# ESG Disclosure in Municipal Offerings

## The Municipal Securities Disclosure Series

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# Environmental, Social, and Governance (ESG) Disclosure in Municipal Offerings

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## BACKGROUND

Environmental, Social, and Governance (ESG) bonds have generated increasing investor demand, media attention, and regulatory focus over the past several years. ESG bonds, broadly encompassing "green bonds" and "social bonds," first emerged in the corporate sector in response to growing concerns over climate change in the 2000s and functioned as an outgrowth of the socially responsible investing movement, which certain investors in the 1980s and 1990s used to target varied social ills such as apartheid and tobacco companies. While the universe of both ESG issuers and investors has expanded markedly since that time, the market is still developing standards for labeling bonds as "green" or "social," and a uniform consensus has yet to be reached for either in terms of appropriate projects or the necessary level of resulting environmental or social impact benefits.

ESG bonds have become an increasingly popular option for municipal issuers and borrowers (collectively referred to throughout this paper as "municipal issuers") attempting to fulfill their own ESG objectives while meeting new investor demand. There is no novelty to municipal issuers issuing bonds to fund projects that are beneficial for the environment or that provide a positive social impact, such as public transportation, water and wastewater management, affordable housing, or education. Now, however, municipal issuers increasingly add either a "green" or "social" label to their bond issues to attract new ESG-focused investors, thereby enhancing demand and potentially reducing yields paid by these municipal issuers. Accordingly, there are important considerations for a municipal issuers to weigh before choosing to label their bonds as ESG bonds.

This white paper describes current market standards for ESG bond labeling, verification, and disclosure, with a focus on green bonds and social bonds, best practices for primary and secondary market disclosure and post-issuance reporting, and key considerations to guide municipal issuers and their financing teams when preparing to issue ESG bonds. Sample language presented in this white paper from official statements is provided generally for the convenience of the reader in establishing context and is not meant to be standard or recommended language to include in any offering document.

## GREEN BONDS

Green bonds have been the most popular form of ESG bonds for municipal issuers to date, and municipal issuers sold approximately $270 billion of green bonds in the municipal market in 2020. Since their debut in 2007, more than $1 trillion in green bonds have been issued through the fourth quarter of 2020. In the past decade, the "green bond" label has emerged as a marketing tool to indicate to investors that a municipal issuer is focused specifically on certain environmental and sustainability objectives and/or impacts resulting from the projects being financed with their bonds.

***What Makes a Bond "Green"?***

Green bonds are similar to other municipal bonds, with an additional feature that the use of the proceeds of the bonds is intended to finance projects that will achieve perceived ESG objectives, such as environmental benefits. Green bonds can also be issued to refund bonds that financed projects determined to be green projects, even if the original bonds were not labeled as green bonds. Municipal issuers typically do not need specific legal authority to issue green bonds.

The municipal bond market has yet to reach a clear consensus as to the precise requirements for any given project to qualify as "green," and a municipal issuer may choose to rely on third parties to independently verify a bond's green attributes, or may choose to self-designate its bonds as green. Certain standards, however, have developed, as have certain expectations of the investor community—given that the green bond market continues to expand.

*External Standards*

Municipal issuers may attempt to establish their own ESG metrics or choose from an increasing number of third-party verifiers to provide independent verification or certification of their bonds in relation to the following standards. Municipal issuers often rely on the following standards as models to benchmark their bond-financed projects, or to develop their own subjective determinations regarding the green nature of their proposed bonds and projects. Below is a summary of third-party environmental related standards:

*Green Bond Principles.* The International Capital Markets Association (ICMA), whose mission is to promote resilient, well-functioning international and globally coherent debt securities markets, has worked with corporate and municipal issuers, investors, and underwriters to develop the Green Bond Principles, which provide guidelines for designating bonds as green bonds. There are four core components of the Green Bond Principles: (1) use of proceeds, which focuses on the projects being financed with the proceeds of the green bonds; (2) process for project evaluation and selection, which encourages issuers to communicate to investors their eligibility criteria for selecting green projects; (3) management of proceeds, which relates to the issuer tracking the expenditure of proceeds to ensure appropriate uses; and (4) reporting, which promotes accessible disclosures to investors on the use of proceeds and, in the case of environmental impact bonds, may be critical to determine the yield eventually paid to investors.

*Certified Climate Bonds.* The Climate Bonds Initiative (CBI) promotes the issuance of green bonds and has developed criteria for "Certified Climate Bonds." Certification of Certified Climate Bonds requires verification by an approved verifier to provide independent assurance that municipal issuers and their bond programs will meet the Climate Bonds Standard, published by CBI. The Climate Bonds Standard sets international best practices for labeling green bonds and certification by CBI confirms that (2) the bonds are fully aligned with the Green Bond Principles, (2) the issuer is using best practices for internal controls, tracking, reporting, and verification and (3) the bond proceeds are applied to financing assets consistent with achieving the goals of the Paris Climate Agreement.

