

MSRB ESG RFI—City of Detroit Response

Questions for Municipal Issuers

2. Do you believe the information included in ESG-Related Disclosures should be standardized? If so, how? If not, why not? In your view, is there a consensus on what information and which metrics are important? If so, can you provide insight as to what consensus you believe does or could exist? If not, what barriers do you believe exist in reaching a consensus? What topic areas do you believe are relevant and should be included in ESG-Related Disclosures?

- We agree with the GFOA guidance that standardized ESG disclosures would be overly burdensome, costly, and potentially inhibiting for municipal issuers who could decide not to use ESG designations they deserve to avoid the added cost and effort. Voluntary disclosures make the most sense for the municipal market.

3. Have you issued ESG-Labeled Bonds? If so, please consider providing an example and describing what criteria were used to make the ESG designation. Did you utilize an independent party to validate or otherwise attest to the use of the ESG designation? Please consider explaining why or why not.

- Yes, the City of Detroit issued \$175 million in 2021 with the Social Bond designation, based on the intended use of the Bonds for the financing of blight removal purposes.
- The City's Social Bonds designation reflects the use of proceeds of the Bonds in a manner that is consistent with the "Social Bond Principles," as promulgated by the International Capital Market Association (the "ICMA"), updated most recently in June 2020. The proceeds of the Bonds are funding projects consistent with a number of these categories, including affordable housing, employment generation and socioeconomic advancement and improvement, which is expected to benefit certain of the target populations included by the ICMA in the Social Bond Principles, such as (i) excluded and/or marginalized populations, (ii) communities that are underserved regarding affordable homeownership, and (iii) minorities and other target populations.
- We decided to use the ICMA standards as they were clear, easy to follow, and fit our purpose.
- We consulted our Bond Counsel and Financial Advisory on using the Social Bond designation, but we did NOT consider hiring a third-party vendor to certify the bonds as we did not feel doing so would add any value or be a good use of money.

4. If you issued ESG-Labeled Bonds, did you commit to providing any ongoing or continuing disclosure related to the ESG designation? If so, was that disclosure commitment incorporated into the continuing disclosure agreement or similar contractual obligation related to Securities Exchange Act Rule 15c2-12 (collectively, "CDA")? If so, please consider providing an example of the CDA. If the disclosure commitment was not incorporated into the CDA, how is the information made available to an investor on an ongoing basis and at what frequency?

- We stated in our Official Statement that we intended to report annually on the spending of bond proceeds in relation to the Social Bond designation; however, we clarified that this will not be a requirement under the City's continuing disclosure.
- We have not yet made a disclosure on this component, but are planning to do so.
- *From pg. 10 of the Official Statement: "In connection with the designation of the Bonds as Social Bonds, the City intends to file a report annually regarding the expenditure of the net proceeds of the Bonds, including the status of the projects funded with the proceeds of the Bonds and the amount of*

such proceeds expended as of the end of the prior fiscal year. The City intends to file this report with the Electronic Municipal Market Access service of the Municipal Securities Rulemaking Board ("EMMA"). However, the City is not required to file this report under the continuing disclosure undertaking attached hereto as APPENDIX C, or any other disclosure obligations pursuant to the Rule (as defined herein). See "CONTINUING DISCLOSURE" herein. The City intends to report on the use of the Bond proceeds and the projects funded with such proceeds only until all Bond proceeds have been fully expended."

Questions for all Municipal Market Participants

3. There are a number of industry-led initiatives underway intended to improve the quality of ESG-related information available in the municipal securities market. Does the availability of these voluntary, market-based initiatives enhance the ability of investors and other market participants to make informed decisions in the municipal securities market?

- The guidelines published by the GFOA for ESG Disclosures Best Practices is helpful information which will help the City of Detroit in its voluntary disclosures, and we believe will be useful to other municipalities.
- The City of Detroit has thus far been able to answer all investor questions regarding ESG issues. We believe these are so varied by issuer, that voluntary disclosures are the most efficient way to address concerns. Uniform or standardized disclosures would consume resources and potentially hinder issuers from providing investors with the best information.

4. There are numerous vendors providing ESG data for the municipal securities market. Does unequal access to ESG data result in disparate impacts to investors and other market participants? Does competing ESG data create investor confusion? How could the MSRB use the EMMA website to reduce information asymmetry or investor confusion?

- Vendors that certify ESG Municipal Securities could cause a disparity in markets because small issuers may not be able to afford their services. Such certifications essentially price out issuers who would otherwise sell ESG bonds.

5. Does the availability of ESG-related information (or lack thereof) in other financial markets directly or indirectly influence the functioning of the municipal market? If so, how? For example, when evaluating competing investment opportunities, do taxable ESG investors expect the same timeliness and quality of ESG-related information for a municipal issuer as for a corporate issuer? And how might the differing expectations of different classes of investors (e.g., foreign versus domestic; retail versus institutional; or tax-exempt versus taxable) regarding ESG-related information affect pricing, underwriting, trading, and other market activities?

- ESG considerations in the corporate sector are very different than in the public sector, and the type and frequency of disclosures should not be the same. The vast majority of municipal bonds clearly serve an ESG purpose; whereas the vast majority of corporate bonds do not.
- Corporate issuers who seek to use an ESG designation should be required to meet certain disclosure requirements, which are unnecessary for municipal issuers given the fundamental public purpose that municipal bonds serve by definition.