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CITY OF OAKLAND



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May 29, 2014

FINANCE & MANAGEMENT COMMITTEE
Oakland City Council
Oakland, CA

SUBJECT: Resolution of the Oakland City Council (1) declaring a city policy prohibiting the investment of city funds or holding any investment or ownership stake in any companies that extract, produce, refine, burn or distribute fossil fuels, and (2) directing the city administrator or his/her designee to examine the city's holdings and future investments to assure that the city complies with this policy, and (3) urging the governing boards of the Oakland municipal employees' retirement system (OMERS), the Oakland Police and Fire Retirement System (PFRS) and the California Public Employees' Retirement System (CalPERS) to divest from all publicly-traded fossil fuel companies, and (4) urging other local jurisdictions that intersect with Oakland to divest from all publicly-traded fossil fuel companies, all in an effort to support the goals of the Oakland energy and climate action plan and diminish the use of fossil fuels that significantly contribute to climate change.

Chairperson Schaaf and Members of the Finance Committee:

SUMMARY

Authored by Councilmember Kalb, this proposed resolution will prohibit the City of Oakland from holding in its investment portfolio any investments and/or any ownership stake in Fossil Fuel companies¹. The resolution directs the City Administrator to examine the City's current financial holdings and divest from Fossil Fuel companies and to perform periodic review of the City's investment portfolio to ensure ongoing compliance with the policy. The resolution also urges the Oakland Municipal Employees' Retirement System (OMERS), the Oakland Police and Fire Retirement System (PFRS) and the California Public Employees' Retirement System (CalPERS)

¹ For the purposes of this report and the resolution a "fossil fuel company" shall be defined as any publicly-traded company that extracts, produces, refines, burns or distributes any fossil fuels and any company 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, 200 largest of which are listed in the Carbon Tracker Initiative's "Unburnable Carbon" report. <http://www.carbontracker.org/wp-content/uploads/downloads/2011/07/Unburnable-Carbon-Full-rev2.pdf>, Page 13

Boards and other local and special districts jurisdictionsⁱ to adopt policies consistent with this resolution.

FISCAL IMPACT

Fiscal impact of this policy will be negligible to none.

According to Katano Kasaine, City Treasury Manager, Oakland has extremely minimal investment, if any, in fossil fuel companies so transaction costs associated with liquidating or divesting holdings should be *de minimus*.

Staff already performs periodic audits of City's investments to comply with other socially responsible investments policies. Very limited staff resources may be needed on an intermittent basis for performing initial revisions of the current investment portfolio and providing administrative support.

BACKGROUND/LEGISLATIVE HISTORY

Oakland has been one of the leading cities in the United States in establishing progressive socially and environmentally responsible investment policies. Over the years a number of sustainability-related resolutions and ordinances were adopted in the City of Oaklandⁱⁱ. The following list highlights some of the most relevant environmental policies for the adoption of this proposed resolution:

- **The Oakland Energy and Climate Action Plan (ECAP)ⁱⁱⁱ** was adopted by the City Council on December 4, 2012, it states that: "The combustion of fossil fuels used for transportation is a major source of GHG emissions associated with Oakland... Other local air pollutants linked to increased incidence of health problems such as asthma and cancer also commonly result from use of transportation fuels. Addressing transportation emissions presents a tremendous opportunity to simultaneously reduce GHG emissions and improve the health of Oakland residents, while reducing dependence on foreign oil and local vulnerability to energy price fluctuations."
- **Extended Producer Responsibility Resolution^{iv}**, Authorizing the City to pursue and support statewide and local legislative and other initiatives to hold producers responsible for their products and waste associated with them.
- **Oil Independent by 2020 Action Plan^v**
The plan was created by the Task Force that brought together members of diverse local, state and national organizations. The plan concentrates on local measures to reduce oil dependency and reduce greenhouse gas emissions. It did not address divestment which is another tool to not only further Oakland's independence of fossil fuels, but also to demonstrate solidarity with the new environmental divestment movement.

In the past Oakland also adopted several similar divestment policies, such as divestment from nuclear weapons, tobacco, alcohol and manufacturers of firearms or ammunition.

ANALYSIS

Global and local harm from Fossil Fuels

Environmental and public health consequences from extracting, producing, refining, burning and distributing fossil fuels is well-documented.

Virtually any activity involving fossil fuels not only contributes to the release of heat-trapping emissions of greenhouse gases and subsequent global warming, but also pollutes water, air^{vi}, soil and causes harm to humans^{vii} and other species comprising the Earth's flora and fauna. Residents of West and East Oakland experience firsthand the results of air pollution from burning and transporting fossil fuels. According to the Bay Area Air Quality Management District report^{viii} on the CARE program "West Oakland is one of the most impacted areas in the Bay Area..."

