

NAHEFFA



Government Finance Officers Association

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April 25, 2022

Roadmap

- Part 1: The Current Climate of Climate
- Part 2: ESG and Labeled Bonds BPs
- Part 3: Other Best Practices



The Current Climate of Climate

2020

- 2021:
 - SEC Issues Early Request for Comments on “Climate”
 - MSRB Issues Request for Information on ESG
 - GFOA issues ESG Risk Disclosure Suite

- 2022:
 - GFOA issues Marketing Labeled Bonds
 - GFOA responds to MSRB’s ESG RFI
 - Disclosure Industry Workgroup responds to MSRB’s ESG RFI
 - SEC Open Meeting: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Use Your Words Thoughtfully

- What is the difference between ESG Risk Disclosures and Labeling Bonds for specific use of proceeds
- Is there such a thing as “ESG Bonds”?




ESG and Labeled Bonds BPs

○ Risk Disclosures Key Points:

- Nexus to Credit
- Finance Office must “socialize”
- Voluntary Disclosures
- Talk with your Bond Counsel

GFOA recommends that governments evaluate the development and disclosure of information regarding the primary environmental, social, and governmental risks applicable to municipal issuers and their bonds in their preliminary and final official statements used in connection with bond sales and in other voluntary disclosure.



Environmental

The increase in the number of extreme weather events in recent years has raised public awareness about climate change. Investors and rating analysts are not just looking to see if risks are present, but also want information regarding what plans a government has to address these risks.

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Social

It is important for issuers to consider the social factors that are challenging their community and decide if any have a connection to repayment of their bonds or could negatively impact operations or financial position over the term of its debt.

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Governance

Governance factors have always been a part of government management, operations, and finances. Governance includes governmental decision-making, policies, legal requirements, organizational structure, and financial and budget management practices.

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E – Environmental

- Specific examples of environmental factors that an issuer should consider discussing (which will vary depending on the geographical location of the government) include:
 - Inland flooding, tornadoes, drought, snow and ice storms and other extreme weather events
 - Climate change affecting agriculture, infrastructure, major industries and tax base
 - Frequency and intensity of wildfires
 - Frequency and strength of hurricanes and flooding
 - Sea level rise in coastal communities
 - Water supply, both and quality and quantity
 - Diversity of power generation sources and transition plans by providers

S – Social

- Specific examples of social factors that an issuer may want to consider include:
 - Availability and affordability of housing for vulnerable populations
 - Demographic changes and population trends affecting demand for services or tax base
 - Income levels, wealth, and income disparities
 - Affordability of government services, tax rates, or eroding tax base
 - Labor relations challenges, union contracts (and any long-term fixed costs—OPEB and pensions)
 - Availability, access, and quality of community health services
 - Quality of public education and vocational training; educational attainment
 - Labor force, employment/unemployment, and job opportunities
 - Internet access and affordability

G – Governance

- Specific examples of Governance factors that are relevant to credit analysis that an issuer should consider discussing in its preliminary and final official statements used for bond sales include:
 - Organizational structure
 - Legal authority to issue debt
 - Policy transparency
 - Management and policy framework
 - Financial reporting
 - Federal and State framework
 - Risk culture and risk mitigation – does your entity have a cybersecurity plan?
 - Budget controls, revenue forecasting, fiscal integrity of the longer term
 - Relationship to federal and state funding streams
 - Deferred maintenance or the Infrastructure Investment Gap
 - Smart growth/land-use planning – long-term economic sustainability
 - Pension and OPEB liabilities, funded status, annual contributions, and prioritization

New Best Practice: Marketing Your Bonds

*For governments considering formally designating bonds as having positive social, environmental, sustainable or other impacts, GFOA recommends they **critically evaluate the potential benefits and associated costs**. Governments should consider consulting their municipal advisors and bond and/or disclosure counsel who can help them assess whether any benefit of issuing Designated Bonds outweighs the costs and any potential future legal or regulatory risks and consequences if the project goals do not meet the Designated Bond criteria.*



1. Final decision must be linked with the values of the organization
2. Use of proceeds and monitoring
3. Increased disclosure and ongoing project reporting requirements
4. Legal Considerations including antifraud provisions
5. Weighing benefits and costs (including third-party verifiers)

General Comments



March 8, 2022

Mr. Ronald Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street, N.W. Suite 1000
Washington, D.C. 20005

RE: MSRB Notice 2021-17 Request for Information on Environmental, Social and Governance (ESG) Practices in the Municipal Securities Market

Dear Mr. Smith,

The Disclosure Industry Workgroup participants (collectively the "DIG") appreciate the opportunity to provide comments regarding the request for information on ESG Practices. Our group meets regularly to discuss municipal market disclosure matters and seeks to attain greater market collaboration by providing practices and insights that may be helpful to all market participants. The DIG has been deeply involved in topics of current interest including voluntary disclosures in the form of COVID-19 risks, ESG risks and cyber security risks.

While many of the industry associations that are part of the DIG will be submitting their own letters on MSRB Notice 2021-17, this letter serves to highlight areas where we agree and believe it is important to speak collectively to the MSRB on the issues raised in the Notice. We will also take this opportunity to continue to suggest that the MSRB engage with industry groups, apart from formal Notices and Comments, to gather more information and insights into the many perspectives around ESG matters. We always welcome coordinating additional meetings with the MSRB and DIG.

