

MOTION for a Responsible Investment Policy, City of Los Angeles

WHEREAS, the Los Angeles City Treasurer in the office of Finance has fiduciary responsibilities under the City Charter and the California State Constitution to act as the custodian of all taxpayer money deposited in the City Treasury. While the funds are on deposit, the Treasurer invests these funds in safe and secure investments to maximize the return on investment while minimizing risk to taxpayer funds.

WHEREAS, it is important to protect the City's principal, maintain adequate liquidity, and generate strong investment returns, it is equally important that those funds be invested responsibly and in a manner consistent with the City's environmental, social, and governance policies to further maximize the positive impact of public funds. Environmental, Social and Governance (ESG)¹ refers to the three central factors in measuring the sustainability and ethical impact of an investment in a company or business.

WHEREAS, the United Nations Environment Programme Finance Initiative² commissioned a report on the interpretation of the law with respect to investors and ESG issues and concluded that not only was it permissible for investment companies to integrate ESG issues into investment analysis but it was arguably part of their fiduciary duty to do so.³ And in 2006, Oxford University's Michael Barnett and New York University's Robert Salomon published a highly influential study which asserts a curvilinear relationship between companies that deliver social or environmental impacts and strong financial performances.⁴

THEREFORE, it is fiscally responsible for the City to consider environmental, social and governance factors when making investment decisions on behalf of Los Angelenos.

ENVIRONMENTAL CONSIDERATIONS

WHEREAS, climate change is the most significant issue facing the global environment today and there is a broad, overwhelming consensus among scientists that the climate is changing as a direct result of human activity that produces greenhouse gases.

WHEREAS, one aspect of the financial risks posed by climate change is that a significant portion of current carbon-intensive assets could become "stranded," and thereby drastically lose value, as carbon emissions are constrained.⁵ The City can reduce its risks of carbon-stranded assets.

¹ https://en.wikipedia.org/wiki/Environmental,_social_and_corporate_governance#cite_note-14

² <http://www.unep.org/environmentalgovernance/>

³ http://www.unepfi.org/fileadmin/events/2002/fdi/20020619_fdi_clements_hunt.pdf

⁴ <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.471.4469&rep=rep1&type=pdf>

⁵ <https://irrcinstitute.org/reports/beyond-divestment-using-low-carbon-indexes/>

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WHEREAS, Mayor Garcetti has introduced The Sustainable City pLAn as a roadmap for an environmentally healthy, economically prosperous, and equitable City and the Office of Sustainability recognizes that sustainability is not a narrowcast endeavor but must be incorporated in everything we do as a city. [Mayor's Sustainability Plan](#)

WHEREAS, Los Angeles already has the most solar power of any city in the nation and is on track to add more green jobs than any other city in the U.S. Additionally, the City is working to clean up and green up our most polluted and underserved neighborhoods.⁶

WHEREAS, Los Angeles has already acted decisively and deliberately to reduce its emissions of greenhouse gases and thereby reduce its contribution to the changing climate and is committed to achieve a 100% renewable energy portfolio for the LADWP. [City Council File 16-0243](#)

WHEREAS, the toxic legacy left by fossil fuel and uranium development on tribal lands remains today and will persist for generations, even without additional development⁷ and the City of Los Angeles and DWP has a legacy of exploitation through the coal powered Navajo Generating Station, from which the City has divested in order to reach its emissions goals. [City Council Ordinance 183629](#)

WHEREAS the City approved divestment of Public Retirement Systems from thermal coal power. [Council Action 15-0002-S70](#)

WHEREAS nuclear power is an inherently dangerous technology, despite its low-carbon emissions, nuclear fuels are nonrenewable energy resources and the disposal of nuclear waste takes hundreds of years, creating risks for future generations. Also, the economic and environmental consequences of any accidents would be catastrophic for the region.

THEREFORE, to align the City's investments with its commitment to safety, renewable energy and the elimination of the use of fossil fuels and nuclear energy, the City hereby divests funds from the fossil fuel and nuclear energy industries and financial institutions that fund these industries.

