



Agenda Report

MEETING DATE: Tuesday, January 25, 2022

TO: City Council

FROM: PUBLIC WORKS AND UTILITIES DIRECTOR DI RENZO
ASSISTANT PUBLIC WORKS AND UTILITIES DIRECTOR PALMISANO

SUBJECT: RESOLUTION URGING CALPERS TO INVEST IN SUSTAINABLE ENERGY AND DIVEST FROM FOSSIL FUELS IN SUPPORT OF THE CITY'S CLIMATE ACTION AND ADAPTATION PLAN AND DIRECT STAFF TO PURSUE AND SUPPORT STATE AND FEDERAL LEGISLATION THAT SUPPORTS CLIMATE SAFE CALIFORNIA G

STATEMENT OF ISSUE: The City Council adopted its [Climate Action and Adaptation Plan](#) (CAAP) in October 2021, and endorsed the [Climate Safe California Initiative](#) in July 2021, whereby each set a goal of net-negative emissions by 2030. A key way to achieve this goal is to invest in renewable energy and divest from fossil fuels. The City can support this goal by urging CalPERS (one of the largest funds in the world) to invest in renewable energy while also divesting from fossil fuels.

RECOMMENDATION

The City Council Climate Committee recommends that the City Council adopt a resolution that includes the following:

1. Formally request that CalPERS invest in sustainable energy projects while divesting from the fossil fuel sector, and to adopt policies to ensure future investments in sustainable energy continue.
2. Direct staff to pursue and support State and Federal legislation that supports the Climate Safe California goals, including investing public funds only in sustainable and renewable energy portfolios.

BACKGROUND

Carbon Emissions are Driving Climate Change. The climate crisis is a serious threat to current and future generations for our community and globally. The United Nation's [Intergovernmental Panel on Climate Change \(IPCC\) Sixth Assessment Report](#) found that global warming is already causing costly disruption of human and natural systems throughout the world including the melting of Arctic ice, the ocean's rise in acidity, increased wildfires, flooding, and drought.

Almost every government in the world has agreed through the 2015 Paris Agreement that any warming above a 3.6°F (2°C) rise would be unsafe, and to pursue efforts to limit the increase to 2.7°F (1.5°C) and that humans can only release 500 more gigatons of carbon dioxide into the atmosphere to maintain this limit.

The [Carbon Tracker Initiative](#) found that fossil fuel companies possess proven fossil fuel reserves that would release 2,800 gigatons of carbon dioxide if they are burned, which is over five times the amount that can be released without exceeding 2°C of warming.

Shifting to Sustainable Energy Investments is an Effective Strategy for Reducing Carbon Emissions. In October 2021, the City Council adopted its own [Climate Action and Adaptation Plan](#) as well as a General Plan Amendment. These actions create the roadmap for the many actions and programs that the City can implement locally to reduce our impact on the environment. Key programs include advancing electric vehicles, reducing natural gas use in buildings by moving towards electric heating, reducing food waste, conserving energy, restoring our wetlands, planting more trees, and protecting our local water bodies and water supplies.

Over the past decade, one of the most effective strategies for reducing emissions at the global level has been to divest from investments in fossil fuels and to invest in sustainable energy sources, such as solar, wind, and geothermal energy companies. Currently, over 1500 organizations have divested a total of \$39 trillion from the fossil fuel industry, according to [Fossil Free California](#).

