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Oregon Treasurer Elizabeth Steiner’s testimony on HB 2200

House Committee on Emergency Management, General Governance and Veterans

Chair Tran and members of the committee:

I am Oregon Treasurer Elizabeth Steiner. Thank you for giving me this opportunity to testify on the importance of HB 2200.

Before I begin, I want to let you know I’m joined by Sybil Ackerman-Munson, my chief of staff; Jessica Howell, my Government Affairs director; and Nick Haskins, our Government Affairs Associate. They have all worked hard developing this legislation and engaging a wide range of partners to get their input.

As you know, the current version of HB 2200 is a placeholder. We’re developing proposed amendments that we hope will be incorporated into a dash-1 amendment. You have all received a document outlining that amendment.

Treasury’s mission and responsibilities

Let me start by talking about Treasury’s mission and our legal responsibilities to Oregon’s public employees – and the public agencies who make contributions to the state’s public employee retirement system.

Treasury’s most important job is to manage the Oregon Public Employee Retirement Fund (OPERF). In that role, Treasury has a fiduciary responsibility to protect beneficiaries by maximizing the long-term returns of the portfolio and ensuring that public services – from schools to public safety to health care – are not compromised by unfunded liabilities in the pension fund and increased contribution rates that could cut into the budgets that support the vital public services Oregonians depend on.

That's why I am fully committed to Treasury's goal of reducing the risks that carbon intensive investments pose to the state public employee retirement fund (OPERF) by working to achieve net zero carbon emissions in the portfolio by 2050.

Yesterday, I was asked the question: What would you say about this bill to retirees?

My answer was simple. Nothing is more important than protecting your pension. That is the entire goal of this bill. That's why we have been crafting this legislation in close consultation with labor leaders who represent public employees in all fields, all across the state.

How does achieving net zero emissions in the OPERF portfolio by 2050 protect public employee pensions?

In general, carbon intensive investments are becoming riskier, and that risk is expected to accelerate as:

- Markets continue to make the shift toward clean energy sources
- Carbon reduction regulations continue to evolve, and
- Investors re-evaluate holdings that could leave them stuck with stranded assets that no longer have a place in a future clean energy economy, such as coal-fired power plants.

In other words, all these factors are likely to diminish the value of carbon-intensive holdings over time, while opportunities will continue to grow in holdings that reduce or offset carbon emissions. To protect employee pensions, we want to stay ahead of those market shifts.

Baseline investments and Treasury actions to reduce carbon investment risks

To set this issue in context, fossil fuels investments account for approximately \$3.6 billion of OPERF investments – or 3.7% of the nearly \$94 billion OPERF portfolio, based on the latest available data.

Treasury has already taken significant steps to leverage its investments and its role as an institutional investor to fulfill its fiduciary responsibilities by reducing OPERF's exposure to climate-related financial risks.

- As one example, OPERF's investments in energy transition infrastructure have increased 20% since 2016.

Why HB 2200 is necessary

HB 2200 strengthens Treasury's ability to navigate the volatile market effects and economic instability climate change is stoking around the world.

The bill provides legislative direction that would support Treasury's ability to pursue the near- and long-term investment strategies needed to reduce OPERF's risks of losses from investments in carbon emitting businesses.

Given the uncertainty of the current environment, we need legislative partnership to chart a middle ground course, so we can maximize returns in the face of a dynamic and unpredictable market. We want to avoid the declining profitability of certain sectors and take advantage of emerging opportunities in others, without having our hands tied by mandates and limitations that could undermine our responsibilities to retirees and beneficiaries.

Overall, our amendment to HB 2200, would:

1. Require biennial reports from Treasury to the Legislature that are robust and evolve with the best available science.
2. State that investing with a climate positive agenda aligns with our fiduciary responsibilities to account for financial risks to the portfolio.
2. State a preference for climate positive investments, which includes proactive strategies to address climate-associated financial risk.
4. Clarify that the urgency of climate change is increasing the opportunity for climate positive investments with attractive returns, which makes this area a priority investment strategy.

HB 2200 meets the urgency of the moment to protect the OPERF portfolio from the financial risks associated with climate change. It gives Treasury flexibility to pursue investment opportunities that foster a just transition to

a cleaner energy economy without compromising our ability to achieve healthy returns.

Treasury needs flexibility to maintain its fiduciary responsibilities

As fiduciaries, Treasury must manage OPERF in a manner that maximizes returns for beneficiaries and provides the earnings and liquidity needed to pay-out benefits.

- Today, the OPERF portfolio contains approximately \$94 billion dollars in investments.
- Every month, the PERS system pays out more than \$400 million dollars in retirement benefits.
- OPERF investment returns comprise around 70 cents of every dollar disbursed as retirement benefits (the remaining 30 cents are paid by public employers and employees). The better the pension fund performs, the less public agencies have to contribute, alleviating pressures on their budgets and keeping more teachers in classrooms, putting more first responders on the streets, providing more people with needed health care.

To meet our fiduciary obligations, Treasury must ensure we have the flexibility to:

- Balance investments that result in carbon emissions with climate positive investments.
- Take advantage of investment opportunities related to the clean energy transition.
- Leverage all asset classes to continue to have the diversification we need to offset volatility in public markets and provide stability during downturns.

As part of Treasury's needed flexibility, we plan to continue to incorporate the best available science and strategies to guide our investments.

Next steps

We've been having thoughtful discussions with legislators, labor leaders who represent PERS beneficiaries, advocates and others on how we reach the Net Zero goal, including potential amendments to HB 2200. We'll continue to listen to input.

From deadly heat domes to destructive wildfires and devastating droughts, Oregonians are increasingly seeing their lives, their businesses and their communities disrupted and damaged by climate change. The businesses we invest in are facing the same challenges.

By protecting the financial future of our retirees and beneficiaries by assessing climate-associated financial risk, we're also protecting our children's climate future.

I urge you to support HB 2200. Thank you for considering my testimony. I look forward to answering your questions.