*United Nation's Sustainable Development Goals.* The United Nations developed its Sustainable Development Goals in 2015 to provide a "blueprint to achieve a better and more sustainable future for all." There are 17 Sustainable Development Goals that address a variety of social needs, including education, health, social protection, and job opportunities, while taking on climate change and enhancing environmental protections. Certain of the Sustainable Development Goals are relevant for classifying projects financed with green bonds, and third-party verifiers can assess eligible projects in relation to the Sustainable Development Goals. Additionally, investors can identify municipal bond issuances that meet certain Sustainable Development Goals and choose which goals align with their investment strategies.

*Sustainability Accounting Standards Board.* The Sustainability Accounting Standards Board (SASB) provides 77 industry-specific standards designed to assist corporate borrowers in disclosing material sustainability information to investors. This resource may help municipal issuers craft language for offering documents to describe sustainability projects and determine what information would be useful for post-issuance reporting. SASB Standards are maintained under the auspices of the Value Reporting Foundation, a global nonprofit organization that offers a comprehensive suite of resources designed to help businesses and investors.

*Self-Designation*

Municipal issuers may choose to self-designate their bonds or financing programs as "green" or "sustainable." There are no specific regulatory requirements or even industry standards for municipal issuers who desire to self-designate their green bonds, but these municipal issuers may choose to rely on the above-described sources to self-assess their own ESG objectives and their compliance with one or more sets of applicable green bond principles. Given the lack of consensus in the market regarding the "green" designation, municipal issuers have some flexibility to assess and determine how their financed projects may qualify as green. However, municipal issuers should be aware of increasing investor sensitivity to "greenwashing" as discussed below in "Additional Municipal Issuer Considerations."

*Additional Environmental-Related Labeling*

*EIBs and SLBs.* As the green bond market develops in response to increased investor scrutiny, new labeled bonds developed in the mid to late 2010s, including (i) environmental impact bonds (EIBs) (which were first issued in 2016 and require the issuer to project and report to investors quantified environmental impacts of the financed projects, the efficacy of which may impact yields paid on the bonds) and (ii) sustainability-linked bonds (SLBs) (which were first issued in 2019 and tie the achievement of certain sustainability objectives to the returns paid to bondholders). Traditional green bonds focus on the use of the proceeds, while these newer labeled bonds go further and focus on the outcomes achieved with the proceeds.

EIBs may also be labeled as green bonds and share the same goal of financing projects to produce environmental benefits, but EIBs include an additional requirement that these benefits be projected at the time of issuance and then quantified and reported, usually upon completion of the project. The District of Columbia Water and Sewer Authority issued EIBs in 2016 and covenanted to make additional payments to bondholders if the funded projects exceeded forecasted outcomes in reducing stormwater runoff.

Rather than simply focusing on the use of proceeds for green projects, the proceeds of SLBs may be used for any use that furthers the ability of the municipal issuer make improvements on "key performance indicators" (KPIs) to meet pre-defined "sustainability performance targets" (SPTs). If the municipal issuer fails to meet the SPTs, as verified by an independent third party, the interest rate on the bonds will increase. The ICMA released voluntary process guidelines for SLBs in June 2020, which have five core components: (1) selection of KPIs that are relevant, measurable, and able to be benchmarked; (2) calibration of SPTs that are set in good faith and based on past performance of the issuer or on the basis of peers in similar positions; (3) bond characteristics that are tied to whether KPIs or SPTs are met, most commonly with the potential variation of interest rate if such KPIs or SPTs are not met; (4) regular reporting, at least on an annual basis; and (5) verification from independent external parties, such as those discussed below in "Third-Party Verification."

Given the importance of forward-looking projections for these performance-linked bonds, municipal issuers should be particularly careful in drafting offering document disclosures and include sufficient cautionary language under the "bespeaks caution" doctrine as appropriate.

Although this white paper focuses more broadly on ESG bonds generally, municipal issuers of EIBs or SLBs are likely to be subject to stringent reporting requirements, including forward-looking sensitivity analyses. Municipal issuers of performance-linked bonds will need to work with their financing team to ensure that any additional conditions are met and properly disclosed so that the yield on such bonds can be fairly and easily determined.

***Third-Party Verification***

A cottage industry has developed of third-party consultants and verifiers regarding green bond qualification to assist issuers with an independent verification of the green nature of their bonds in relation with the various green bond standards and provide investors with independent assurance regarding the objectives to be realized from the proceeds of green bonds.

*Third-Party Green Bond Verification*

*CBI Approved Verifiers.* In order for green bonds to receive the CBI Certified Climate Bonds certification, a municipal issuer must engage a third party that has been approved by the Climate Bonds Standard Board (Approved Verifiers) to assess how its bonds meet the standards and criteria set by CBI and to document the basis for the qualification of the bonds as verified. CBI maintains a list of Approved Verifiers. CBI requires annual reporting in order to maintain the Certified Climate Bonds certification.