Besides pollution, Oakland, as a coastal city, should be keenly interested in curbing Global Warming and its effects. Sea level rise is one of the other major affects of anthropogenic global warming that will affect Oakland directly in the future^{ix}

Affects of Divestment campaign:

One can argue^x that even if a large percentage of American companies divested it wouldn't be enough to create enough financial incentives for the major coal, oil and natural gas companies to change their behavior. Perhaps one of the most important and powerful affects of divestment is the fact that it is shaping public opinion and attitudes, and eventually behaviors. "Divestment won't do this by directly affecting share prices, at least in the short run — these companies are the richest enterprises in history. Instead, as the country's colleges, cities and denominations begin to cut their ties, we'll start to revoke the social license of these firms. Many of the nation's elites sit on college boards, forcing them to grapple with the fact that the fossil fuel industry is now an outlaw against the laws of physics." Bill McKibben, founder of 350.org said.^{xi}

In the long term, due to the mounting public pressure, consequent changes in policies and scarcity of fossil fuels resources, investing in fossil fuel stocks may become progressively risky.

Social, political and financial pressure of the fossil fuel divestment movement can promote "re-directing investment to renewable energy alternatives that can trigger 'disruptive innovation' and substitute fuels as a primary source of energy supply"^{xii}. There are multiple reports^{xiii} that have become available in the recent years on green investment providing cities^{xiv} and other institutions with information and possible pathways to more sustainable financial portfolios.

For Oakland, it's not only important to exercise its right to divest, but also to urge other municipalities and institutions to join the movement. The City has no direct control over the funds of Oakland Municipal Employees' Retirement System (OMERS), the Oakland Police and Fire Retirement System (PFRS) or the California Public Employees' Retirement System (CalPERS) Boards, which have retirement investment portfolios of approximately \$4.5million^{xv}, \$454,193,847^{xvi} and \$292.4 billion^{xvii} respectively. However, the Oakland City Council can encourage those Retirement Boards to adopt similar divestment policies.

The California Public Employees' Retirement System (CalPERS) fund alone has approximately 10.7% or approximately \$25 billion^{xviii} of their investments in Fossil Fuel companies.

According to Bill McKibben "Divestment alone won't solve global warming — nothing alone will. But it's one powerful way to exert some leverage."^{xix}

OUTCOME

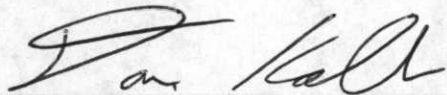
Investments not only protect financial resources, but also reflect values. Adoption of this resolution will further demonstrate Oakland's strong stands for environmental and social responsibility values. It will establish an express City policy not to support investments in any private business entity having as their core practice the exploitation of Earth's resources and pollution of the atmosphere and biosphere essential for human and other species survival. It will also add Oakland to the list of more than twenty one cities and more than two hundred colleges and universities in the United States that comprise a rapidly growing active movement to reduce current dependence on fossil fuels and protect our planet and take an active stand to protect present and future generations of human and other species from horrific and rapid extinctions.

Divesting from Fossil Fuel companies and industries will put social, political and economic pressure on these entities and could move us closer to transitioning to alternative, clean energy recourses for meeting our energy needs.

RECOMMENDATION

Councilmember Kalb recommends that the City Council adopt this Resolution.

Respectfully submitted,



Dan Kalb, Councilmember

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Attorney Assigned: Pelayo Llamas, Deputy City Attorney

**cc: Fred Blackwell, City Administrator \ Henry Gardner, Interim City Administrator
Walter L. Johnson, President Police and Fire Retirement Board
William C. Russell, President Oakland Municipal Employees Retirement Board**

ⁱ AC Transit, BART, East Bay MUD, East Bay Regional Parks District, Peralta Community Colleges.

