

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



Work Session: Fossil Fuel Divestment Initiative

Meeting Date: January 13, 2014
Department: Central Services
www.eugene-or.gov

Agenda Item Number: 8
Staff Contact: Twylla Miller
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ISSUE STATEMENT

This work session provides an opportunity for the City Council to understand and discuss the impact of fossil fuel divestment on the City's investment choices.

BACKGROUND

The Mayor's Innovation Project is encouraging local governments to immediately freeze any new investment in 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 (Attachment A). Mayor Piercy is one of 25 mayors or local governments that have pledged to pursue fossil fuel divestment and to date 15 jurisdictions have taken formal action or written letters to retirement boards urging divestment. The impact of fossil fuel divestment on the City's investment considerations is detailed below.

Direct City Investments

The City's investment choices are guided by Oregon Revised Statutes (ORS) and an investment policy. The allowable investment choices under ORS and the investment policy would include the potential for investing in fossil fuel companies directly through corporate bonds or commercial paper. Investment in stocks (equity instruments) is not allowed under ORS. The City does not hold any direct investments in fossil fuel companies at the current time.

It would be possible for the City Council to direct the City Manager to add a provision to the investment policy prohibiting direct investment in fossil fuel companies.

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. The LGIP is a state investment pool offered to public entities and is invested through the State's Short-Term Fund Board. As of October 31, 2013, the Oregon Short Term Fund included fossil fuel holdings of \$172.8 million out of a total portfolio of \$32 billion, or 0.54 percent of total investments.

The City uses the LGIP as an investment alternative which provides safety for City funds through diversification of investments, short term liquidity and an attractive yield. By law, the City can hold up to \$45.4 million in the LGIP. The LGIP has a current earnings rate of 0.54 percent. As of December 31, 2013, the City had \$36.8 million on deposit in the LGIP or just over 15 percent of the City's portfolio.

Staff does not recommend that the City prohibit investment in the LGIP in order to avoid fossil fuel investments. If that were to be required, the City would move funds from the LGIP to other investment alternatives, such as corporate bonds, certificates of deposit or depository bank accounts. These alternatives would be more risky, would provide less liquidity and would offer much lower yields than the LGIP currently provides. In addition, these alternatives may expose the City to other types of indirect investment in fossil fuels through whatever investments those entities hold in their own portfolios.

A potential action could be for the City Council to recommend that the City write a letter to the Short Term Fund board urging them to divest their portfolio of investment in fossil fuel companies.

Investments for Beneficiaries

Another potential exposure is through funds invested on behalf of City employees and retirees through PERS (Public Employee Retirement System) and the City's Deferred Compensation Plan. These funds are not City funds; they are held in trust for the beneficiaries. PERS funds are invested by fiduciaries on behalf of beneficiaries. Deferred Compensation fund choices are selected by fiduciaries on behalf of the beneficiaries. The beneficiaries direct their own investments within the plan alternatives. The ability of the City Council to influence changes in these investments will be limited as the PERS Board and Deferred Compensation Committee are bound by a fiduciary responsibility to their members and must make investment decisions that meet the goals of their respective plans.

A potential action would be for the City Council to recommend that the City write letters to the PERS Board and the Deferred Compensation Committee urging them to divest their portfolios of fossil fuel investments.

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 (ICAP)

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 (CEAP)

While it does not address investments in fossil fuels specifically, the CEAP contains a stated goal to *Identify strategies that will help the community adapt to (climate change and) increasing fossil fuel prices*. Reducing exposure to volatile energy markets by divesting from fossil fuels would be consistent with this stated goal.

COUNCIL OPTIONS

The work session is an opportunity to provide information and for the council to provide feedback. No formal action is requested at this time.

CITY MANAGER'S RECOMMENDATION

None

SUGGESTED MOTION

None

ATTACHMENTS

A. Mayors Innovation Project Divestment Guide

FOR MORE INFORMATION

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