

Memo

To: City of Portland temporary advisory committee on socially responsible investments
From: Staff, Commissioner Novick's office
Re: Local government efforts to implement socially responsible investment policies
Date: March 26, 2014

Summary of Purpose, Process, and Key Findings

The purpose of this memo is to provide contextual information to the City of Portland's socially responsible investments temporary advisory committee about whether and how other jurisdictions, especially city and county governments, have incorporated social concerns in any of their investment policies.

We contacted 23 jurisdictions and heard back from 11. Upon successful contact, we asked a list of questions about the jurisdiction's investment practices. Our outreach was intuitive rather than scientific.

Among the jurisdictions we interviewed, nine were cities, one was a county, and one was the District of Columbia; other than Eugene, Oregon, all other jurisdictions interviewed are outside the State of Oregon. In summary, we heard the following:

- One city has documented social criteria for its pension investments that it directly manages, and four cities have documented social criteria for their operating fund investments.
- Five jurisdictions use documented social criteria for their operating or pension fund investment policies.
- One city told us they use social criteria but that the policies are not documented – rather, they are either informal or nonbinding.
- Five jurisdictions apply no social criteria to either their operating or pension fund investments.
- Six jurisdictions said they do not invest in corporate securities, choosing instead to limit their operating fund investments to U.S. government-sponsored bonds.

Page 2 includes a table summarizing key information about the responses we received from each jurisdiction.

Summary Table: Key Information Gathered from Interviews with Local Governments about Investment Practices

	Does Portfolio Include Operating Fund Resources?	Does Portfolio Include Pension Fund Resources?	Use of Social or Values Criteria?	
			Operating Fund	Pension Fund
Amherst, MA	Yes	No	Yes, and policy is informal/ “nonbinding”	NA*
Ann Arbor, MI	Yes	Yes	No; state law allows no investment in corporate securities except commercial paper	Yes; policy is formal
Berkeley, CA	Yes	No	Yes, and the policy is documented	NA
Boulder, CO	Yes	No	Yes, and the policy is documented; however, currently the City also does not invest in any corporate securities	NA
Chapel Hill, NC	Yes	No	No; the Town does not invest in corporate securities	NA
District of Columbia	Yes	Yes	No; the District does not invest in corporate securities except commercial paper	No
Durham, NC	Yes	No	No; the City invests only an immaterial portion of its portfolio in corporate debt	NA
Eugene, OR	No	No	NA	NA
Madison, WI	Yes	No	Yes, and policy is documented	NA
Richmond, CA	Yes	No	No; City does not invest in corporate securities because of an order from the Mayor	NA
San Francisco, CA	Yes	No	Yes, and the policy is documented	NA
Thurston County, WA	Yes	No	No; the City has no current investments in corporate securities	NA
<i>Portland, OR</i>	Yes	No	No	NA

*Not Applicable

Background & Purpose

Oregon Revised Statutes (ORS) 294 *Municipal Financial Administration* governs the investment of surplus funds of political subdivisions in Oregon and enumerates the specific categories of fixed-income investments that are permitted. ORS 294 allows up to 35% of a jurisdiction's portfolio to be invested in corporate securities (commercial paper and/or corporate bonds) with a 5% limit per issuer and requires minimum credit ratings (Moody's, S&P, Fitch) on those securities. ORS 294 also authorizes local governments to place surplus funds in the State's Local Government Investment Pool (LGIP), which is managed by the Oregon State Treasurer. Jurisdictions that place surplus funds in the LGIP are invested in corporate securities, albeit indirectly. ORS 294 addresses only operating funds, not pension funds or deferred compensation funds. All further references in this memo to investments or investment decisions of the City of Portland are only in regard to the City's operating cash.

In October 2013, the Portland City Council passed two resolutions about incorporating social criteria in the City's direct investment in corporate securities for the City's operating funds. One resolution established a temporary committee to advise Council on how best to address social concerns with respect to its direct investments in corporate securities. The second took action immediately to prohibit the City from any new direct investments in securities issued by Wal-Mart.

The new socially responsible investment resolutions build on the City's existing Investment Policy, which is available online at <http://www.portlandonline.com/auditor/index.cfm?c=47787&a=200869>. The Council-approved Investment Policy establishes a conservative set of criteria for the City's investment activities, the objectives of which are (in priority order) to prudently protect the City's operating funds and ensure the preservation of capital, provide ample liquidity to meet the City's daily cash requirements, and enable the City to generate a fair rate of return from its investment activities. The October 2013 resolutions for the first time seek to add a social or values-based screen to the City's investment decisions.

Over the course of a year, Portland's investment portfolio ranges from about \$940 million to \$1.29 billion. The City's Investment Policy has always permitted investments in commercial paper. Until December 2010, the City's total portfolio limit for corporate securities was 25%. In December 2010, Council increased the total corporate securities limit to 35%, in accordance with ORS, and approved permitting investments in corporate bonds up to 18-months in maturity. In 2013, Council approved permitting investments in corporate bonds up to 3-years in maturity.