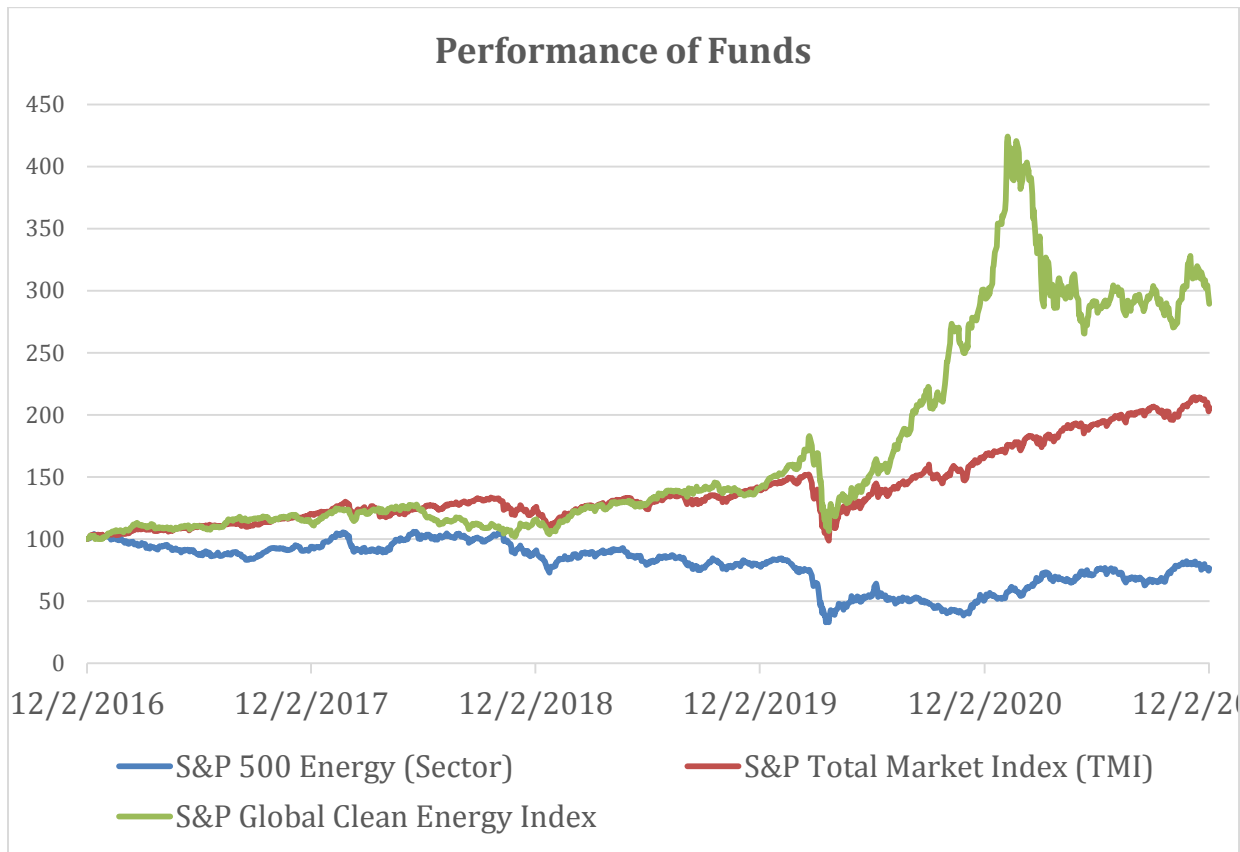
Shifting to Sustainable Energy Makes Financial Sense. The world's largest investment house, BlackRock, confirmed in a [critical research report](#) commissioned by New York City that divestment from fossil fuels has been economically successful for those who have tried it and would continue to be so based on historical data:

“Due to the mounting risks of climate change, technological advances and regulatory actions are signaling toward a global energy transition. The potential transition to a low-carbon economy presents investment risks to fossil fuel reserve owners, raising the possibility that fossil fuel reserves — which may be unusable in a low carbon scenario — will face precipitous devaluation or become ‘stranded assets.’”

BlackRock's findings are critical for three reasons. First, because they are based on actual returns to date. Studies critical of the divest-invest movement, nearly all funded by fossil fuel companies, have focused on projections and models. Second, because the firm has no ties to the movement but nevertheless agreed with the movement's core financial arguments. Third, because BlackRock was under contract with the City of New York and had a formal fiduciary duty. The research was used to support a specific investment decision upon which fiduciaries relied to cast their votes for divestment.

A new report from [Stand Earth](#), (attached), documents the overall economic advantages of investing in sustainable energy over fossil fuels. For example, compare the 5-year annualized total returns of the Standard and Poor's (S&P's) Global Clean Energy Index, which tracks the

performance of “global clean energy-related business,” to both the S&P 500 market benchmark and the S&P’s energy sector index, which tracks major U.S. companies in all sectors of the fossil fuel supply chain. **The *Clean Energy Index*, with annualized returns of about 22%, beat the market’s 17% (*Total Market Index*). Meanwhile, the fossil fuel index lost money, with annualized returns of -1.6%** (see graph below).



