



## **Investing With Values and Responsibility**

*Author: Senator Kevin de León*

### **PURPOSE:**

To direct the two largest state pension funds (CalPERS and CalSTRS) to divest their portfolios of coal companies.

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### **BACKGROUND:**

Coal combustion for energy generation is the single leading cause of the pollution that causes global climate change. According to the United States Energy Information Service and the Union of Concerned Scientists, “coal plants are the nation’s top source of carbon dioxide (CO<sub>2</sub>) emissions, the primary cause of global warming. In 2011, utility coal plants in the United States emitted a total of 1.7 billion tons of CO<sub>2</sub><sup>1</sup>. A typical coal plant generates 3.5 million tons of CO<sub>2</sub> per year<sup>2</sup>.

Burning coal is also a leading cause of smog, acid rain, and toxic air pollution. Some emissions can be significantly reduced with readily available pollution controls, but most U.S. coal plants have not installed these technologies. Coal clearly is the highest polluting source of energy per unit consumed so it’s a logical place to begin the effort of investing with our values.

Coal divestiture is a growing movement that has been undertaken by other funds such as the Stanford University Endowment, Yale University, The Rockefeller Brothers Fund, and across 300 college campuses nationwide.

In the past, the Legislature has enacted laws to require pension funds to divest their portfolios of businesses operating in South Africa, Iran, and the Sudan (see e.g. Government Code Sections 7513.6 and 7513.7). After the Legislature introduced a bill to require CalPERS to divest its portfolios of tobacco stocks the system announced it would do so voluntarily.

According to the California Energy Commission (CEC) roughly 8% of the state’s energy needs are met by coal resources. Very little coal mining and coal power is here in the state. Most of the 8% figure comes from coal power imports from out of state for Southern California municipal utilities.

According to Cal PERS, its portfolios currently contain approximately 30 coal mining/producing companies valued at approximately \$167 million (CalPERS is the nation's largest public pension fund with assets totaling \$295.0 billion as of September 30, 2014)

In determining this number, CalPERS utilized the Bloomberg Global Coal Index, Carbon Tracker, and Energy Transition Advisors is determining the universe of coal mining/producing companies. BGCI defines these companies as those primarily involved in the production and mining of coal, related products and other consumable fuels related to the generation of energy. It excludes companies primarily mining for metallurgical (coking) coal used for steel production.

Based on similar metrics Cal STRS states it has \$132 million in coal assets.

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<sup>1</sup> *US EIA Data*

<sup>2</sup> *Typical plant assumptions: Capacity=600 MW; Capacity Factor=69%; Heat Rate=10,415; CO2 Emissions Rate=206 pounds of CO2/Million Btu*

**PROPOSAL:**

Require the Public Employees Retirement System and the State Teacher's Retirement System, consistent with their fiduciary responsibilities, to divest their holding of thermal coal power and to transition these investments to clean, pollution-free energy resources. At the earliest feasible date, require their governing boards to undertake all of the following:

- (1) Divest the public employee retirement funds of any investments in a thermal coal company;
- (2) Make no additional or new investments or renew existing investments in a thermal coal company; and
- (3) Liquidate the investments of the board in a thermal coal company no later than 18 months after the statute applies to that company.

On or before January 1, 2017, require the CalPERS and CalSTRS boards to file a report with the Legislature and the Governor containing all of the following:

- Actions it has taken to implement this statute, including a list of investments and companies of which it has divested.
  - Recommendations to ensure the board is able to act consistent with its fiduciary responsibilities.
  - In consultation with the Secretary of the California Environmental Protection Agency, a comprehensive assessment of the feasibility of divesting the public employee retirement funds of additional fossil fuel investments such as natural gas and petroleum, and its implications for the fund.
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