*Kestrel.* Kestrel Verifiers (Kestrel) is an Approved Verifier for CBI and also provides second-party opinions, which verify that the bonds comply with the ICMA's Green Bond Principles. Kestrel also provides reporting services and can additionally be engaged by municipal issuers to produce a green bond annual report on the positive impact of the bond-financed activities.

*Sustainalytics.* Sustainalytics is an Approved Verifier for CBI and also provides second-party opinions, which verify that the bonds comply with the ICMA's Green Bond Principles. Sustainalytics also provides second-party opinions for SLBs that cover the alignment of the bonds with ICMA's Sustainability Linked Bond Principles.

*GreenStar.* Build America Mutual (BAM) provides GreenStar designations for municipal bonds issued for projects that have environmental benefits and the GreenStar standards mirror the primary components of the ICMA's Green Bond Principles. BAM performs an initial GreenStar evaluation for every issue that is submitted for insurance underwriting and will provide the GreenStar designations on qualifying BAM-insured bonds at no additional cost to the municipal issuer. The GreenStar designation can only be withdrawn if the bond proceeds are used for non-eligible projects not described in the offering document and does not require ongoing reporting.

*Second-Party Opinions*

Second-party opinions are another avenue for external review of the "greenness" of a bond issue. Municipal issuers may engage these verifiers to render opinions as to the compliance of a proposed green bond with a variety of standards, including the Green Bond Principles, the UN Sustainable Development Goals, or internally developed green bond standards. It is not necessary for these providers to be Approved Verifiers. These second-party opinions are typically attached to an offering document, and municipal issuers may want to include disclosure in the offering document regarding inclusion of the report, including any cautionary language or other disclaimers, as may be appropriate.

*Rating Agencies*

The rating agencies have responded to the growth of the green bond market in varying ways. Both Fitch Ratings and Kroll Bond Rating Agency will assign their traditional credit ratings to green bonds. In particular, Fitch has stated that it will not assess the environmental integrity of the bonds or the use of proceeds, unless these considerations are related to the underlying creditworthiness. Moody's Investor Service previously provided its Green Bond Assessment for municipal bonds, but as of October 2020, will rely on its affiliate Vigeo Eiris to designate sustainable and ESG investments, in addition to its standard assessment of a municipal issuer's underlying credit rating. Similarly, S&P Global Ratings will deliver second-party opinion services based on a municipal issuer's alignment with the Green Bond Principles, independent of the municipal issuer's underlying credit rating.

## SOCIAL BONDS

Like their green bond counterparts, social bonds aim to finance or refinance projects with a social objective in mind. Although social bonds have historically constituted a small part of the bond market, social bond issuances more than quadrupled in 2020, outpacing the growth of the more mature green bond market.[1] In 2016, the ICMA published the first guidance for municipal issuers on social bonds. The COVID-19 pandemic and the increased focus on social justice and equity issues may have contributed to the influx of social bond issuances. In March 2020, the ICMA provided guidance on the ability of social bonds to assist issuers in addressing the pandemic, through issuances focused on healthcare services, projects designed to alleviate unemployment or to assist small businesses.[2]

### *What Makes a Bond "Social"?*

In order to qualify as a social bond, the use of proceeds must finance or refinance social projects or activities that achieve positive social outcomes or address a social issue. These social issues should align with the four core components of the ICMA's Social Bond Principles (discussed below). Social bond issuances target a wider swath of social objectives than their green bond counterparts, including affordable basic infrastructure, such as clean drinking water, clean transportation, and clean energy projects; bonds for essential service access, such as health care and education; bonds for socioeconomic advancement and empowerment; and bonds for affordable and essential housing. While the market has yet to reach a consensus as to the precise requirements for a project to be properly or fairly considered as "social," certain standards are developing as the social bond market continues to rapidly expand. Municipal issuers may rely on third parties to independently verify a bond's social attributes, or a municipal issuer may choose to self-designate their bonds as social.

1 https://www.brinknews.com/the-emergence-of-social-bonds-as-a-new-rating/

2 ICMA Q&A for Social Bonds Related to COVID-19

*ICMA External Standards*

Municipal issuers may enlist third parties to provide independent verification or certification of their bonds or social bond programs in relation to the following social bond standards discussed below or, alternatively, under other applicable metrics. Municipal issuers may also use the following standards as models for making their own determinations regarding the social nature of their proposed bonds and projects. A summary of third-party social bond standards is below.