Hundreds of university systems have now divested from fossil fuels. Last year, the [University of California \(UC\) divested its last \\$1 billion](#) from fossil fuels, and invested that amount in sustainable energy.

UC’s Chief Investment Officer Jagdeep Singh Bachher noted that UC Investments’ journey with divestment began five years ago and that the office sold all its coal and oil sands assets a year later. *“Today we remain convinced that continuing to invest in fossil fuels poses an unacceptable financial risk to UC’s portfolios and therefore to the students, faculty, staff and retirees of the University of California,”* he said.

CalPERS is Heavily Invested in Fossil Fuels. The California Public Employees Retirement System (CalPERS) is the largest pension fund in the USA with over \$400 billion in investments serving 1.9 million members. CalPERS has \$30 billion invested in fossil fuels, a position that is in direct opposition to the goals of the City’s CAAP.

Many cities have adopted resolutions demanding that CalPERS divest from fossil fuels, including Brisbane, Berkeley, Encinitas, Fairfax, Fremont, Mountain View, Oakland, Richmond, Palo Alto, San Luis Obispo, Santa Monica, and Sunnyvale.

DISCUSSION

In support of the City's CAAP and the City's Climate Safe California Goal of net-negative emissions by 2030, the Council Climate Committee recommends the following action:

1. Urge CalPERS to invest in sustainable energy projects while divesting from the fossil fuel sector, and to adopt policies to ensure future investments in sustainable energy continue.

The attached resolution outlines a number of steps that CalPERS should take to divest from fossil fuels. Key requests include urging CalPERS to:

- Prepare a report discussing options for investing funds removed from fossil fuel stocks in a way that maximizes their positive impact by seeking out investments in renewable energy, sustainable companies, and sustainable communities with an emphasis on investments that would support local projects and local jobs.
- Review their investment portfolio to identify holdings that include direct or indirect investments in fossil fuel companies, as well as sustainable and renewable energy holdings.
- Ensure that none of its investments or commingled assets include holdings in fossil fuel public equities and corporate bonds within five years.
- Release quarterly updates, available to the public, detailing progress made towards investment in sustainable energy, and full divestment of fossil fuel holdings including indirect and commingled assets.

2. Direct staff to pursue and support State and Federal legislation that supports the Climate Safe California goals, including ensuring that public funds are only invested in sustainable and renewable energy portfolios.

City staff is currently engaged with our State legislators to create legislation to support the City's climate action goals. Current efforts include setting a State goal for climate neutrality by 2030, and providing funding programs for electric vehicle infrastructure and shifting from natural gas to electric heat in buildings; these are both very expensive programs that will require outside funding to be successful.

State legislation is also needed to ensure divestment of all fossil fuels occurs within the California Public Employees' Retirement System (CalPERS).

In 2015, the State approved SB 185, also called "*Investing with Values and Responsibility*," which calls for the CalPERS and the California State Teachers' Retirement System (CalSTRS)

to begin a divestment process in any holdings of thermal coal, and to complete that divestment within 18 months.

The next critical step in this process is to urge further investment in clean energy companies, and to require divestment from the remaining fossil fuels, including natural gas and oil.

STRATEGIC PLAN

The proposed action supports the City's strategic plan goal for infrastructure and environment by taking specific actions that would help reduce carbon emissions locally and globally, and support the goals of the City's CAAP.

FINANCIAL IMPACT

1. Requesting CalPERS to invest only in sustainable energy companies while divesting from the fossil fuel sector would not have an immediate and direct financial impact on the City. If CalPERS were to make the policy decision to invest only in clean and sustainable energy, based on the current data (presented above), it would likely improve financial performance as well as decrease long-term financial risk.
2. Directing staff to pursue and support State and Federal legislation that supports the Climate Safe California goals, including the divestment of public funds from fossil fuels, would only incur a minimal cost of staff time.

ALTERNATIVES

The City Council could choose not to approve any or all of the proposed actions.

ATTACHMENTS AND/OR REFERENCES (If any):

1. [Divest-Invest 2021 Report](#) from Stand Earth