SOCIAL RESPONSIBILITY CONSIDERATIONS

FURTHERMORE, socially responsible policy is at the very heart of the City's purpose and interwoven throughout its legislation, City departments, and neighborhood councils. Through the Labor Compliance Ordinance, Affirmative Action/ Equal Employment Opportunities Ordinance, Equal Benefits Ordinance, Living Wage Ordinance, Service Contractor Worker

⁶ <http://plan.lamayor.org/portfolio/prosperity-green-jobs/>

⁷ http://thehill.com/sites/default/files/ICOUP_EJinNAPolicyPaper_0.pdf

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Retention Ordinance, and the Slavery Disclosure Ordinance, the City ensures that financial interests are not prioritized over human interests.

WHEREAS, the City stands with immigrants and seeks to provide safety, refuge, and opportunity for all; [Mayor's statement: Standing with Immigrants](#)

WHEREAS, there is widespread information on the problems inherent to private detention centers for immigrants because of the deep-seated tension between making profits and providing humane conditions, as well as releasing immigrants who pose no danger or flight risk.⁸

WHEREAS, the City recognizes the rights of Native American Tribal Nations, like the Standing Rock Sioux Tribe, to protect their sovereign resources; [Council Resolution 15-0002-S220](#)

WHEREAS, there is a history of resource exploitation on sovereign Native American land; and several banks invested in resource exploitation are also engaged in business with the City⁹, thereby making Los Angeles citizens complicit to said exploitation and undermining of Native American sovereignty through the use of tax dollars and fees.

WHEREAS, the City recognizes that nearly 58,000 people are living on the streets of Los Angeles; addressing homelessness is a state of emergency — and finding housing and shelter for as many people as possible as quickly as possible is an imperative. [Council Resolution 15-0002-S201](#)

WHEREAS, racially-motivated predatory lending led to foreclosures.¹⁰ These foreclosures during the mortgage crisis increased the homeless population.¹¹

WHEREAS, many financial institutions have systematically targeted communities of color with predatory sales tactics and loans.¹² These practices lead to conditions of blight, result in the loss of affordable housing, increase displacement and economic dislocation, erode the tax base, and increase the strain on City services. The City foresaw the dangers of predatory lending and attempted to stem the practices of unscrupulous lenders before the 2008 economic crisis [Council Resolution 175008](#) yet still has investments with these very lenders.

WHEREAS, the City seeks to promote equality and eliminate discrimination by creating a multi-year strategy to systematically improve racial equity, LGBTQ protections and correct potential structural racism and other forms of unintended discrimination that might exist within the City of disadvantaged and LGBTQ communities. [Council Action 15-0840-S1](#)

⁸ <https://www.acluga.org/en/publications/prisoners-profit> 2016

⁹ http://thehill.com/sites/default/files/ICOUP_EJinNAPolicyPaper_0.pdf

¹⁰ <http://www.reuters.com/article/us-usa-foreclosures-race-idUSTRE6930K520101004>

¹¹ <http://www.nationalhomeless.org/factsheets/foreclosure.html>

¹² <http://www.businessinsider.com/why-wells-fargo-keeps-getting-into-trouble-2016-9>

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WHEREAS Mayor Garcetti has pledged to support gender equity in city governance in light of the report on the Status of Women and Girls which found measurable disadvantage to women and girls in the city of Los Angeles. And the Commission of the Status of Women's mandate is to advance the general welfare of women and girls in the Los Angeles community and to ensure that all women have full and equal participation in City government. [Executive Directive #11](#)

WHEREAS the City supports the establishment of a federal Department of Peace and Nonviolence dedicated to peacemaking and the study of conditions that are conducive to both domestic and international peace. [Council Resolution 07-002-S83](#)

WHEREAS Tobacco companies have long engaged in deceptive and improper business practices which misrepresent the health risks associated with smoking and the City receives an amount ranging from \$8 to \$11 million dollars annually for a period of 25 years under the National Tobacco Settlement Agreement. The City designates the amount of \$1 million received each year to be used for tobacco control and education programs serving City residents. [Council Action 01-0198-S2](#)

THEREFORE the City's investments should also reflect its commitment to health, peace, and social responsibility by ensuring that the rights of all, including target-communities such as people of color, immigrants, Native Americans, the elderly, women and girls, those without housing, and LGBTQ persons, shall be supported and not denigrated by its investment policy.