*Social Bond Principles.* The ICMA has worked with municipal and corporate issuers, investors and underwriters to develop the Social Bond Principles, which provide voluntary guidelines for designating bonds or programs as social bonds or social bond programs. There are four core components of the Social Bond Principles, including:

> *Use of Proceeds.* The use of proceeds component focuses on the social projects being financed with the proceeds of the social bonds. The social projects should provide clear social benefits, which will be assessed and, where feasible, quantified by the issuer. The most commonly used types of projects supported by or expected to be supported by the Social Bond market include: (i) affordable basic infrastructure (*e.g.*, clean drinking water, sewers, sanitation, transportation, and energy); (ii) access to essential services (*e.g.*, health, education and vocational training, healthcare, financing, and financial services); (iii) affordable housing; (iv) employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of Small and Medium Enterprise financing and microfinancing; (v) food security and sustainable food systems (*e.g.*, physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements, resilient agricultural practices, reduction of food loss and waste, and improved productivity of small-scale producers); and (vi) socioeconomic advancement and empowerment (*e.g.*, equitable access to and control over assets, services, resources, and opportunities, and equitable participation and integration into the market and society, including reduction of income inequality). Examples of target populations include, but are not limited to, those that are living below the poverty line; excluded and/or marginalized populations and/or communities; people with disabilities; migrants and/or displaced persons; undereducated persons; underserved populations due to a lack of quality access to essential goods and services; the unemployed; women and/or sexual and gender minorities; aging populations; vulnerable youth; and other vulnerable groups, including groups vulnerable as a result of natural disasters.
>
> *Process for Project Evaluation and Selection.* Municipal issuers of a social bond should fairly disclose to investors: (i) the social objectives of the issuance; (ii) the process by which the issuer determined how the projects are expected to fit within the eligible Social Project categories identified above; and (iii) the related eligibility criteria, including, if applicable, exclusion criteria or any other process used to identify and manage potentially material social and environmental risks associated with the projects.
>
> *Management of Proceeds.* The net proceeds of the social bond, or an amount equal to the net proceeds, should be credited to a sub-account, moved to a sub-portfolio or otherwise separately tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for social projects. So long as the social bond is outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible social projects made during that period.

*Reporting.* Municipal issuers should collect—and retain—readily available, updated information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in the case of material developments. The ICMA's Social Bond Principles Working Group has also published a white paper on reporting practices that provides core principles for reporting and recommendations for municipal issuers to follow when issuing social bonds.[3]

***Third-Party Verification***

As with green bonds, third-party providers can assist municipal issuers by providing an independent verification of the social nature of their bonds or social bond programs in relation to the various social bond standards and offer investors independent assurance regarding the projects to be financed with social bonds.

*Third-Party Social Bond Verification*

*Kestrel Verifiers.* Kestrel Second-Party Opinions verify that social bond-financed activities conform to the ICMA's Social Bond Principles.

*Sustainalytics.* A second-party opinion from Sustainalytics provides investors with assurance that the use of proceeds of social bonds or a municipal issuer's social bond programs are aligned to market practices, including the ICMA's Social Bond Principles discussed above.

*Institutional Shareholder Services (ISS).* ISS provides second-party opinions on whether social bonds meet the requisite framework by assessing numerous elements of the overall issuance, including the social bonds' link to the municipal issuer's sustainability strategy and the municipal issuer's social bond framework. ISS looks at whether the projects contribute positively to the United Nation's Sustainable Development Goals and how the projects perform against ISS ESG's issue-specific key performance indicators.

*Rating Agencies*

Many rating agencies thus far have assessed social bonds under similar frameworks as their analysis of green bonds. See "Green Bonds – Third-Party Verification – Rating Agencies" above.

## PRIMARY MARKET DISCLOSURE

When considering primary market disclosure related to ESG bond designations, municipal issuers should disclose at least the following information: (1) description of the bond label, including any applicable standards relied upon to make the determination to label the bonds green or social, as applicable (such as the Green Bond Principles or Social Bond Principles); (2) the identity of any third-party verifier and the factors and attributes of the offering relied upon by such verifier; (3) expected use of the proceeds and description of the financed projects; (4) the anticipated or projected benefits from the financed projects; and (5) a description of any post-issuance reporting undertaking on the expenditure of proceeds, the anticipated impact(s) resulting from the financed projects and/or other KPIs (see "Post-Issuance Reporting" for discussion of this recommendation below). Additionally, municipal issuers should disclose any other pertinent information relating to the bond designation, including whether there are any covenants in the financing documents with respect to maintaining the designation, reporting requirements, or other requirements for the project or the use of proceeds. Municipal issuers also must consider the antifraud provisions of Section 10(b) of

3 [ICMA: Working Towards a Harmonized Framework for Impact Reporting for Social Bonds]

the Securities Exchange Act of 1934 and Rule 10b-5 as applicable to any primary market disclosure related to ESG bond designations, use of proceeds, reporting requirements, and third-party verifications, among other things, and ensure that the information provided is accurate and complete in all material respects. Sample language presented in this white paper from official statements is provided generally for the convenience of the reader in establishing context and is not meant to be standard or recommended language to include in any offering document.