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- ⁱⁱ Sustainability related resolutions and ordinances adopted in the City of Oakland, <http://www2.oaklandnet.com/Government/o/PWA/s/SO/OAK025298>
- ⁱⁱⁱ Sustainability related resolutions and ordinances adopted in the City of Oakland, <http://www2.oaklandnet.com/Government/o/PWA/s/SO/OAK039056>
- ^{iv} Resolution authorizing the city of Oakland to pursue and support statewide and local legislative and other initiatives to hold producers responsible for product waste starting with products defined as universal waste, <http://www2.oaklandnet.com/oakca1/groups/pwa/documents/report/oak025374.pdf>
- ^v Oil Independent Oakland Action Plan, 2008, <http://www.ecocitybuilders.org/wp-content/uploads/2010/11/OIO-ActionPlan.pdf>
- ^{vi} The Sources and Solutions: Fossil Fuels, <http://www2.epa.gov/nutrientpollution/sources-and-solutions-fossil-fuels>
- ^{vii} Estrogen and Androgen Receptor Activities of Hydraulic Fracturing Chemicals and Surface and Ground Water in a Drilling- Dense Region, <http://press.endocrine.org/doi/abs/10.1210/en.2013-1697>
- ^{viii} Bay Area Air Quality Management District (Air District) Community Air Risk Evaluation (CARE) report, 2014, Page 5, http://www.baaqmd.gov/~media/Files/Planning%20and%20Research/CARE%20Program/Documents/CARE_Retrospective_April2014.ashx
- ^{ix} “Living with a Rising Bay: Vulnerability and Adaptation in San Francisco Bay and on its Shoreline”, San Francisco Bay Conservation and Development Commission (SF BCDC), Page 31, <http://www.bcdc.ca.gov/BPA/LivingWithRisingBay.pdf>
- ^x <http://www.jhunewsletter.com/2012/12/06/divesting-stocks-is-the-wrong-strategy-46953/>
- ^{xi} <http://www.nytimes.com/roomfordebate/2013/01/27/is-divestment-an-effective-means-of-protest/turning-colleges-partners-into-pariahs>
- ^{xii} Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets? <http://www.smithschool.ox.ac.uk/research/stranded-assets/SAP-divestment-report-final.pdf>, Page 17
- ^{xiii} Institutional Pathways to Fossil-Free Investing <http://631nj1ki9k11gbkx39b3qpzua.wpengine.netdna-cdn.com/files/2013/06/institutional-pathways-final-061813.pdf>
- Beyond Fossil Fuels: The Investment Case for Fossil Fuel Divestment https://s3.amazonaws.com/s3.350.org/images/Impax--20130704_white_paper_fossil_fuel_divestment_uk_final.pdf
- A Complete Guide to Reinvestment https://s3.amazonaws.com/s3.350.org/images/Reinvestment_Guide.pdf
- ^{xiv} Resilient Portfolios & Fossil-Free Pensions <https://s3.amazonaws.com/s3.350.org/images/Resilient-Portfolios-and-Fossil-Free-Pensions-ByHIPinvestor-GoFossilFree-vFinal-2013Oct31.pdf>
- ^{xv} Oakland Municipal Employees’ Retirement System (OMERS) Annual report, 2013 <http://www2.oaklandnet.com/oakca1/groups/fma/documents/report/oak046046.pdf>, Page 22
- ^{xvi} Oakland Police and Fire Retirement System (PFRS) Annual Report Fiscal Year ending on June 30, 2013 <http://www2.oaklandnet.com/oakca1/groups/fma/documents/report/oak046045.pdf>
- ^{xvii} CalPERS Current Investment Fund Values, 5/22/2014, <https://www.calpers.ca.gov/index.jsp?bc=/investments/assets/mvs.xml>
- ^{xviii} Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets? <http://www.smithschool.ox.ac.uk/research/stranded-assets/SAP-divestment-report-final.pdf>, Page 59
- ^{xix} <http://www.nytimes.com/roomfordebate/2013/01/27/is-divestment-an-effective-means-of-protest/turning-colleges-partners-into-pariahs>

What is fossil fuel divestment?

Divestment is the process of pulling your investments from fossil fuel companies in order to cease profiting from the destruction of the planet. Divestment is a tactic for fighting climate change.



Why now? A few years ago, global warming seemed like a distant threat. Now, millions of people have witnessed climate disruption first hand in the terrible droughts, floods, heat-waves, wildfires, and storms that have ravaged much of the globe. Scientists warn us that we're reaching tipping points where the system could spin out of control.

Here's the math: If we're going to limit warming to 2°C, a goal that even the most conservative governments in the world have agreed to meet, then we can only burn 565 gigatons more of carbon dioxide. But the fossil fuel industry has 2,765 gigatons of carbon in their reserves – nearly five times the safe amount – and every day they're searching for more. Their business model is incompatible with a livable climate.

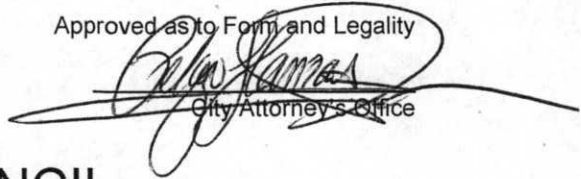
Why divestment? 1) Divestment is a proven tactic in highlighting the destructive practices of fossil fuel companies in the public arena; 2) divesting from dirty energy is already generating market interest in creating environmentally sustainable investments; and 3) divestment can help create the political momentum we need to pass carbon-restrictive legislation.

