# DIVESTING FROM FOSSIL FUELS

## *How Cities Can Help Solve the Climate Crisis*

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**—Mayor's Innovation Project,** Divestment from Fossil Fuels: A Guide for City Officials and Activists (2014)

### *THE PROBLEM*

Local government investments support the status quo of an economy driven by harmful fossil fuels. Following a staggering number of major natural disasters in the past several years, climate change has become a very real and local problem. Coastal flooding and extreme temperatures are already costing cities billions of dollars in preparation and repairs. These problems have pushed cities to make their operations more environmentally friendly. But many localities face a common problem – even as their operational policies become greener, their investments still support the industries that are driving global climate change.

### *THE SOLUTION*

Recently, a new policy has been gaining traction: divestment of public funds from the stocks of fossil fuel companies that make money extracting coal, gas, and oil. Thirty-six local overnments in the United States have already committed to the divestment process. The impact of divestment by local governments has significant potential. In 2014 total municipal holdings add up to about $1.5 trillion in cash and securities, plus an additional $500 billion in retirement funds.[1] Divestment affects companies' bottom line while also bringing attention to their reckless practices.

From an investment standpoint, divestment can actually make local government finances more secure. Fossil fuel companies are already facing time constraints on their future profitability: between 50-80 percent of their value is derived from unburned reserves. But because of the already-changing climate, it is likely that the US will ultimately institute a price on carbon that will slow the extraction and reduce fossil fuel companies' profits. Disinvesting from fossil fuel companies protects cities from these future financial risks.[2]

Research suggests that cities will not suffer meaningful financial impact from divestment, particularly in light of its social and environmental benefits.[3] Recently, even financial giants have come to the same conclusion. In January 2014, a Goldman Sachs subsidiary sold its shares in a **Seattle**-based coal export terminal.[4] Environmental regulations, competition from natural gas, and increased energy efficiency were all specifically cited by Goldman Sachs as reasons to shy away from investments in coal. Additionally, **London's** most prominent stock index, the FTSE, has recently chosen to completely exclude fossil fuel companies.[5]

### *POLICY ISSUES*

Many cities have already begun to make progress. The divestment procedure is relatively straightforward for most city governments. However, it can be complicated politically, and usually requires education and persuasion, as there are numerous levels of government and fund managers involved.[6] Government officials who want to explore divestment should conduct an assessment of all government funds to determine who is in charge of asset management and the extent of equity ownership in companies with carbon reserves.[7]

**Seattle** was the city that started the local government divestment campaign by divesting all of the city's directly controlled fossil fuel investments, and asking the City's biggest pension funds to remove their funds from fossil fuel-related investments in 2012.[8] Since then, numerous other cities and counties across the US have taken legislative action to divest from fossil fuels. For example, ten other cities joined **Seattle** on April 25, 2013 to launch the Fossil Free city divestment campaign including **Boulder, CO, San Francisco, CA, Santa Fe, NM** and **Eugene, OR.** [9]

Meanwhile, residents are petitioning local governments that have not yet acted to join the movement. In **Massachusetts**, a 95-year old man wrote a resolution to encourage divestment in **Truro** and nearby **Provincetown**.[10] Thanks to concerned citizens, nine municipalities in the state have voted to divest.[11]

In addition to divesting their own public funds, cities and towns can also encourage state entities to do the same. **Berkeley** has called on **California's** state pension fund to stop investing in oil.[12] Universities have also taken action to protect their students' future by exploring divestment of their endowments. In May 2014, Stanford divested from coal companies, while Unity College in **Maine** and Pitzer College in **California** are among the many small schools that have already divested their entire endowments of fossil fuel stocks.[13] Public institutions are not far behind: San Francisco State University's Foundation, which has a $67.7 million endowment, agreed unanimously that it would no longer invest directly in companies that produce or use coal.[14]

Faith-based organizations and foundations have also used their collective financial clout to advance the divestment movement. Many religious institutions across the United States have done so through the efforts of GreenFaith, a national interfaith environmental coalition.[15] Meanwhile, a coalition of U.S. and global foundations, Divest-Invest Philanthropy, came together in January 2014 with assets of close to $2 billion to make a commitment to divest from fossil fuels, invest in clean energy, and to recruit other foundations to join them.[16]

Divestment is only the first part of the process. Local governments can also make a further commitment to socially-responsible investment policies. The optimal policy decision is to invest locally. Such policies can stimulate the local job market, promote affordable and sustainable housing options, and improve aging infrastructure. One extremely valuable area for these investments, among many others, is transportation. This includes improved roads, particularly in poverty stricken neighborhoods, pedestrian and bicycle infrastructure, as well as quality public transit.[17] Another option is to invest in the many mutual and exchange traded funds that have been screened and approved for their positive environmental impact.[18] These funds consist of a wide variety of possible investment opportunities, including public and private equity and fixed income securities.

### *LANDSCAPE AND RESOURCES*

These are just some of the examples of divestment policies that local governments have instituted. For more information, please visit **Go Fossil Free, The Mayors Innovation Project, American Legislative** and **Issue Campaign Exchange** (ALICE), and **350.org.**