity, and diversification, all factors that would be reduced if City funds were pulled from the pool.

Should the City Council desire to take action in this area, it can urge the Oregon Short Term Fund Board to divest holdings in the Oregon Short Term Fund (LGIP) from the top 200 fossil fuel companies as listed on the Carbon Tracker list over the next five years. Upon passage of the proposed resolution, the Mayor and Council President would send a copy the resolution along with a cover letter to the Oregon Short term Fund Board urging them to take action. The Oregon Short Term Fund Board was established to advise the Oregon Investment Council and Oregon State Treasury Investment staff in management of the Oregon Short Term Fund.

Investments for Beneficiaries

Fiduciary Duty: A key issue around the ability to divest investments for beneficiaries lies in the concept of fiduciary responsibility or duty. The fiduciary duty of an entity such as the Oregon Public Employees Retirement System (PERS) Board or the City of Eugene's Deferred Compensation Committee is to act solely in the best interests of the plan participants and their beneficiaries with the exclusive purpose of providing benefits to them. Under that lens, only when the economic returns of investment alternatives are equal can alternate criteria be applied such as avoidance of fossil fuel investments. Divestment advocates counter that this is a short-term view and that by not divesting now, retirement boards aren't meeting their fiduciary duty because over the long term fossil fuel investments will lose value as the world transitions away from these traditional energy sources.

Long Term Impact: While it isn't feasible for City staff to analyze the long-term impact of divestment on pension or deferred compensation funds, divestment advocates cite analysis of endowment funds where the impact on return is assessed. While the analysis does show that the screening out of fossil fuel funds negatively affects a portfolio's risk and return, the results show that the impact is far less than previously thought; in some cases statistically irrelevant. One study, called "Do the Math: Building a Carbon Free Portfolio", can be found, along with additional resources, at the Mayor's Innovation Project divestment resource page:

<http://www.mayorsinnovation.org/custom.asp?id=329>

PERS: The Public Employees Retirement System (PERS) Board administers the retirement system and the investment authority over system funds resides with the Oregon Investment Council. Funds are invested on behalf of City employees and retirees under the fiduciary duty described above.

While 14 of the 25 jurisdictions that have taken the pledge passed resolutions urging their local or state retirement boards to divest pension funds from fossil fuel companies within the next five years, only New London, CT (population 28,000) which manages its own pension fund has committed to divest holdings from fossil fuel companies. To date, none of the other boards have chosen to divest.

In San Francisco, the Board of Supervisors passed a resolution urging the Retirement Board to cease new investments in fossil fuel companies and to divest the existing portfolio over the next five years; however, the original resolution was amended to include the following language: "...the Board of Supervisors understands that in no way shall this Resolution or the policies articulated hereunder supersede the Retirement Board's fiduciary responsibilities to its members...". None of the Retirement Board members voted to divest but did vote to gather more information, including an analysis of current proxy voting policies in relation to climate change citing the desire to engage with companies to try and effect business changes. These potential actions are similar to the actions taken by Oregon State Treasurer Wheeler as described in his June 11, 2013 letter to Portland Mayor Hales (Attachment B).

Treasurer Wheeler also convened a summit in June 2014 to discuss the value, opportunities and obstacles of investing in renewable energy bringing together leaders in technology, public policy and finance as well as writing an opinion piece in the *Oregonian* stating that state fossil fuel divestment would be unproductive. Information on these items as well as a counter opinion piece to Treasurer Wheeler's view is included as Attachment C.

If the City Council desires to take action in this area, it could urge the PERS Board to divest holdings in the PERS Fund from the top 200 fossil fuel companies over the next five years. Upon passage of the proposed resolution, the Mayor and Council President would send a copy the resolution along with a cover letter to the chair of the PERS Board urging it to advise the Oregon Investment Council to take such action.

Deferred Compensation: A deferred compensation committee monitors and selects fund choices on behalf of plan beneficiaries and is bound by the fiduciary duty described above. Plan beneficiaries direct their own investments within those plan alternatives.

Seattle is the only jurisdiction that is known to have taken action in regard to deferred compensation funds. Former Mayor Mike McGinn wrote to the City of Seattle Deferred Compensation Committee asking them to divest deferred compensation funds from fossil fuel companies.

Seattle's Deferred Compensation Committee worked with their plan consultant to evaluate the request and ultimately did not amend their plan to exclude fossil fuel companies due to fiduciary responsibility issues.

They did, however, draft an investment policy to provide a framework to consider future fossil fuel-free investment choices while still meeting their fiduciary responsibilities. Essentially, when an investment meets the goal of being fossil fuel-free it will be given priority if the investment meets the other goals of the plan and if the resulting return on investment and related risks are comparable to other available investments in the same category. Investments will not be selected, rejected or divested from based solely on the geopolitical/social issue.

Eugene's Deferred Compensation Committee is made up of represented and non-represented staff from across the organization including an Executive Manager, the Finance Director and the Risk Services Director. This group meets quarterly with the plan consultant to monitor the performance of the fund choices available to plan participants and discuss related topics. The Deferred Compensation Plan Document that governs the work of this committee is approved by the City Manager.

Should the City Council approve the attached proposed resolution, the City Manager intends to direct the Deferred Compensation Committee to work with the plan consultant to analyze fossil fuel divestment in relation to deferred compensation funds and, if applicable, to develop a policy guiding fossil fuel-free investment criteria.

Legislation

This past year, two states (Vermont and Massachusetts) considered legislation requiring pension funds to divest from fossil fuel holdings. The Vermont bill did not gain traction but as of July 7, the Massachusetts bill had been recommitted to the Committee of Public Service in the Senate with the legislative session ending 7/31/2014. Massachusetts Bill S1225 calls for divestment over a four-year period with no fossil fuel holdings within the pension fund by year five for state pension funds as well as local retirement system funds under control of the Pension Board.

Should the City Council desire to take action in this area, it could to urge the Oregon State Legislature to enact legislation requiring divestment of statewide retirement funds (PERS) from fossil fuel companies and precluding such investments in the future. Upon passage of the proposed resolution, the Mayor and Council President would send a copy the resolution along with a cover letter to the elected officials urging them to take action.

RELATED CITY POLICIES

Financial Management Goals and Policies: Policy E.3 (Investments)

When making investments, the City will follow State law and local investment guidelines, and shall abide by the following criteria in priority order:

- a. Preservation of capital
- b. Maintenance of a liquid position
- c. Maximum yield

Sustainable Development

A community that meets its present environmental, economic and social needs without compromising the ability of future generations to meet their own needs.

Internal Climate Action Plan

While the ICAP does not address investments in fossil fuels specifically, it contains a stated goal to be carbon neutral by 2020 – a goal consistent with fossil fuel divestment.

Community Climate and Energy Action Plan

While it does not address investments in fossil fuels specifically, the CEAP contains a state goal to *Identify strategies that will help the community adapt to (climate change and) increasing fossil fuel prices.*

SUGGESTED MOTION

If the Council chooses to adopt the resolution, the suggested motion is as follows: “I move to adopt Resolution 5109 in support of fossil fuel divestment.”

ATTACHMENTS

- A. Proposed Resolution
- B. Letter from State Treasurer Wheeler, dated June 11, 2013
- C. Press release on climate change panel, Wheeler Opinion Piece, and 350 Oregon Opinion Piece

FOR MORE INFORMATION

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