In response to questions from City Commissioners, Portland's City Treasurer asked her colleagues at a 2014 Government Finance Officers Association (GFOA) conference if their jurisdictions incorporate social criteria in their operating fund investment policies. She heard that some cities and other jurisdictions were discussing social criteria in regards to pension fund investments, which have different investment goals, may offer opportunities for shareholder advocacy via stock ownership, and have longer investment horizons than operating fund investments. She heard that a couple of jurisdictions have unwritten agreements to not invest in certain sectors (guns, tobacco, fossil-fuels), but she didn't hear

from any jurisdictions that explicitly incorporate social criteria screening for operating fund investments.

The purpose of this memo is to provide information to the temporary advisory committee about other jurisdictions' efforts to incorporate social criteria into their investment policies, with a specific focus on any jurisdictions that have sought to incorporate criteria for their operating funds rather than pension funds. The memo seeks to build on the anecdotal information gathered by the City Treasurer at the GFOA conference.

Process

We developed a list of questions to ask and identified a list of jurisdictions, including city as well as county governments, to contact. We directed questions to knowledgeable/appropriate Treasury or Financial staff via telephone and e-mail. Key questions included:

- Does the municipality invest pension fund dollars, operating fund dollars, or both?
- Does the municipality invest directly; indirectly through a state pool or some other pool; or both?
- What is the size of the municipality's investment portfolio?
- Does the municipality invest in corporate bonds and other securities?
- Does the municipality apply social criteria to its investments, and if so, what criteria?

When given the opportunity, we followed up to the responses we received to this list of questions. In some cases, cities and counties sent us copies of their investment policies or other documents.

Our outreach was intuitive rather than scientific, and we made an effort to reach out to cities similar in size or demographics to Portland, recognizing there would be differences in state laws. We also concentrated our efforts toward cities we believed may have socially responsible investment policies based on news and other information we read. In addition, we contacted jurisdictions known for having engaged citizens who have advocated for divestment or socially responsible investment policies over the years. Most of the jurisdictions we contacted were outside of the state of Oregon because we are aware that most other cities and counties in Oregon invest through their participation in the State's LGIP. Because ORS 294 limits local government participation in LGIP to \$45.6 million (periodically adjusted by CPI), Portland directly invests the vast majority of its operating funds.

Findings

We contacted 23 jurisdictions and heard back from 11 jurisdictions. Upon successful contact, we asked a list of questions about the jurisdiction's investment practices.

Among the jurisdictions we interviewed, nine were cities, one was a county, and one was the District of Columbia; other than Eugene, Oregon, all other jurisdictions interviewed are outside the State of Oregon. In summary, one city has documented social criteria for its

pension investments, while four cities have documented social criteria for their operating fund investments. One city told us they use social criteria but that the policies are not documented – rather, they are either informal or nonbinding. Five jurisdictions apply no social criteria to either their operating or pension fund investments. Furthermore, six jurisdictions said they do not invest in corporate securities, choosing instead to limit their operating fund investments to only U.S. government-sponsored bonds. Page 2 includes a table summarizing key information about the responses we received.

We heard that cities that choose not to invest in corporate securities do so for a variety of reasons, including because they feel it is less risky to invest elsewhere or because state law restricts investments in corporate securities. Further, one jurisdiction did tell us they use social criteria to govern their operating fund investments, but they do not have an official, documented policy that lists those criteria; instead, that jurisdiction does not invest in certain industries as a matter of practice.

We talked with four jurisdictions that have added documented social criteria to their operating investment policies. In all of these cases, jurisdictions have prohibited investments in one or more category of corporation, such as gun manufacturers, tobacco companies, or fossil fuel companies. Although prohibiting investment based on category of corporation was the most common “screen” on investing, Boulder and San Francisco also banned investing in corporations associated with Sudan or nuclear weapons, although we did not receive information about how these cities actually track these bans to ensure they are following their policies. We did not find any jurisdictions that have clearly prohibited investments based on corporate practices, such as abusive labor practices or environmental harm. The closest example of an attempt towards this is San Francisco, which has a broad policy that includes references to corporate practices; however, based on the wording of San Francisco’s policy, it seems as though it would face implementation challenges because it fails to clearly define which corporate securities the City may and may not purchase.

Jurisdiction Information

In this section, we summarize what we heard from the jurisdictions we contacted and from which we received information.

Amherst, Massachusetts

Amherst invests about \$10 to \$15 million of its operating fund at any one time. Corporate securities are about 25% of its direct investments. Massachusetts law establishes a list of allowable investments.

In spring 2013, the Amherst Town Council adopted a nonbinding resolution that the Town will not invest in fossil fuel companies. Citizens were interested in this policy and brought it to the Council for consideration; the organization 350.org also assisted with developing the policy. When the Council passed the resolution, the City had no current investments in fossil fuels. Amherst also does not invest in tobacco companies, although this policy has been approached through practice rather than formal policy.

Ann Arbor, Michigan

Ann Arbor invests about \$200 million from its operating fund and about \$400 million from its pension fund.

