



# CITY OF PALO ALTO OFFICE OF THE CITY CLERK

February 9, 2015

The Honorable City Council  
Palo Alto, California

## **Colleagues Memo From Council Members Berman, Burt, Holman, and Kniss Recommending Adoption of a Resolution Urging CalPERS Divestment from Fossil Fuel Companies**

### Goal

We ask our Council Colleagues to adopt the attached resolution urging CalPERS to divest its holdings in fossil fuel companies from statewide pension investments.

### Background

On November 2<sup>nd</sup>, 2014, the United Nations Intergovernmental Panel on Climate Change (IPCC) released "Climate Change 2014: Synthesis Report." The Report found that "[w]arming of the climate system is unequivocal, and since the 1950s, many of the observed changes are unprecedented over decades to millennia." In addition, "recent anthropogenic emissions of greenhouse gases are the highest in history." The threat of climate change is real, and "[c]ontinued emission of greenhouse gases will cause further warming and long-lasting changes in all components of the climate system, increasing the likelihood of severe, pervasive and irreversible impacts for people and ecosystems."

Palo Alto has been a pioneer in the effort to reduce greenhouse gas emissions and combat climate change. In 2007, the City drafted a Climate Protection Plan that set ambitious goals to reduce carbon emissions in Palo Alto and expressed an intention to "share its experiences with other cities around the world as part of an effort to address the environmental crisis of our time." In 2013, Palo Alto was one of the first cities in the country to achieve a carbon neutral electric supply portfolio. This commitment to best practices and combating climate change is one that is shared in our community as evidenced by Palo Alto Green, the nation's top-ranked voluntary renewable energy program before it became obsolete and was retired in 2013.

Palo Alto is currently considering efforts to become a 100% carbon neutral city.

### Recommendation

Palo Alto is a member of the California Public Employees' Retirement System (CalPERS), the largest public pension fund in the United States with approximately \$300 billion in assets. In

addition, Palo Alto is a member of the California Employers Retiree Benefit Trust, which is also managed by CalPERS, with assets totaling approximately \$4 billion. The value of Palo Alto's assets managed by CalPERS is in excess of \$705 million (as of June 30, 2013, which is the most recent actuarial report).

The City of Palo Alto has an obligation to invest its assets in a way that will protect and promote the health, safety, and well being of its residents. Although we have outsourced our retiree investment portfolio to CalPERS, we have not abrogated our obligation to insist that our assets are invested responsibly and aligned with the values of our residents and the city's policy directions. Just as our policies and actions seek to create a carbon free community, our investments should promote technologies that counteract human contributions to climate change.

At the launch of the IPCC report, UN Secretary General Ban Ki-moon revealed that he has been urging large companies and pension funds to turn their investments away from fossil fuels and towards renewable energy. "I'm asking them – please reduce your investments in coal and fossil fuel based economy to renewable energy." We agree, which is why we're requesting that CalPERS divest from fossil fuel companies and move current energy investments from large greenhouse gas emitters to clean energy.

While we believe strongly that Palo Alto's investments should reflect its values, it is important that we achieve a strong return on our investments as well. We believe these objectives are complementary. Fossil fuel divestment is sound pension fund investment practice, as the value of fossil fuel investments will decrease as governments act to limit carbon emissions.

Studies show that fossil free portfolios would have performed better than the benchmark indices. According to a recent report by the Aperio Group, "[w]hen the idea of fossil fuel screening gets floated, the first thing an [investment] committee would want to know is the impact on return, especially whether screening imposes any penalty. The research data on a wide range of social and environmental screening show no such penalty."

To date, CalPERS has not acted to divest its holdings in fossil fuel companies and shift its focus to the renewable energy economy. With this resolution, we request that it do so. We urge our colleagues to join us and support its adoption.

#### RESOURCE IMPACT

The staff impact of adopting this resolution can easily be accommodated within existing staff resources and work plan.

#### **ATTACHMENTS:**

- Attachment A: CalPERS Divestment Resolution (DOC)

Department Head: Beth Minor, Acting City Clerk



Resolution No.

**RESOLUTION OF THE COUNCIL OF THE CITY OF PALO ALTO  
URGING CALPERS TO DIVEST FROM PUBLICLY TRADED  
FOSSIL FUEL COMPANIES**

**WHEREAS**, the climate crisis is a serious threat to current and future generations here in Palo Alto and around the world; and

**WHEREAS**, the Intergovernmental Panel on Climate Change (IPCC) Fifth 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, flooding and drought; and

**WHEREAS**, almost every government in the world has agreed through the 2009 Copenhagen Accord that any warming above a 2°C (3.6°F) rise would be unsafe, and that humans can only pour about 565 more gigatons of carbon dioxide into the atmosphere to maintain this limit; and

**WHEREAS**, for the purposes of this ordinance, a "fossil fuel company" shall be defined as any of the two hundred publicly-traded companies with the largest coal, oil, and gas reserves as measured by the gigatons of carbon dioxide that would be emitted if those reserves were extracted and burned, as listed in the Carbon Tracker Initiative's "Unburnable Carbon" report; and

**WHEREAS**, in its "Unburnable Carbon" report, the Carbon Tracker Initiative found that fossil fuel companies possess proven fossil fuel reserves that would release approximately 2,795 gigatons of CO<sub>2</sub> if they are burned, which is five times the amount that can be released without exceeding 2°C of warming; and

**WHEREAS**, the City of Palo Alto has a responsibility to protect the lives and livelihoods of its inhabitants from the threat of climate change; and

**WHEREAS**, the City of Palo Alto believes that its investments should support a future where all citizens can live healthy lives without the negative impacts of a warming environment; and

**WHEREAS**, studies have shown that fossil free portfolios would have performed better than benchmark indices.

**NOW, THEREFORE, BE IT RESOLVED**, by the Council of the City of Palo Alto that the Council requests CalPERS to join the City in these efforts and:

1. Immediately instruct its asset managers to stop any new investment in companies and corporations whose operations involve the extraction of fossil fuels; and
2. Ensure that none of its directly held or commingled assets include holdings in fossil fuel public equities and corporate bonds on or after January 1, 2020; and
3. Publish quarterly updates beginning July 1, 2015, available to the public, detailing progress made towards full divestment.

INTRODUCED AND PASSED: FEBRUARY 9, 2015

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

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City Attorney

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City Manager

