



City of Chicago



O2018-990

Office of the City Clerk

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Sponsor(s): Arena (45)

Type: Ordinance

Title: Amendment of Municipal Code Section 2-32-520 concerning City's authorized investments in various industries and companies and adding new Section 2-32-521 entitled "Environmental, Social and Governance Investments"

Committee(s) Assignment: Committee on Finance



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COMMITTEES, RULES AND ETHICS
(CHAIRMAN)
BUDGET AND GOVERNMENT OPERATIONS
FINANCE
LICENSE AND CONSUMER PROTECTION
PUBLIC SAFETY
ZONING, LANDMARKS AND BUILDING STANDARDS

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City Council Meeting
March 13, 2019

To the President and Members of the City Council:

Your Committee on Committees, Rules and Ethics:

1. O2018-990 Amendment of Municipal Code Section 2-32-520 concerning City's authorized investments in various industries and companies and adding new Section 2-32-521 entitled "Environmental, Social and Governance Investments." **(Re-referred to Committee on Finance)**
2. O2018-9438 Amendment of Municipal Code Sections 2-156-149, 2-156-150 and 2-156-190 regarding governmental ethics scope of requirements and filing due dates.
3. R2018-1151 Amendment of Rules 49 and 55 of Rules of Order and Procedure for Years 2015-2019 requiring City Council Committee Hearings to be broadcasted or aired via Internet or any other available transmission process. **(Amended in Committee)**

begs leave to recommend that Your Honorable Body approve the re-referral and pass the ordinance and the resolution, which was amended in Committee to add an effective date of September 30, 2019 and make passage contingent on duly appropriated funding. These items are transmitted herewith.

These recommendations were concurred in by a viva voce vote of the Committee on Committees, Rules and Ethics.

Respectfully submitted,

Alderman Michelle A. Harris, Chairman
Committee on Committees, Rules and
Ethics

Ordinance

WHEREAS, in conjunction with its fiduciary obligation, the City of Chicago shall consider the behavior of the companies it invests in, and encourage practices that are environmentally friendly, socially responsible, and which promote good governance; and

WHEREAS, the City Council has a responsibility to protect the well-being of our city and its residents against the serious threat posed by climate change. In answer to that responsibility, the City shall establish a carbon neutral investment portfolio by 2020 through evaluation of existing investment, and seek to avoid future investment, in the fossil fuel industry and those who extract and produce fossil fuels, and prioritizing investment in green and sustainable energy production; and

WHEREAS, the City of Chicago, through its investments seeks to create a more equitable, just corporate eco-system and world by considering labor rights, employee diversity, corporate social responsibility, and human rights and ethics; and

WHEREAS, through investing in companies with responsible corporate governance, the City of Chicago intends to promote sound and representative management practices by considering governance factors such as leadership structure, executive compensation, human capital management, transparency and disclosure, and shareholder rights; and

WHEREAS, the City of Chicago, through its investments in various industries and companies, are exposed to the risks incurred by companies through their corporate environmental, social responsibility, and governance policies, strategies and behaviors that can potentially impact the sustainability of returns in its portfolio on behalf of its residents and taxpayers; now, therefore

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHICAGO:

SECTION 1. Chapter 2-32-520 of the Municipal Code of Chicago are hereby amended by deleting the language stricken through and by inserting the underscored language, as follows:

2-32-520 Authorized investments.

The Comptroller and Treasurer jointly shall have authority to use any and all funds in the City treasury which are set aside for use for particular purposes and not immediately necessary for such purposes, for the purchase of the following classes of investments:

(Omitted text is unaffected by this ordinance)

(d) Commercial paper which: (1) at the time of purchase, is rated in the two highest classifications by at least ~~two~~ one accredited ratings ~~agencies~~ agency; and (2) matures not more than 270 days after the date of purchase;

(e) ~~Reverse repurchase agreement~~ Repurchase and reverse repurchase agreements if: (1) the term does not exceed 90 days; (2) the maturity of the investment acquired with the proceeds of the repurchase or reverse repurchase agreement does not exceed the expiration date of the repurchase or reverse repurchase agreement; and (3) at the time of purchase, the total amount of

the repurchase or reverse repurchase agreements held in all funds does not exceed 50 percent of the total holdings across all funds. Repurchase and rReverse repurchase agreements may be transacted with primary dealers and financial institutions, provided that the City has on file a master repurchase agreement;

(f) Certificates of deposit of banks or savings and loan associations designated as municipal depositories which are insured by federal deposit insurance; provided that any amount of the deposit in excess of the federal deposit insurance shall be either: (1) fully collateralized at least 102 percent by: (i) marketable United States government securities marked to market at least monthly; (ii) bonds, notes, or other securities constituting the direct and general obligation of any agency or instrumentality of the United States; or (iii) bonds, notes or other securities constituting a direct and general obligation of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state which are rated in either the AAA or AA rating categories by at least one two accredited ratings agencies and maintaining such rating during the term of such investment; or (2) secured by a corporate surety bond issued by an insurance company licensed to do business in Illinois and having a claims-paying rating in the top rating category as rated by a nationally recognized statistical rating organization and maintaining such rating during the term of such investment; or (3) fully collateralized at least 102 percent by an irrevocable letter of credit issued in favor of the City of Chicago by the Federal Home Loan Bank, provided that the Federal Home Loan Bank's short-term debt obligations are rated in the highest rating category by at least one accredited ratings agency throughout the term of the certificate of deposit;