The State of Michigan limits city operating fund investments to fixed income products. Ann Arbor cannot invest its operating fund resources in stocks, derivatives, or corporate securities except for commercial paper. The person we spoke with called the effect of the state's policy "socially responsible by default."

The City's pension funds are invested in stocks, bonds, and other securities. In 2011, the City enacted a policy of not investing any of these funds in companies that do business in Sudan. More recently, citizens have advocated for prohibiting investments in fossil fuel companies. The issue came up in Council a few months ago but Council had not acted on it.

Berkeley, California¹

Berkeley prohibits investments in fossil fuels, gun manufacturers, and tobacco producers. Further, it has a policy of limiting investments in areas known for their association with nuclear weapons. The nuclear-free policy states:

"To the extent possible, without compromising the City's safety, liquidity, and yield objectives, it is the City's policy to prefer investments in U.S. Agency securities. They are preferred because of their generally higher yields and generally socially preferable uses, such as housing loans or student loans, versus investments in Treasury securities with their association with nuclear weapons."

The documents we found indicated that Berkeley invests its operating funds, and its investment portfolio is about \$200 million.

Boulder, Colorado

As of December 2013, Boulder's investment portfolio totaled about \$200 million in operating fund resources.

Boulder's investment policy lists seven primary investment objectives, including, "compliance with any city council directive related to socially or environmentally responsible investing." A 1997 ordinance requires the City to make investments in accordance with city ordinances and resolutions concerning social or environmental issues. Despite the ordinance, the person we spoke with indicated that the City does not have formal criteria for socially responsible investing, although in the past the City barred any type of investing in Burma due to human rights abuses.

Currently, Boulder does not have any corporate securities in its portfolio even though it may do so according to City ordinance.

¹ We were able to access the City of Berkeley's investment policy online, and we included the City here because the policy is relevant to the City of Portland's discussion. However, City of Berkeley staff did not return our calls or e-mail, so the information we were able to gather is limited.

Chapel Hill, NC

The Town of Chapel Hill directly invests its operating funds while its pension funds are invested through the state. The Town of Chapel Hill does not invest in corporate securities, and its directly invested portfolio ranges from \$20 to \$40 million.

District of Columbia

The District does not invest General Fund dollars in corporate securities, but its investment policy does allow for the purchase of commercial paper. General Fund investments range from \$2 to \$3 billion depending on the revenue cycle.

On the pension side, some of the District's pension-related investments are invested in corporate securities, and the policy does not include any social or values-based limitations. The pension program managed by the CFO is just under \$1 billion. The person we contacted indicated that the District is "having discussions" about moving toward a socially responsible investment policy for the pension program but nothing has been finalized or implemented at this point.

Durham, NC

The City of Durham invests only its operating funds, not pension funds, and its portfolio ranges between \$175 and \$250 million at any one time. The person we contacted indicated that the City's policy allows it to invest in highly rated corporate debt, but that the City currently has an "immaterial" amount in its portfolio.

Eugene, OR

Eugene does not have any direct investments. Rather, it makes investments through the State LGIP. According to the staff report to the Eugene City Council, fossil fuel holdings represent one half percent of the State's Oregon Short Term Fund.

The person we spoke with indicated the City is in the process of deciding whether to write a letter to the state urging the State Treasurer to cease investing in fossil fuel companies through the LGIP, the state pension fund, or both. Eugene's Mayor has championed this issue.

Madison, WI

The City of Madison has a \$400 million portfolio, which includes Madison public schools. The City's investment policy allows it to invest in corporate securities with double-A bond ratings or above. About 5% of its investments are in corporate securities.

The City Council passed a policy in 2013 to cease investment in fossil fuel companies in 2013. The fossil fuels policy is modeled on a template from the organization 350.org, which advocates for institutions and public agencies to divest from fossil fuels.

The person we spoke with indicated that currently, a subsidiary of Shell Corporation is listed in Madison's portfolio. According to the person we spoke with, the subsidiary is not involved in fossil fuels and the City will not, under the its new policy, be able to renew this investment after it matures - despite that the subsidiary has no direct involvement in fossil fuels.

Madison uses the State of Wisconsin's retirement system, and the person we spoke with indicated that the City has felt that it would be futile to advocate for socially responsible investment policies for pension funds.

Richmond, CA

Richmond does not invest in corporate securities due to an order by the Mayor. The City has a \$40 million investment portfolio, and it directly invests its operating fund.

San Francisco, CA

San Francisco's policy reads as follows:

“Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms, or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses.”

In short, the policy uses a two-prong approach, screening for practices *and* categories (firearms, nuclear weapons, etc).

San Francisco's investment portfolio is \$6.5 billion with roughly 17% of its investments in corporate securities. The person we spoke with said that most of its portfolio is operating funds.

Thurston County, WA

Thurston County (Olympia, Washington) directly invests most of its operating funds in a portfolio totaling about \$500 million. The County does not evaluate its investments based on any social or values-based criteria. In addition, the policy allows the County to invest in corporate debt, but the contact we spoke with indicated that in practice they do not because it is “risky.”