Will I lose money if I divest? No. Don't believe us? Many big institutional investors are highlighting the increasing financial disincentives for investing in fossil fuel companies and the increasing financial incentives for divesting portfolios of fossil fuels. Even Goldman Sachs, one of the most establishment finance firms on Wall Street, is divesting from coal.

Divesting helps save the planet AND your money. If we're going to have any chance of slowing down climate change, most fossil fuel reserves will need to stay in the ground -- and investments based on those reserves will lose their market value. This is called the "carbon bubble."

It's going to take all of us to make a difference. We are excited that dozens of cities, religious institutions, foundations, organizations and thousands of activists have already divested or are in the process of doing so. Start a campaign and join the movement:

www.gofossilfree.org



City Attorney's Office

14 MAY 29 PM 4:53

OAKLAND CITY COUNCIL

Resolution No. _____ C.M.S.

INTRODUCED BY COUNCILMEMBER KALB

RESOLUTION OF THE OAKLAND CITY COUNCIL (1) DECLARING A CITY POLICY PROHIBITING THE INVESTMENT OF CITY FUNDS OR HOLDING ANY INVESTMENT OR OWNERSHIP STAKE IN ANY COMPANIES THAT EXTRACT, PRODUCE, REFINER, BURN OR DISTRIBUTE FOSSIL FUELS, AND (2) DIRECTING THE CITY ADMINISTRATOR OR HIS/HER DESIGNEE TO EXAMINE THE CITY'S HOLDINGS AND FUTURE INVESTMENTS TO ASSURE THAT THE CITY COMPLIES WITH THIS POLICY, AND (3) URGING THE GOVERNING BOARDS OF THE OAKLAND MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM (OMERS), THE OAKLAND POLICE AND FIRE RETIREMENT SYSTEM (PFRS) AND THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS) TO DIVEST FROM ALL PUBLICLY-TRADED FOSSIL FUEL COMPANIES, AND (4) URGING OTHER LOCAL JURISDICTIONS THAT INTERSECT WITH OAKLAND TO DIVEST FROM ALL PUBLICLY-TRADED FOSSIL FUEL COMPANIES, ALL IN AN EFFORT TO SUPPORT THE GOALS OF THE OAKLAND ENERGY AND CLIMATE ACTION PLAN AND DIMINISH THE USE OF FOSSIL FUELS THAT SIGNIFICANTLY CONTRIBUTE TO CLIMATE CHANGE

WHEREAS, the climate crisis is a severe threat to current and future generations here in Oakland and around the world; and

WHEREAS, the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Reportⁱ 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, increase in ocean's acidity, flooding and drought, and the IPCC Fifth Assessment reports further indicate that global warming is proceeding at a faster pace than had been previously thought; and

WHEREAS, these extreme events have and will continue to negatively impact the U.S. economy. In 2012, the United States accounted for 67% of the \$160 billion lost globally due to natural catastrophesⁱⁱ; 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 hazardous,

and that if humans release only about 565 more gigatons of carbon dioxide into the atmosphere this limit will be not possible to maintain; and

WHEREAS, for the purposes of this resolution, a “fossil fuel company” shall be defined as any publicly-traded company that extracts, produces, refines, burns or distributes any fossil fuels and any company 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, 200 largest of which are listed in the Carbon Tracker Initiative’s “Unburnable Carbon” reportⁱⁱⁱ; 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 CO₂ if they are burned, which is five times the amount that can be released without exceeding 2°C of warming; and

WHEREAS, due to the increased greenhouse gasses in the atmosphere Earth’s climate is changing drastically and the Arctic snowcap and Antarctic glaciers are melting much faster than previously estimated and climate change is occurring much faster and likely to affect each human being presently living on the Planet,^{iv} and

WHEREAS, the Oakland Energy and Climate Action Plan found that combustion of fossil fuels is a major source of greenhouse gas (GHG) emissions associated with Oakland, as well as throughout California and projected local impacts of climate change caused by GHG emissions include rising Bay and delta waters, increased vulnerability to flood events, decreased potable water supply due to shrinking Sierra snowpack, increased fire danger, more extreme heat events and public health impacts, added stress on infrastructure, higher prices for food and fuels, and other ecological and quality of life impacts; and current dependence on fossil fuels not only creates heat-trapping GHG emissions, but imposes other risks associate with energy security, environmental impacts (e.g., recent Gulf oil spill), and vulnerability to energy price volatility, and^v