(g) Bankers acceptance of banks whose senior obligations, at the time of purchase, are rated in either the AAA or AA rating categories by at least one two accredited ratings agencies;

(Omitted text is unaffected by this ordinance)

(l) (1) Bonds of companies organized in the United States with assets exceeding \$1,000,000,000 that, at the time of purchase, are rated not less than two ratings above investment grade A-, or equivalent rating, by at least one two accredited ratings agencies. Investments authorized by this subsection (1) shall, at the time of purchase, not exceed ~~35~~ 50 percent of the total holdings across all funds (with no more than 35 percent of the total portfolio authorized by this subsection (1)(1) invested in any one market sector, out of a total market sector pool consisting of finance, energy, technology, consumer products, manufacturing, healthcare and transportation) and ~~the~~ with a stated maturity shall not to exceed ~~430~~ years;

(2) Bonds authorized by subsection (l)(1) where the principal is guaranteed with underlying ~~assets such as bonds~~ speculative instruments, specifically currencies and commodities. Bonds authorized by this subsection (l)(2) shall, at the time of purchase, not exceed 5 percent of the total holdings across all funds;

(m) Debt instruments of international financial institutions, including but not limited to the World Bank and the International Monetary Fund, that, at the time of purchase, are rated within 4 intermediate credit ratings of the United States sovereign credit rating by at least one two accredited ratings agencies, but not less than an A- rating, or equivalent rating. Investments authorized by this subsection (m) shall, at the time of purchase, not exceed ~~40~~ 35 percent of the total holdings across all the funds, including principal and interest, and the stated maturity shall not exceed ~~40~~ 40 years. For purposes of this subsection (m), an "international financial institution" means a financial institution that has been established or chartered by more than one

country and the owners or shareholders are generally national governments or other international institutions such as the United Nations;

(n) United States dollar denominated debt instruments of foreign sovereignties, sub-sovereignties, and supra-sovereignties that, at the time of purchase, are rated within 4 intermediate credit ratings of the United States sovereign credit rating by at least one two accredited ratings agencies, but not less than an A-rating or equivalent rating. The investments authorized by this subsection (n) shall, at the time of purchase, not exceed 35 percent of the total holdings across all funds, and the maturity shall not exceed 430 years;

(o) Interest-bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the City or held under a custodial agreement at a bank. The bonds shall be rated, at the time of purchase, not less than A-, or equivalent rating, by at least two accredited rating agencies with nationally recognized expertise in rating bonds of states and their political subdivisions. The bonds authorized by this subsection shall, at the time of purchase: (1) not have a maturity of more than 430 years from the date of purchase; and (2) not exceed 35 25 percent of the total holdings across all funds; provided that bonds linked to infrastructure projects shall not exceed 35 percent of the total holdings across all funds;

(p) Bonds registered and regulated by the Securities and Exchange Commission and for which the full faith and credit of the State of Israel is pledged for payment; provided that the bonds have an A-rating or above or equivalent rating by at least one two accredited ratings agencies. The bonds authorized by this subsection (p) shall, at the time of purchase, not exceed 1 percent of the total holdings across all funds, and the maturity shall not exceed 430 years;

(q) Bonds, notes, debentures, or other similar obligations of agencies of the United States rated, at the time of purchase, no less than AAA by at least one two accredited rating agencies;

(r) Interests in the CCCF as established by Section 2-32-622 of this Code that inure to the benefit of neighborhood economic development and which, in the aggregate, generate returns that are commensurate with the City's overall investment portfolio returns; provided that the amount of City funds invested in interests in the CCCF pursuant to this subsection shall not exceed the limits specified in Section 2-32-622(e) of this Code.

(Omitted text is unaffected by this ordinance)

(2) Commencing in 2020, in each year, Eligible Funds may be transferred to the CCCF from time to time, provided that the aggregate amount of such transfers during a year shall not exceed the Annual Limit for such year.

All securities so purchased, excepting the bonds authorized in subsection (o), investments authorized in subsection (r) and tax anticipation warrants, municipal bonds, notes, commercial paper or other instruments representing a debt obligation of the City purchased under subsection (c), shall show on their face that they are fully payable as to principal and interest, where applicable, if any, within 430 years from the date of purchase.

Except as provided in subsection (1)(2), neither the Comptroller nor Treasurer shall have authority, without the approval of the City Council, to (i) invest in financial agreements whose returns are linked to or derived from the performance of some underlying asset such as bonds, currencies or commodities, or (ii) borrow against or otherwise obligate City investments for the

purpose of investment, other than for purposes of a security lending transaction conducted under Section 2-32-575.