THEREFORE the City of Los Angeles shall amend its Investment Policy to also prioritize the City's interests and the public's trust by investing in a socially responsible manner that further maximizes the positive impact of public funds to support target communities and the prosperity and well being of all.

GOVERNANCE

WHEREAS, the City prioritizes human interests over financial interests through the Labor Compliance Ordinance, Affirmative Action/ Equal Employment Opportunities Ordinance, Equal Benefits Ordinance, Living Wage Ordinance, Service Contractor Worker Retention Ordinance, and the Slavery Disclosure Ordinance.

WHEREAS, the Bureau of Contract Administration (BCA) serves to maintain fair access and distribution to contracts and to protect the taxpayer's funds and community interests by monitoring strict adherence to City ordinances, and contract provisions. The BCA is responsible for enforcing a number of City ordinances to ensure contracts and services are implemented to serve City's interests.

WHEREAS, the Securities and Exchange Commission, as mandated by the Dodd-Frank Act, issued a rule requiring individual companies to disclose the pay ratio of their chief executives

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versus their own workers' pay. Since 1978 annual rounds of CEO pay increases have produced a 1,000 percent inflation-adjusted increase in CEO pay. At the same time, the bottom 90 percent of American workers have seen their real incomes decrease by 3 percent. And although productivity growth increased real per capita GDP by 84 percent over the last 36 years, real wages have remained essentially flat. Instead of rewarding workers for productivity as in the past, these gains have gone to the 1%, and especially the 0.1%.¹³ In addition, a study conducted by the University of Utah, Purdue University, and University of Cambridge found a negative correlation between highly paid CEOs and three years' worth of stock returns. The late Peter Drucker, long considered one of the foremost management experts, famously contended that employee morale starts to deteriorate when a company's CEO-to-worker pay ratio exceeds 20-to-1.¹⁴

THEREFORE, the City's investments will comply with the priorities set forth in the above ordinances in a manner similar to the BCA. In addition, the City will invest in companies where the pay ratio of their chief executive's compensation to their average worker's salary is at or below 100:1.

ESG INVESTMENT PRINCIPLES AND PROTOCOLS

In light of the City's ongoing commitment to Environmental, Social and Governance (ESG) principles as demonstrated by the policies cited above, the City shall demonstrate integrity and reconcile its investment portfolio to reflect the City's policy intents and legislative doctrine. This will involve divesting from certain industries and reinvesting in others. By aligning the City's investment portfolio with its values and public policy, Los Angeles increases its value to the public good on behalf of its citizens and the rest of the world. By using the collective economic power in the public interest, Los Angeles may influence the way financial institutions invest, and uphold the City's global leadership in reaching environmental and social sustainability for a better world.

In addition to the previous guidelines, the following ESG principles and protocols will determine the parameters for investing and divesting the City's funds in such a way that the investments protect the City's principal, maintain adequate liquidity, and generate strong investment return.

INVESTMENT PRINCIPLES

1. Investments are to be made in entities that support a clean and healthy environment, including following safe and environmentally sound practices. Any current investments, therefore, shall be divested from the fossil fuel and nuclear energy industries and financial institutions that support these industries. For the purposes of the Investment

¹³ <https://inequality.org/research/unlike-sports-star-pay-ceo-compensation-nothing-markets/>

¹⁴ <https://www.fool.com/investing/general/2015/08/19/is-a-new-low-for-ceo-pay-on-its-way.aspx>

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Policy, 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.