***Third-Party Verified Green Bonds***

If the green bond attributes are verified by a third party, the identity of the verifier should be disclosed together with a description of the green bond attributes and factors within the verification. This disclosure does not need to be lengthy, particularly for third-party designated green bonds when the verifier's reports or opinions are attached to the offering document. Below is a short description from a 2019 District of Columbia Water and Sewer Authority offering:

> *The Authority has designated the Series 2019A Project as a "Green Project" and the Series 2019A Bonds as "Green Bonds" based on, among other things, an independent assessment by Vigeo Eiris ("Vigeo") of the DC Clean Rivers Project and the Authority's environmental, social and governance characteristics....For a description of Vigeo's assessment process, see APPENDIX G – "Opinion of Independent Sustainability Consultant."...The Authority has committed to report annually on the allocation of such proceeds to the Green Project and on certain environmental and social outcomes of the Green Project and on certain governance matters of the Authority until such proceeds are fully allocated.*

The standard language for Climate Certified Bonds may be longer as seen in the 2021 disclosure for the Regional Transportation District in Colorado:

> *The information set forth below concerning (i) the Climate Bonds Initiative ("CBI") and the process for obtaining certification from CBI, and (2) Kestrel Verifiers in its role as a verifier with respect to the certification of the Bonds as Climate Bond Certified, all as more fully described below, has been extracted from materials provided by CBI and Kestrel Verifiers. Additional information relating to CBI and the certification process can be found at www.climatebonds.net. The CBI website is included for reference only and the information contained therein is not incorporated by reference in this Official Statement.*
>
> *In connection with the Bonds and the transit projects financed or refinanced with the proceeds thereof, RTD applied to the CBI for designation of the Bonds as "Climate Bond Certified." CBI is an independent not-for-profit organization that works solely on mobilizing the bond market for climate change solutions. CBI has established a certification program that provides criteria for eligible projects to be considered a Certified Climate Bond. Rigorous scientific criteria ensure that financed activities are consistent with the 2 degrees Celsius warming limit established in the 2016 Paris Agreement which exists within the United Nations Framework Convention on Climate Change, to address greenhouse-gas-emissions mitigation, adaptation, and finance. The CBI certification program is used globally by bond issuers, governments, investors and the financial markets to prioritize investments which genuinely contribute to addressing climate change.*
>
> *The CBI standards use credible, science-based, widely supported guidelines about what should and should not be considered a qualifying climate-aligned investment to assist investors in making informed*

*decisions about the environmental credentials of a bond. In order to receive the CBI certification, RTD engaged Kestrel Verifiers, a third-party CBI Approved Verifier, to provide verification to the CBI Certification Board that the Bonds meet the CBI standards and relevant sector criteria. Kestrel Verifiers reviewed and provided verification to CBI, and CBI certified the bonds as Climate Bonds on January 27, 2021. Within 24 months of issuance, Kestrel Verifiers will also provide a Post-Issuance Report to CBI as to whether the proceeds of the Bonds have been applied in accordance with the terms thereof.*

*The terms "Climate Bond Certified" and "Green Bonds" are solely for identification purposes and are not intended to provide or imply that the owners of the Bonds are entitled to any security other than that described under the heading "SECURITY FOR THE BONDS."*

*The certification of the Bonds as Climate Bonds by the Climate Bonds Initiative is based solely on the Climate Bond Standard and does not, and is not intended to, make any representation or give any assurance with respect to any other matter relating to the Bonds, the transit projects financed or refinanced with the proceeds thereof, or Sales Tax Revenues, including but not limited to the Official Statement, the transaction documents, RTD or the management of RTD.*

*The certification of the Bonds as Climate Bonds by the Climate Bonds Initiative was addressed solely to RTD's Board of Directors and is not a recommendation to any person to purchase, hold or sell the Bonds and such certification does not address the market price or suitability of the Bonds for a particular investor. The certification also does not address the merits of the decision by RTD or any third party to participate in any nominated project and does not express and should not be deemed to be an expression of an opinion as to RTD or any aspect of the transit projects financed or refinanced with the proceeds thereof (including but not limited to the sufficiency of the Sales Tax Revenues) other than with respect to conformance with CBI's standards for Certified Climate Bonds.*

*In issuing or monitoring, as applicable, the certification, CBI and Kestrel Verifiers have assumed and relied upon and will assume and rely upon the accuracy and completeness in all material respects of the information supplied or otherwise made available to CBI and Kestrel Verifiers by the District and its consultants. The Underwriters have not provided any information to CBI or Kestrel Verifiers regarding the Bonds and the projects financed or refinanced with proceeds thereof. CBI does not assume or accept any responsibility to any person for independently verifying (and it has not verified) such information or to undertake (and it has not undertaken) any independent evaluation of any nominated project or RTD.*

*In addition, CBI does not assume any obligation to conduct (and it has not conducted) any physical inspection of any nominated project. The certification may only be used with the Bonds and may not be used for any other purpose without CBI's prior written consent.*