SECTION 2. A new Chapter 2-32-521 of the Municipal Code of Chicago is hereby added by inserting the underscored language, as follows:

2-32-521 Environmental, Social, and Governance Investments

Consistent with achieving the investment objectives of the Treasurer set forth herein, and in an effort to contribute to and encourage more sustainable, ethical, and accountable corporate behaviors, the Treasurer's office shall consider the environmental, social, and governance (ESG) practices of the entities it seeks to invest in as part the corporate securities portfolio as defined in subsections (L)(1) and 2-32-520(d) herein. This Policy shall be implemented and maintained pursuant to the following and incorporated into the Treasurer's office Investment Policy Statement:

(a) The Treasurer's office shall fully integrate and apply ESG factors as components of investment decision-making in its corporate bonds portfolio. These factors shall include, but are not limited to:

(1) Environmental: Through investing in companies that prioritize conservation and sustainable business practices, the City Treasurer's Office (CTO) will endeavor to protect our environment for future generations. As such, the CTO shall, at minimum, incorporate and consider the following environmental factors: (i) carbon footprint; (ii) energy consumption; (iii) water and waste; (iv) external conservation initiatives; and (v) sector-specific adjustments;

(2) Social Factors: Through investing in companies that promote a better quality of life for all of us, the City Treasurer's Office (CTO) will help create a more equitable, just corporate ecosystem and world. As such, the CTO shall, at minimum, incorporate and consider the following social factors: (i) labor rights; (ii) employee diversity; (iii) corporate social responsibility; and (iv) human rights and ethics;

(3) Corporate Governance Factors: Through investing in companies with strong corporate governance, the City Treasurer's Office (CTO) will help promote sound and representative management practices. As such, the CTO shall, at minimum, incorporate and consider the following governance factors: (i) leadership structure; (ii) executive compensation; (iii) human capital management; (iv) transparency and disclosure; and (v) shareholder rights;

(b) The Treasurer's office shall administer the oversight of investment holdings to encourage the advancement of ESG through engagement with entities such as funds, companies, government bodies, and other organizations and to move the marketplace toward more socially responsible investment practices;

(c) The Treasurer's office shall consider the long-term sustainability and regulatory risks in addition to the current return environment in investment decision-making. The Treasurer shall develop criteria for socially responsible investing that may pertain to particular industries and entities;

(d) In order to achieve carbon neutrality by 2020, the Treasurer's office shall seek to offset existing investments in the top 200 publicly-owned coal, oil, and gas reserve owners, ranked by the carbon emissions embedded in their reserves, with socially responsible investments consistent with this policy. These alternate investments may include, but are not limited to: (1) U.S. Green Bonds; (2) Sub-Sovereigns and Supra Sovereign Investments;

(e) The City of Chicago shall become a signatory of the United Nations Principles for Responsible Investment (UNPRI) and maintain good standing through adherence to the principles therein to the extent permitted by law and subject to availability of appropriated funds;

(f) The Treasurer's office shall maintain a minimum ESG portfolio rating of investment grade or higher;

(g) The Treasurer's office shall conduct on-going assessment of the ESG factors herein to ensure the factors are relevant to the Treasurer's investment portfolio, the evolving marketplace, and industry best practices;

(h) The Treasurer's office shall review and update the ESG policy annually to ensure consistency with the changing definition of socially responsible investing, and issue an annual report to the City Council on its compliance with the foregoing policy within 30 days of issuance of the City of Chicago's Comprehensive Annual Financial Report (CAFR).

SECTION 3. Chapter 2-32-525 of the Municipal Code of Chicago are hereby amended by deleting the language stricken through and by inserting the underscored language, as follows:

2-32-525 Minimum credit quality.

Exclusive of investments made pursuant to Section 2-32-520(r), the total holdings across all funds held by the Treasurer shall have no less than an overall average rating of Aa1 on a quarterly basis, as rated by one two accredited rating agencies.


SECTION 4. Chapter 2-32-610 of the Municipal Code of Chicago are hereby amended by deleting the language stricken through and by inserting the underscored language, as follows:

2-32-610 Treasurer's reviews and reports

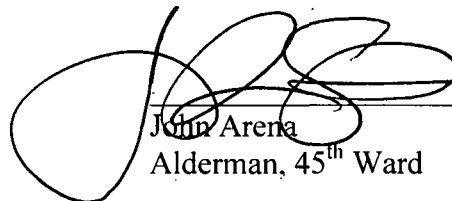
(a) The treasurer shall conduct a review on a monthly basis of the current total holdings across all funds, including cash positions; portfolios, mark to market valuations; credit quality for each security; and additional compliance issues.

(b) The treasurer shall, ~~on or before the first day of February of each year~~ within 30 days of issuance of the City of Chicago Comprehensive Annual Financial Report (CAFR), submit a report to the city council that details the performance of the total holdings across all funds held by the treasurer's office, including asset allocation, cash position and overall credit quality as of December 31 of the preceding year.

(c) The treasurer shall, ~~on or before the first day of February of each year~~ within 30 days of issuance of the City of Chicago Comprehensive Annual Financial Report (CAFR), submit a report to the city council on the written investment policy for compliance as of December 31 of the preceding year, and present any recommendations for changes.



Kurt Summers
Treasurer - City of Chicago



John Arena
Alderman, 45th Ward