2. Investments are to be made in entities that support community well-being; promote equality of rights regardless of sex, race, age, disability or sexual orientation or national origin; and promote community economic development will be given full consideration. Investments, for example, shall exclude tobacco companies and weapons or military systems companies.
3. Investments are to be made in entities that promote fair workplace practices, robust corporate governance, high product integrity and positive community involvement. Investments, for example, shall exclude investments in companies with a higher than 100:1 ratio of Chief Executive Officers’ to average workers’ compensation.
4. Investments are encouraged in entities that have a demonstrated involvement in the development or rehabilitation of low income affordable housing, and have a demonstrated commitment to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans.
5. Investments are to be made in financial institutions that have a Community Reinvestment Act (CRA) rating of Outstanding, as well as financial institutions that are designated as a Community Development Financial Institution (CDFI) by the United States Treasury Department, or otherwise demonstrate commitment to community economic development. In addition, If the City’s Responsible Banking Monitoring Ordinance precludes the City from engaging with a financial institution, then we shall also not invest in said institution.

INVESTMENT PROTOCOLS

1. Prior to making investments, the Treasurer’s Office will verify an entity’s support of the City’s ESG investment principles through direct contact or through the use of a third party such as the Investors Responsibility Research Center, or a similar ratings service. The entity will be evaluated at the time of purchase or divestment of the securities.
2. The Treasurer’s Office will also review all of the current City’s investments and make divestments according to the ESG Investment Principles.

Addendum

Application of Investment Principles and Protocols to a sample of the City’s Current Investments

**The City would divest its current portfolio from following institutions:
Big Banks/Pipeline investors**

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- Tokyo-Mitsubishi- \$371,074,040
 - [Money Laundering](#)
 - [Lack of Transparency](#)
- BNP Paribas- \$125,221,805
 - [Foreign Exchange Fixing](#)
 - [Violating Federal Sanctions Laws](#)
 - [Securities Fraud](#)
 - [Tax Evasion](#)
 - [Overcharging Clients](#)
 - [Private Prison Investment](#)
- Wells Fargo- \$90,739,104 (checking account) \$35,000,950 (investment)
 - [Customer Fraud](#)
 - [Misleading Investors](#)
 - [Violating Americans with Disabilities Act](#)
 - [Sub-Prime Mortgage Corruption](#)
 - [Predatory Foreclosures](#)
 - [Racial Discrimination](#)
 - [Private Prison Investment](#)
 - [Reckless Risk Assessment for Securities sold to Municipalities](#)
 - [Corrupt and Fraudulent IPO Research Coverage](#)
 - [Defrauding Customers on Municipal Bond Offering](#)
 - [FHA Insurance Fraud](#)
 - [Illegal Student Loan Servicing](#)
 - [Overcharging Defaulted Homeowners on Appraisals](#)
 - [Whistleblower Punishment](#)
- JP Morgan Chase- \$74,981,400
 - [Private Prison Investment](#)
- Berkshire Hathaway \$69,955,000
- PNC Bank- \$55,059,500
- [IADB Bank](#)- \$49,930,200
- Morgan Stanley- \$35,320,814
- Goldman Sachs- \$27,056,375
- [M&T Trust](#)- \$26,123,880
- [Bank of New York Mellon](#)- \$25,094,200
- US Bank- \$20,018,700
- [State Street Bank](#)- \$16,094,400
- [BB&T Corp](#)- \$15,104,150
- Bank of America- \$15,080,400
 - [Private Prison Investment](#)
- Branch Banking and Trust- 15,040,300
- [Charles Schwab](#)- \$15,040,050
- JP Morgan Chase Bank- \$9,900,500

Highlighted in yellow: extreme oil investing, coal investing, as determined by <http://priceofoil.org/content/uploads/2017/06/Banking On Climate Change 2017.pdf>

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Fossil Fuels

Exxon Mobil- \$109,976,734

Chevron- \$54,966,750

Wisconsin Electric- \$12,024,200

Military Industrial Complex

Honeywell- \$49,199,500

Precision Castparts- \$15,055,350

Tobacco

Philip Morris- \$ 9,786,900

Total: \$1,308,044,252
