NYS Comptroller
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Office of the New York State Comptroller

ECO News

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A MESSAGE FROM THE COMPTROLLER

On the 47th Anniversary of Earth Day, now more than ever, we should celebrate the progress we have made and recommit ourselves to the work that needs to be done.

Almost ten years ago, I signed an Executive Order intended to make the Office of the State Comptroller a model agency for sustainability. Since then, we have made significant progress reducing the use of office paper by over 50 percent and cutting expenditures for electricity by over 40 percent. In addition, with growing evidence that sustainably-operated businesses outperform their peers, we are increasing green investments and using our influence as a shareholder to promote sustainability throughout the $186 billion portfolio of the New York State Common Retirement Fund. As climate change continues to be one of the greatest risks facing the global economy, I have been a strong advocate for better corporate practices on climate change and the environment to safeguard our investments and to promote a more environmentally sound, low-carbon economy.

Comptroller DiNapoli addresses attendees at the CDP spring conference in NYC. CDP is a not- or-profit charity that runs the global environmental disclosure system for businesses & local governments.

The Presidential Executive Order directing the Environmental Protection Agency (EPA) to delay and repeal the Clean Power Plan and other important climate policies are troubling. The Administration's proposals to gut the EPA's budget by 31 percent and roll back protections for clean air and water are ill-conceived and dangerous, and would undercut 40 years of work to reduce pollution in America.

Be assured, I will continue to stand up in opposing policies that undermine the health and safety of New Yorkers, or threaten the long-term profitability of the companies in which the New York State Common Retirement Fund invests.

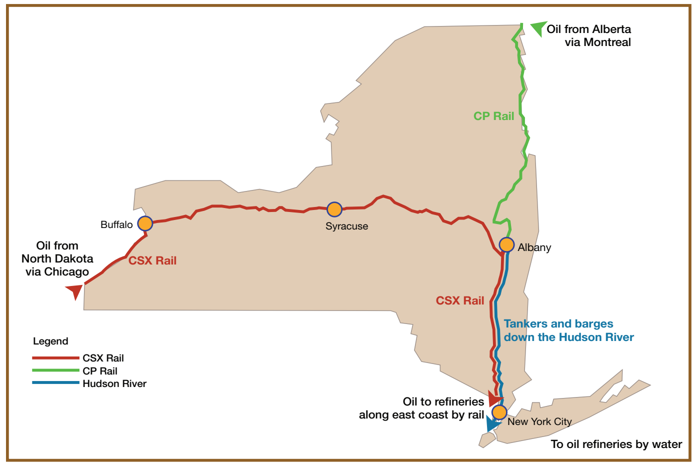
Please take a few moments to look through this newsletter for more important environmental news from my office.

INSIDE THIS ISSUE

DiNAPOLI URGES TRUMP ADMINISTRATION TO INCREASE OIL TRAIN SAFETY

Comptroller DiNapoli has called on the Trump Administration to establish stronger rail safety measures in the wake of the recent train derailment in Newburgh, NY. In a March 27th letter to U.S. Department of Transportation Secretary Elaine Chao, Comptroller DiNapoli highlighted the Newburgh accident and drew the Secretary's attention to a letter he had sent to the Obama Administration in April 2016, as a call for additional federal measures to reduce the risk of accidents involving trains transporting crude oil or other hazardous materials.

DiNapoli said the potential for such accidents continues to threaten New York's communities, environment, and the financial resources of the State and its local governments. In addition to the immediate consequences stemming from such an accident, there could be long-term public health and safety, environmental, and economic implications. Without added protections, a serious incident could not only deplete New York State's mechanism for funding the cleanup of petroleum spills, but could also divert funding from other vital services.



New York is a major rail conduit for North American crude oil. This map illustrates the State's two oil transport routes.

STATE PENSION FUND OUTLINES GREEN INVESTMENT STRATEGY

As Trustee of the New York State Common Retirement Fund, Comptroller DiNapoli is responsible for managing the nation's third largest public pension fund on behalf of one million members, retirees, and beneficiaries of the New York State and Local Retirement System. As a long-term investor and an advocate for sustainability of financial markets, the Fund considers Environmental, Social, and Governance (ESG) factors in its decisions to invest in individual companies and securities, and in market sectors generally.

To highlight the Fund's ESG strategy, Comptroller DiNapoli recently released the Fund's inaugural ESG report, which outlines milestones and details the process the Fund follows to implement its ESG investment philosophy and strategies. One major factor of the Fund's ESG policy involves climate change.

The Fund has approached the challenges of climate change with a two-fold strategy. Its aggressive corporate governance program actively engages companies in sectors of the economy that are particularly at risk due to climate change. Secondly, on the investment side, the Fund works proactively to take advantage of new opportunities in the low-carbon economy.

Over the last six years, the Fund has sponsored 54 resolutions that call on portfolio companies to assess their climate change risks and develop strategies to address them. The Fund has also invested in environmentally advanced, New York-based companies such as Crystal IS in Green Island and the High Sheldon wind farm in Sheldon. These companies are examples of investment opportunities that provide solid returns, create jobs and generate local tax revenues, while helping promote a lower carbon economy.

Another proactive way the Fund has implemented its ESG policy is through its Low Emissions Index. In 2015, Comptroller DiNapoli announced the creation of a $2 billion index that will shift capital from companies that are large contributors to carbon emissions to companies with lower emissions and comparable returns. The Low Emissions Index aligns with the Fund's ESG principles by helping spur the kind of innovation and ideas that will assist in the transition to a low carbon economy, while sending the message that investment dollars will follow businesses with strong environmental practices.

