SB 252 (Gonzalez) – Fossil Fuel Divestment Act

Summary

Senate Bill (SB) 252 will prohibit the California Public Employees Retirement System (CalPERS) and the California State Teachers Retirement System (CalSTRS) from investing in fossil fuel companies, and provide they divest any current holdings in these companies by 2030, with an additional 5-year off-ramp should the funds encounter specified market conditions.

Existing Law

SB 185 (De Leon, Chapter 605, Statutes of 2015) required CalPERS and CalSTRS to divest their investments in thermal coal companies, which has resulted in a positive $598 million return to the CalPERS fund.

California Constitution Article 16, Section 17 – establishes that: "the Legislature may by statute continue to prohibit certain investments by a retirement board where it is in the public interest to do so, and provided that the prohibition satisfies the standards of fiduciary care and loyalty required of a retirement board."

Background/Problem

Californians, along with states and nations around the globe, are facing the real and immediate threats of climate change and its ever-growing impacts on our health, safety, environment, and our ability to pass on a livable planet to future generations.

California has been a world leader in taking steps to combat the causes of climate change, setting historic carbon reduction goals, and taking meaningful actions to help prevent environmental destruction and protect communities who bear the overwhelming brunt of carbon emissions.

Despite these forward-thinking actions, California's multi-billion dollar retirement pension funds are actively investing billions of dollars in the very fossil fuel companies that are the primary cause of climate change.

CalPERS and CalSTRS, which invest the pension funds of state employees and teachers, have an investing power of $469 billion and $327 billion, respectively. Unfortunately, CalPERS estimates that they are currently investing $7.4 billion of these dollars in the 200 largest fossil fuel companies, and CalSTRS is investing in 174 fossil fuel companies with a combined market value of approximately $4.1 billion.

With the explosion of investment and development in carbon-free technologies, consumer pressure, and governmental regulation forcing a move away from fossil fuels, it has become clear that the fossil fuel industry may be a risky and myopic financial investment. In fact, data from the last four decades shows that in 1980, the fossil fuel industry claimed 29% of the S&P 500, whereas today, it only occupies 5.3%, the lowest level in more than 40 years.[1]

An estimated 1,500 institutions with over $39 trillion in assets have already taken action to end direct financial support of climate destruction by committing to some form of fossil fuel divestment, including the University of California, the California State University, the State and

[1] https://ieefa.org/resources/fossil-fuel-investments-looking-backwards-may-prove-costly-investors-todays-market

City of New York, the State of Maine, the Vatican, and the province of Quebec.[2]

In October of 2021, Netherland's ABP, the fifth largest public employee pension fund in the world with $600 billion in assets, announced it would divest its current $17.4 billion of fossil fuels investments by the first quarter of 2023, citing corporate engagement as an ineffective strategy to change fossil fuel behavior.[3] These investment numbers dwarf that of CalPERS and CalSTRS, and is following a divestment timeline of under two years.

Major investment management firms, BlackRock and Meketa, have independently concluded that funds can divest from fossil fuels without weakening investment returns.[4] A further study has shown that if CalPERS and CalSTRS had divested from fossil fuels in 2010, they would have gained $11.9 billion and $5.5 billion in returns by 2019.[5]

In fact, CalPERS and CalSTRS have taken on divestments that have resulted in positive returns for the funds. CalPERS's active divestment from Thermal Coal has resulted in $598 million in gains; divestment from Iran has resulted in $256 million in gains; and divestment from firearms manufacturers has resulted in $36 million in gains. Of CalPERS active divestments, only the divestment from tobacco companies has resulted in losses to the pension fund, and no one is arguing that CalPERS reinvest into such a dangerous product that runs afoul of the state's public interest.

The pension funds have already recognized the need to move investments out of dangerous carbon emitting companies. CalPERS and CalSTRS have committed to reach a goal of NetZero investments at some point over the next 27 years. And while CalSTRS has taken steps in the last year to invest some of its assets in low carbon indexes and establish a partial NetZero goal by 2030, it still retains the ability to invest directly into the largest fossil fuel companies, such as: Gazprom (Russia), Rosneft (Russia), LukOil (Russia), Aramco (Saudi Arabia), and the state-owned PetroChina.

Many of the teachers and state employees whose retirement futures are invested by CalPERS and CalSTRS have passed resolutions calling for the divestment of fossil fuels, including the California Faculty Association, the California Federation of Teachers, associations representing higher education faculty, academic senates at California State University and the University of California, and local chapters of the California Teachers Association from Los Angeles to Oakland.

SOLUTION

SB 252 seizes the momentum of the worldwide divestment movement and continues the bold and progressive actions that California must take to address climate change. SB 252 ends the contradictory and incongruous actions that position the state as a leader in the fight against climate change, while simultaneously investing billions directly in the fossil fuel companies that are causing climate change.

Specifically, SB 252 will prohibit CalPERS and CalSTRS from making any new investments in the top 200 fossil fuel companies, and provides an off-ramp of 7 years to divest any current investments; with an additional 5-year off-ramp should the funds encounter specified market conditions.

Additionally, SB 252 will require CalPERS and CalSTRS to annually report on their divestment progress beginning in 2025.

SUPPORT

California Faculty Association (Sponsor)
Fossil Free California (Sponsor)

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[2] https://divestmentdatabase.org/
[3] https://apnews.com/article/climate-business-united-nations-netherlands-greenpeace-45f4a39e838667d032d2483956f01c9b
[4] https://ieefa.org/resources/major-investment-advisors-blackrock-and-meketa-provide-fiduciary-path-through-energy
[5] https://drive.google.com/file/d/1k27W2oTzaqueEZrvit4RLfve6pvakqMI/view