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

Municipal issuers

1. Are you currently providing ESG-Related Disclosures or ESG-related information beyond the legally required disclosures in your offering documents, continuing disclosures or other investor communications? If so, please consider providing examples. If not, please consider describing how you address ESG-Related Disclosures in your offering documents, continuing disclosures or other investor communications. In your view, should municipal issuers include a separate section in their official statements and other offering documents expressly devoted to ESG Related Disclosures?
    a. Since issuing its first green bonds in 2015, the San Francisco Public Utilities Commission (SFPUC) has published green bond reports annually (see reports for Water, Wastewater, and Power). The reports initially included the spend-down of bond proceeds and, beginning in 2019, the SFPUC substantially improved the reports to also include descriptions of project impacts with metrics where available, links to California Environmental Quality Act (CEQA) reports as well as alignment with UN Sustainable Development Goals. The enhanced reporting came largely in response to investor requests for additional impact data.

       Regarding adding a separate section in offering documents, given the ESG focus by investors and rating agencies, and the critical nature of climate risk, the SFPUC would like to explore this question further with market participants. It would be helpful to understand what investors and rating agencies would like to see from 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?
    a. Best practices may be preferable over standardization, ie GFOA. Some guidance to consider: esg disclosure to be based on 1) investor impact reporting needs (so responsive to the market), 2) ensuring capital investments are aligned with issuer's climate goals and mechanism to collect and report impact data, and 3) conforming to European / global reporting standards to broaden investor base.

       On point 2 above, the SFPUC is piloting a climate-aligned project screening tool with Professor Jan Whittington at the University of Washington. The tool, developed by Professor Whittington and implemented widely outside of the US, will screen projects against the SFPUC's climate and social impact goals to ensure the department's $1B/yr in capital investments are aligned with the city's long-term climate goals, ie carbon neutral by 2045, adapt to forecasted physical hazards such as sea level rise, extreme precipitation. Project impact data is collected throughout the capital planning process so impact data can easily flow into reports and an interactive dashboard.

On point 3 above, in 2020 the SFPUC listed its taxable green bond issuance on the London Stock Exchange with the goal of reaching European institutional investors with portfolios that require bonds be listed on an exchange. European green bond investors offer an important opportunity to drive more demand for US green muni bonds. While listing was an important first step, the actual listing occurs at closing so the benefit really accrues to the secondary market. Therefore, the SFPUC sees ESG reporting and direct investor engagement as a more efficient method to attract global investors. Moreover, to better attract European investors additional work needs to be done related to bond structure and marketing.

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.
    a. Yes, the SFPUC has issued approximately $3B in green bonds since 2015. The Water and Wastewater enterprises received programmatic verification for the department's Water System Improvement Program and Sewer System Improvement Program, respectively. These bonds were issued under the Water criteria of the Climate Bonds Initiative and verified by Sustayinalytics. The SFPUC's power program has issued two green bonds and both were self-certified.

       On taxable bond issuances, the SFPUC has observed an estimated 3-5 basis points of savings for its green bonds versus non-green bonds. Additionally, the SFPUC has received multiple awards for its ESG leadership generating reputational benefits. Rating agencies and investors increasingly view our investments in resilient infrastructure and also in our community's resilience as a credit strength. Lastly, green bonds have enabled the SFPUC to broaden its investor base and enable deeper engagement with bondholders.

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?
    a. Yes, the SFPUC commits to providing green bond reports on an annual voluntary basis and not as a CDA obligation. The SFPUC's annual green report is made available to investors through publication on its website (see reports for Water, Wastewater, and Power) and the website of CBI and Bondlink.

5. Are you providing information to the credit rating agencies regarding ESG-related risk factors and ESG-related practices? If so, what type? In your view, how does this information generally compare to the information provided in your offering documents and continuing disclosures? Are the credit rating agencies requesting any new types of ESG-related information? Has the credit rating process changed in any significant ways in relation to ESG-related information?
    a. Rating agencies are increasingly focused on environmental risks, e.g. water supply reliability and wildfire risk mitigation.