DiNAPOLI SEEKS BETTER CORPORATE PRACTICES ON CLIMATE CHANGE

Under Comptroller DiNapoli's leadership, the Common Retirement Fund has taken a leading role in seeking better corporate practices on climate change to safeguard the Fund's investments and to promote a more environmentally sound, low-carbon economy.

In 2017:

- Six major energy companies, Dominion Resources, Inc., DTE Energy Corporation, ExxonMobil Corporation, Duke Energy Corporation, PPL Corporation, and Pioneer Natural Resources Corporation were asked to evaluate and report to shareholders on the impacts on their products and energy reserves on government climate policies designed to keep warming below 2 degrees Celsius.
- Resolutions were filed with Domino's Pizza and the Kraft Heinz Company requesting the development of policies and plans to eliminate deforestation and address human rights issues related to their supply chains.
- Under Armour, Assurant, and the W. R. Berkley Corporation agreed to prepare annual sustainability reports addressing company efforts to operate more sustainably, including plans to address climate change.

In 2016:

- The Fund entered into agreements with five portfolio companies—General Dynamics, Best Buy, Nordstrom, ALLETE and NorthWestern Corporation—to improve their climate risk management.
- The CRF 2016 resolution at ExxonMobil filed with the Church of England's pension fund, received 38.2 percent support. It asked the company to assess and report on how its business model will be affected by global efforts to limit the average rise in temperatures to below 2 degrees Celsius. The vote resulted in a record level of support for a climate change resolution at the company—despite the board's recommendation that shareholders vote against the motion.
- The Asset Owners Disclosure Project, an international NGO established to protect retirement savings and other long-term investments from the risks posed by climate change, identified the Fund as the top North American fund in its Global Climate 500 Index 2016. The CRF was one of only 12 funds to have earned the highest possible grade.

Climate Change Strategies

Climate risk is one of the greatest threats to long-term investments. Comptroller DiNapoli is addressing climate-related investment risk by seeking sustainable investments and persuading corporations in the Fund's portfolio to adopt better environmental policies.

Long-Term Business Models

DiNapoli is asking companies like Exxon to explain how the global effort to confront climate change will affect their businesses and what steps they can take to adapt to a future with lower-carbon emissions and potentially less demand for their fossil fuel products.

Low-Carbon Index Fund

DiNapoli created a $2 billion index fund that weights investments in domestic equities based on their carbon emissions, while closely tracking the performance of its benchmark, the Russell 1000. The index reduces investments in the worst carbon emitting corporations and shifts them to lower emitters. Launched in Jan. 2016, the index was designed to be easily expanded as performance dictates.

Renewable Energy Sources

DiNapoli has reached agreements with major corporations to increase their use of renewable energies. Businesses that commit to diverse renewable energy sources are protecting long-term value by giving themselves energy options in times of volatile fossil fuel prices.

Reduction of GHG Emissions

DiNapoli reached agreements with companies to set measurable goals for lowering their greenhouse gas (GHG) emissions in accordance with the United Nations findings that stabilizing global temperatures will require a 55% reduction in GHG emissions by 2050.

Sustainable Soy and Palm Oil

DiNapoli persuaded companies including Dunkin' Donuts and ConAgra to use only palm oil that is certified to have been sustainably harvested. Palm oil is found in numerous food products, but its production is one of the leading causes of deforestation, a major contributor to climate change.

STATE NEEDS TO IMPROVE NEW YORK'S DRINKING WATER INFRASTRUCTURE

New York's water systems may require $40 billion or more in repairs and improvements over the next two decades, according to a report by Comptroller DiNapoli. Recent high-profile water system failures and problems with drinking water contamination in places such as Hoosick Falls, Syracuse and Newburgh are the latest signs of the need to invest more in water delivery systems.

In New York, cities, villages, towns and other local government entities generally operate and fund the systems that supply residents and businesses with water. They are paid for primarily through fees and property taxes. In addition, water authorities and private water companies also provide these services in some communities. The State and federal government regulate public water systems and also provide some funding for improvements.

DiNapoli's report focused on several areas that need attention and resources, including protecting against water contamination. Water contamination can originate from industrial sites as well as from inadequate treatment, improper separation of sewage, and agricultural and storm water runoff. Contaminated water can corrode aging pipes and fixtures containing lead, releasing this dangerous toxin into drinking water. Aging water systems, many operating far beyond their useful lives, often struggle to attract scarce public funds until a major failure occurs. Moreover, lost water, sometimes more than 50 percent of what users pay to treat, store and distribute, leaks out of old, deteriorating systems, increasing costs for users.

All of these facts make for a challenging environment for municipalities. However, there are some simple steps that can help local officials confront this important issue. These include a sustained commitment to planning, effectively utilizing reserves, developing a communications strategy, and being aware of funding opportunities.

The 2017-18 Enacted Budget included several measures related to protecting New York's drinking water infrastructure. These include the Clean Water Infrastructure Act of 2017 to support municipal drinking water and waste water infrastructure improvements and source water protection, Capital Projects appropriations of $2.5 billion for clean water infrastructure and related projects, and the creation of a Drinking Water Quality Council. The Budget also requires the Department of Health to create a new regulatory program to protect public water systems from "emerging contaminants" that are not covered by existing federal or State restrictions. The program includes additional water testing and public notification, as well as authority for DOH to require that water systems take steps to reduce exposure to contaminants in certain cases.

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