- Clarify language used
- EMMA improvements
- Allow for market-based solutions



Other Key Best Practices

Other New Best Practices

○ Voluntary Disclosure:

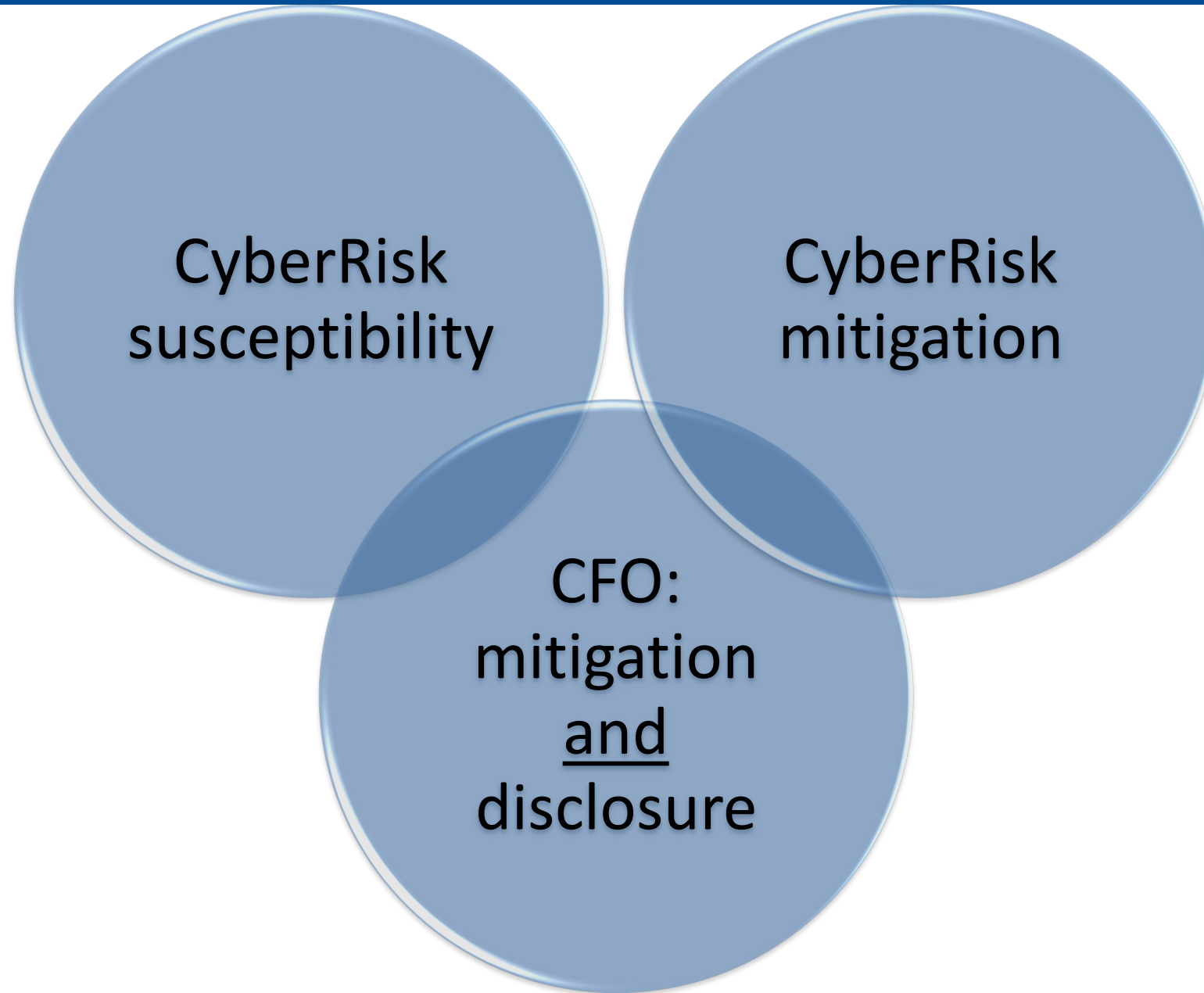
Issuers should consider policies and practices to govern the process of providing voluntary disclosures to municipal market participants. Voluntary disclosure is financial or operating information related to an issuer's obligations, credit, or operating conditions that an issuer chooses to provide in addition to information required by the issuer's Continuing Disclosure Agreements. In evaluating the merits of providing voluntary disclosures, issuers may want to consult with their bond/disclosure counsel or municipal advisor for a thorough assessment of a nexus to credit for the voluntary disclosure.

- SEC through its Office of Municipal Securities, May 2020, "[The Importance of Disclosure for Our Municipal Markets](#)"
- Disclosure Industry Workgroup, August 2020, "[General Continuing Disclosure Considerations for Municipal Securities Issuers](#)"
 - One size does not fit all
 - What information should be included on CDA
 - Establishing and implementing procedures, including location/accessibility of information, legalities, frequency

CRYPTO Advisory

JUST DON'T DO IT

CyberSecurity is Another Animal





Registration is Open for GFOA's 116th Annual Conference

After two years of virtual conferences, GFOA returns June 5–8, to prove that everything is bigger in Texas. Join thousands of your peers in Austin for the largest gathering of public finance professionals in North America.

[CONFERENCE OVERVIEW](#)

Thank you!