WHEREAS, the City of Oakland has no current investments, other than possible inadvertent de minimus amounts, in fossil fuel companies and has a history of successfully prohibiting investments in entities that produce outcomes that are harmful to civilizations—Oakland successfully divested from South Africa in 1985 and Burma in 1996 to make a stand against human rights abuses; and companies involved in Tobacco, Nuclear, and Firearms and Ammunition production to make a stand for the health and wellbeing of the residents of Oakland; and

WHEREAS, the residents of Oakland believe that investments should support a future where all people can live healthy lives without the negative impacts of a warming climate; and,

WHEREAS, at least twenty-one cities in the United States have committed to freeze fossil fuel investment and more than two hundred colleges and universities in the United

States have launched campaigns to have their institutions divest from fossil fuel companies; now, therefore, be it

RESOLVED: That the City Council hereby declares that it is the policy of the City of Oakland to have no financial holdings or investments, other than an inadvertent de minimus amount defined as less than one percent in any given investment instrument, in any Fossil Fuel Company, as defined, but not limited to above, (that extracts, produces, refines, burns or distributes fossil fuels, and any company 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), be it through the direct purchase of commercial paper, a medium term note (corporate bond), ownership of stock, ownership of mutual funds shares, investment in a private equity fund owning the stock, or through any other instrument, securities, or other financial obligations; and be it

FURTHER RESOLVED: That the City Administrator, or his/her designee, shall, to the extent practicable, examine the City's financial holdings and future investments to assure that the City complies with this City policy by no later than July, 2015 and periodically beyond; and be it

FURTHER RESOLVED: That if a money market fund has security holdings at or exceeding 1% in fossil fuel companies, the City will begin to divest out of that money market fund and be fully divested within one year; and be it

FURTHER RESOLVED: That in accord with Charter Section 504, the City Administrator, or his/her designee, shall maintain compliance with this policy, by effective methods such as monitoring the financial security holdings of the City's money market funds and periodic review of the list of publicly-traded companies that extracts, produces, refines, burns or distributes fossil fuels and 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 be it

FURTHER RESOLVED: That the City Administrator, or his/her designee, shall provide the Council periodic updates, available to the public, detailing progress made towards compliance with full divestment; and be it

FURTHER RESOLVED: That the City urges the governing boards of the Oakland Municipal Employees' Retirement System (OMERS), the Oakland Police and Fire Retirement System (PFRS) and the California Public Employees' Retirement System (CalPERS) to adopt a similar policy and to divest from fossil fuel companies; and be it

FURTHER RESOLVED: That the City of Oakland urges other local jurisdictions that geographically intersect with Oakland to divest from and prohibit future investment of their respective public funds in fossil fuel companies; and be it

FURTHER RESOLVED: That the City Administrator, or his or her designee, shall prepare a report to the Council by no later than July, 2015 that outlines options for investing City funds in a socially responsible manner that further maximizes the positive impact of public funds by seeking out investment opportunities that limit and help to mitigate effects of burning fossil fuels, including, but not limited to, clean technology, renewable energy, sustainable companies or projects, and sustainable communities, etc.; and be it

FURTHER RESOLVED: That the City Administrator is directed to forward a copy of this enacted Resolution to the governing boards of OMERS, PFRS and the CalPERS, and to the elected governing boards of special district jurisdictions^{vi} that intersect with Oakland, and to state legislative elected officials representing Oakland.

IN COUNCIL, OAKLAND, CALIFORNIA,

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, GALLO, GIBSON MCELHANEY, KALB, KAPLAN, REID, SCHAAF, AND
PRESIDENT KERNIGHAN

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____

LATONDA SIMMONS
City Clerk and Clerk of the Council of the
City of Oakland, California

ⁱ http://www.ipcc.ch/pdf/assessment-report/ar4/syr/ar4_syr.pdf

ⁱⁱ Annual Global Climate and Catastrophe Report Impact Forecasting —2012

http://thoughtleadership.aonbenfield.com/Documents/20130124_if_annual_global_climate_catastrophe_report.pdf

ⁱⁱⁱ <http://www.carbontracker.org/wp-content/uploads/downloads/2011/07/Unburnable-Carbon-Full-rev2.pdf>, Page 13

^{iv} <http://www.wunderground.com/climate/SeaIce.asp>;
<http://www.epa.gov/climatechange/science/future.html>

^v <http://www2.oaklandnet.com/oakcal/groups/pwa/documents/report/oak039056.pdf>; Page 4, 23 and 58

^{vi} AC Transit, BART, East Bay MUD, East Bay Regional Parks District, Peralta Community Colleges.