

ESG and the Public Finance Market

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ESG Risks vs “Labeled Bonds”


ESG Risk Disclosures

○ Risk Disclosures

Key Points:

- Nexus to Credit
- Finance Office must “socialize”
- Voluntary Disclosures
- Talk with municipal advisor and 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:
 - Climate change affecting agriculture, infrastructure, major industries and tax base
 - Frequency and intensity of wildfires
 - Sea level rise in coastal communities
 - Water supply, both quality and quantity

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
 - 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

Labeled Bonds

For governments considering formally designating bonds as having positive social, environmental, sustainable or other impacts, GFOA recommends they 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
5. Weighing benefits and costs (including third-party verifiers)

Considerations

In consultation with the County's municipal advisor and bond counsel:

- Evaluate the issuance of labeled bonds for “Green”, “Sustainable”, “Social” or other projects to be funded by municipal securities.
- Require use of third-party certifier for labeled bonds to promote integrity of the bond sale and avoid the appearance of “greenwashing”.
- Evaluate the implementation of retail order periods to encourage local, retail investors to purchase County bonds, including “labeled bonds” (such as Green Bonds).

Questions