COMMONWEALTH OF MASSACHUSETTS

THE GENERAL COURT

STATE HOUSE, BOSTON 02133-1053

April 17, 2014

The Honorable Jason Lewis, Senate Chair
The Honorable Aaron M. Michlewitz, House Chair
Joint Committee on Public Service
State House, Room 511-C and Room 156
Boston, MA 02133

Re: S. 1225 – An Act relative to public investment in fossil fuels

Dear Chairman Lewis and Chairman Michlewitz:

We, the undersigned, write to register our strong support for S. 1225 – *An Act relative to public investment in fossil fuels*. We urge the Committee to grant this important legislation a swift, favorable report in advance of the extended deadline of June 30, 2014.

S. 1225 directs the Pension Reserves Investment Management (PRIM) Board to cease new investments in fossil fuel-based companies and to divest the public Fund of all fossil fuel holdings within five years. Massachusetts leads the nation in promoting a clean energy future – devoting hundreds of millions of dollars in operating and capital resources to long-term, forward-thinking energy efficiency and clean energy initiatives to reduce our dependence on fossil fuels. By investing well over $1.4 billion of our pension fund in the very industry we are attempting to move away from, we are investing against our best intentions and ambitions for our future.

This is far from just an ecological or moral imperative. Studies have shown that fossil fuel investments are not nearly as fiscally sound as they were once believed to be. A recent study commissioned by the Associated Press found that a $1 billion endowment invested over a decade in a carbon-free portfolio would have outperformed the same endowment in a portfolio that included fossil fuel stocks by $120 million over the last decade. In the past 10 years, fossil fuel energy stocks have been volatile at best, and have underperformed compared to the market at least as often as they have overperformed.

Additionally, the fact that all fossil fuel reserves held by publicly traded companies are currently treated as assets by those companies could lead to drastic overvaluation of those companies as the world moves toward a carbon-neutral economy. These stocks could become toxic even sooner, however, as leading climate scientists agree that in order to avoid complete ecological disaster, as much as 80% of the known reserves in the world must remain unburned. Some argue that these stranded fuel reserves - $20 trillion in potentially unusable assets – could turn carbon into the next financial bubble, putting funds with significant investments in fossil fuels in danger of catastrophic material exposure. By enacting S. 1225, the Commonwealth can get out ahead of this issue and lead the way in investing in the new, carbon-free economy.

Investing is all about the future. The Commonwealth invests billions in clean energy and energy efficiency because we know that our future must include a more responsible and forward-thinking energy sector. Our pension fund should reflect that understanding. Just as we will not create a 21st century economy by relying on the energy infrastructure of the past, we will not meet our obligations to our pensioners by relying on the past performance of investments in an obsolete carbon-based industry.

Massachusetts has a precedent for divesting itself from an industry whose practices ran counter to the state's best interests. In 1997 the Legislature directed the PRIM Board to divest over $250 million of the then-$21.3 billion fund from tobacco-related companies. The Legislature and administration at that time recognized the hypocrisy of devoting millions of dollars in state funds to tobacco use prevention and cessation on one hand, and attempting to profit from the continued success of the tobacco industry on the other.

The bill before the Committee allows for a five year timeframe for the Board to divest all fossil fuel holdings and direct fund managers to produce carbon-free indexes and portfolios. In 1997, tobacco represented about 1.6% of the PRIT Fund. Preliminary research shows that fossil fuels currently comprise upwards of 2.8% of the Fund's $54 billion value. This means that, spread over five years, the amount required by this legislation to be divested amounts to just over one half of one percent of the Fund's total value each year. The bill also includes a safeguard modeled after language included in the most recent successful divestment campaign from Iran, which allows the Board to cease divestment if it is shown to have a negative effect on the Fund's balance.

Divestment can be done. It is an ambitious step that provides for the best long-term interest of the fund's contributors and future beneficiaries, and it ensures that the state truly gets the best value for its investments in energy efficiency and clean energy. We strongly urge the Committee to grant S. 1225 a favorable report and help make Massachusetts a national leader once again.

Sincerely,

Benjamin B. Downing
Berkshire, Hampshire, Franklin and Hampden District

Kenneth J. Donnelly
4th Middlesex District

Lori A. Ehrlich
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1st Worcester District

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10th Worcester District

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cc: Senate President Therese Murray, House Speaker Robert DeLeo