*The certification does not and is not in any way intended to address the likelihood of timely payment of interest when due on the Bonds and/or the payment of principal at maturity or any other date.*

*The certification may be withdrawn at any time in the Climate Bonds Initiative's sole and absolute discretion and there can be no assurance that such certification will not be withdrawn.*

*RTD has engaged Kestrel Verifiers to provide a verification on the Bond's conformance with the Climate Bond Standard V3.0. Kestrel Verifiers has determined that the projects to be financed or* *refinanced with the proceeds of the Bonds satisfy the Climate Bond Standard V3.0 and the Transport Sector Criteria (Version 2). Accredited as an "Approved Verifier" by the Climate Bonds Initiative, Kestrel Verifiers is qualified to evaluate bonds against the Climate Bonds Initiative Standards and Criteria in all sectors worldwide. Kestrel's Climate Bond Verifier's report can be found in Appendix G.*

The disclosure language may also describe a second-party opinion that assesses the compliance of the bond offering with such principles. The following language is excerpted from a 2019 offering for the South Central Connecticut Regional Water Authority:

*The Thirty-fourth Series C Bonds are being designated as "Green Bonds". The proceeds of the Thirty-fourth Series C Bonds will be applied exclusively for a project and activity that promote climate or other environmentally sustainable purposes in alignment with Green Bond Principles, published June, 2018 by the International Capital Market Association (the "GBP"). The cornerstone of green bonds is the utilization of the bond proceeds for projects that are within one of the broad categories of potentially eligible green projects, including sustainable water management. The Authority developed a Green Bond Framework (the "Framework") under which it intends to issue a green bond, the Thirty-fourth Series C Bonds, and use the proceeds to refinance improvements to an existing water infrastructure project that has restored critical infrastructure preventing water leakage and supported the continuing provision of water to the local community.*

*The Authority has engaged Sustainalytics US Inc. ("Sustainalytics"), a provider of environmental, social and governance research and analysis, to provide an opinion regarding compliance of the Thirty-fourth Series C Bonds with GBP. Sustainalytics evaluated the Authority's Framework and its green bond transaction set forth in this Official Statement and the alignment thereof with relevant industry standards and provided views on the robustness and credibility of the Thirty-fourth Series C Bonds within the meaning of the GBP which views are intended to inform investors in general and not for a specific investor. The opinion states that "the Framework is robust, transparent and in alignment with the four components of the GBP and concludes that the Thirty-fourth Series C Bonds are credible and impactful and align with the four core components of the GBP." See Appendix F – Sustainalytics – Second Party Opinion for a copy of the complete report.*

*Pursuant to the GBP, the Authority has committed to complying with the four core components to qualify the Thirty-fourth Series C Bonds as green bonds. The GBP specify that green bond issuers should provide information regarding (i) the use of proceeds, (ii) the process for project evaluation and selection, (iii) the management of proceeds, and (iv) the reporting. The Thirty-fourth Series C Bonds will comply with the GBP as set forth below.*

Third-party verifiers and providers of second-party opinions may provide their own language that must be included in the offering document regarding the applicable criteria for the green bond designation and the relevant scope (including assumptions and limitations) of their verification reports. Municipal issuers should also include in their offering documents reports and/or second-party opinions that describe the conformance of the bonds and financed projects with applicable standards. When including second-party opinions or other reports, municipal issuers and underwriters should obtain the written consent from the opinion or report provider for inclusion of its opinion or report in the preliminary offering document and final offering document. Disclosure around inclusion of the report, including any cautionary language or other disclaimers, also may be appropriate.

***Third-Party Verified Social Bonds***

If social bond attributes are being verified by a third party, the third-party verifier should be disclosed and a description of the social bond attributes and factors going into verification should be included. This disclosure does not need to be lengthy, particularly for third-party designated social bonds when verifier reports or opinions are attached to the offering document. Below is a short description from a 2020 Equitable School Revolving Fund offering:

> *Kestrel Verifiers authored a Second Party Opinion of the Bonds as Social Bonds included herein as APPENDIX H. Kestrel Verifiers based its opinion solely on the Social Bond Principles June 2020 issued by the International Capital Markets Association ("ICMA") and does not make any representations or give any assurance with respect to any other matter relating to the Bonds. The term "Social Bonds" is solely for identification purposes and is not intended to provide or imply that the owners of the Bonds are entitled to any security other than that described under the heading "SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS."*

Second-party opinions can also be longer, as detailed in a 2021 CSCDA Community Improvement Authority offering:

> *Sustainalytics, a leading global provider of environmental, social, governance and corporate governance data, research and analysis, has provided a second-party opinion (the "Sustainalytics Social Bond Framework Opinion") based on an assessment of the Social Bond Framework, the Social Bond Framework's alignment with the SBP, the credibility and anticipated positive impacts of the use of proceeds of the Series 2021A Bonds, and the alignment of the Authority's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds of the Series 2021A Bonds. The Sustainalytics Social Bond Framework Opinion provides that the Social Bond Framework is credible and impactful and aligns with the four core components of the SBP described above, that the use of proceeds of bonds issued in accordance with the Social Bond Framework, including proceeds of the Series 2021A Bonds, for the workforce housing program is aligned with the eligible categories recognized by the SBP, that the Authority will make the eligibility criteria for acquisitions and financings of housing projects under its Social Bond Framework available publicly, and that the internal procedures and executive level involvement in decision making under the Social Bond Framework align with market practice. The Sustainalytics Social Bond Framework Opinion also concludes that the Authority's management of social bond proceeds in accordance with its existing procedures for selecting property manager and allocation of proceeds at the time of bond issuance are aligned with market practice, and that the reporting requirements of the Authority, including continuing disclosure reporting pursuant to the Continuing Disclosure Agreement, are aligned with market practice. Sustainalytics has consented to the inclusion of the Sustainalytics Bond Framework Opinion attached hereto. See "APPENDIX H – SUSTAINALYTICS SOCIAL BOND FRAMEWORK OPINION" for a further description of the conclusions related to the Social Bond Framework.*

***Self-Designated Green Bonds***

For self-designated green bonds, municipal issuers should consult with their financing team to ensure adequate disclosure is provided on the green bonds and their green projects. Generally, similar disclosure related to use of proceeds, the green objectives expected to be achieved, project management, and reporting requirements should be included in the offering document. Below is an example of disclosure regarding the green project self-designation for green bonds issued by the Sunnyvale Financing Authority in 2020, which focused on LEED certification:

> *General. The City is designating the Improvements as a "Green Project" and the 2020 Bonds as "Green Bonds." The terms "Green Project" and "Green Bonds" are neither defined in nor related to provisions in the Indenture. Owners of the 2020 Bonds do not have any security other than as provided in the Indenture, nor do such owners of the Green Bonds assume any specific project risk related to any of the projects funded thereby. Neither the City nor the Authority assumes any obligation to ensure that those projects it has defined as Green Projects comply with any legal or other standards or principles that relate to Green Projects.*
>
> *Once the proceeds of the 2020 Bonds have been spent, no further updates regarding the Improvements will be provided or filed.*
>
> *Basis for Green Project Designation. As described under the heading "FINANCING PLAN," the New City Hall will be a net-zero energy ("Net Zero") facility and has been designed to be LEED Platinum-certified. In addition, the Emergency Operations Center addition has been designed to be LEED Gold-certified with sustainable features such as low flow fixtures and LED lighting…Generally, the design of the Improvements focuses on aspects of the physical environment as well as the quality of the indoor environment. Water conservation measures limit potable water use to indoor restroom fixtures and heating and cooling equipment. The Improvements will rely entirely on electric energy with no use of natural gas onsite, reducing the project's emissions and carbon footprint.*
>
> *The New City Hall features both a green roof, as well as a large solar photovoltaic array as key architectural and sustainability features. Coupled with numerous other energy reduction strategies, the inclusion of the array enables the building to target Net Zero use, with 100% of annual building energy consumption met or offset with onsite renewable energy generation. This makes the building more sustainable in nature and more resilient to disruptions in energy supply from natural or manmade causes. High quality daylighting will provide compounding benefits for the Net Zero goal, reducing electric lighting energy consumption while also limiting its resultant heat input into building spaces, further improving space cooling energy efficiency. In the temperate climate of Northern California, strategies such as these will further reinforce the passive resilience of the building in the case of a power outage or emergency event.*
>
> *The Improvements will leverage these and other features to pursue the LEED sustainable building standard to validate the project's achievements. All buildings will be designed to these high sustainability standards; the New City Hall project will specifically pursue LEED v4 Platinum, the highest certification available.*

The following disclosure from a 2020 offering document for the Portland Water District, Maine focuses on state, federal, and local standards for safe drinking water in its description of its self-designated green project:

> *The Trustees and the District have determined that the water main improvements (for the Water Bonds) and the wastewater and related infrastructure upgrades (for the Sewer Bonds) to be financed by*

*the Bonds are improvements that are environmentally beneficial projects designed to ensure safe drinking water for the public in the State in accordance with State, Federal and local standards. Therefore, on February 24, 2020 (Order 20-005) (for the Water Bonds) and on June 22, 2020 (Order 20-021) (for the Sewer Bonds), the Trustees adopted Orders designating the Bonds as Green Bonds ("Green Bonds").*

*The purpose of labeling the Bonds as Green Bonds is to allow purchasers of the Bonds to invest directly in bonds that finance such environmentally beneficial purposes. The holders of the Bonds do not assume any particular project risk or economic benefit related to any of the funded projects as a result of the Green Bonds designation.*

Certain municipal issuers may also issue on behalf of private entities, which assume responsibility for constructing and operating a green project. Below is an example of the self-designated green bond disclosure by the County of Meade, Kentucky for industrial revenue bonds issued on behalf of Nucor Corporation, a Delaware corporation, in 2020:

*Green Bonds Designation. The proceeds of the Bonds will be for "Eligible Green Expenditures," specifically pollution prevention and control, including waste recycling and waste reduction. At least 90% of the net proceeds of the Bonds, after deducting costs of issuance, are expected to be spent on projects focused on the handling, sorting, processing, treatment and recycling of ferrous scrap metals through the Company's new metals recycling electric arc furnace steel plate mill. The new mill will produce cut-to length steel plate in widths and thicknesses that are not currently offered by the Company. The new facility once completed is expected to operate at a significantly lower energy intensity and with lower emissions of greenhouse gas compared to the global average for steel production. Since the Company started the practice of sustainability reporting in 2009, the Company's energy intensity related to the production of steel has held relatively stable at less than 5.0 MBTU per ton or approximately one fourth the global average. The Company's direct greenhouse gas emissions related to the production of steel are approximately 0.88 tons of CO2 per ton, less than half of the global average of 1.9 tons of CO2 per ton. The Company expects that the new facility's environmental performance will be consistent with these metrics once the mill completes its start-up phase, which will necessarily be a transitional period with some lower efficiencies anticipated.*

*The purpose of designating the Bonds as "Green Bonds" is to provide investors the opportunity to invest directly in bonds that are specifically targeted to support such environmentally beneficial projects. Because the repayment obligation of the Company is not conditioned on completion of the projects, holders of the Bonds do not assume any risk with respect to the funded projects.*

*Process for Expenditure Evaluation and Selection. The Company's Treasury department, in consultation with its Environmental Affairs department, will select expenditures based on the eligibility criteria set forth in "Eligible Green Expenditures" above.*

*Management of Proceeds. The payment of principal and interest on the Bonds will be made from the Company's general funds and will not be directly linked to the performance of any Eligible Green Expenditures.*

***Self-Designated Social Bonds***

Municipal issuers may elect to self-designate social bond issuances as social bonds based on the intended use of proceeds. Like with self-designated green bonds, similar disclosure related to the use of proceeds, the social objectives expected to be achieved, project management, and reporting requirements should be included in the offering document. Below is a short description from a 2021 Alaska Housing Finance Corporation offering; the bonds were self-designated as social bonds:

> *The Offered Bonds are the first Series of Bonds to be designated by the Corporation as "Social Bonds." The Corporation is issuing the Offered Bonds as Social Bonds based on the intended use of proceeds of the Offered Bonds to refund the Refunded Bonds, to refund the Refunded Obligations, and to reimburse the Corporation for certain governmental purpose expenditures, which have provided funding for energy efficiency improvements, government offices, affordable housing, transportation and water/sewer projects. The Corporation's Social Bonds designation reflects the use of proceeds of the Offered Bonds in a manner that is consistent with the "Social Bond Principles" as promulgated by the International Capital Market Association ("ICMA") and updated most recently in June 2020. The Corporation believes the intended use of the proceeds of the Offered Bonds and the manner of expenditure of such funds are consistent with the four core components described by the ICMA in its publication, Social Bond Principles: Voluntary Process Guidelines for Issuing Social Bonds.*
>
> *The term "Social Bonds" is neither defined in nor related to provisions in the Indenture. The use of such term herein is for identification purposes only and is not intended to provide or imply that an owner of Social Bonds is entitled to any additional security beyond that provided therefor in the Indenture. Such Offered Bonds will be secured on a parity basis with the Prior Series Bonds and any Additional Bonds issued under the Indenture.*

Another example of disclosure from a self-designated social bond municipal issuer can be seen in the following language from a 2020 Massachusetts School Building Authority offering document, which focuses on the education benefits of the bonds and specifically notes the goal to find ESG focused investors:

> *The Authority has designated the 2020 Bonds as "Social Bonds" to allow investors to invest directly in bonds that provide the Authority with funds to finance and refinance public school facilities in order to provide access to education. The Authority has determined that the school facilities and Program costs to be financed and refinanced with the proceeds of the Series 2020 Bonds are "Social Projects" based on the social benefits of ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all.*

***GFOA ESG Disclosure Best Practices***

Municipal issuers of green bonds should be mindful of the broader recommendations from GFOA regarding best practices for ESG disclosure in offering documents, which focused on environmental disclosure. GFOA recommends municipal issuers (1) identify primary environmental risks for the municipal issuer and (2) discuss policy actions taken. These disclosures may tie in to the discussion of the labeled bonds designation and financed projects. Municipal issuers should include appropriate disclaimers or cautionary language to properly frame the discussion of material environmental risks.

***Future SEC Regulation of ESG Disclosure***

ESG objectives and disclosure around ESG considerations have garnered attention from regulatory bodies recently. In December 2020, the ESG Subcommittee of the SEC Asset Management Advisory Committee issued a preliminary recommendation that the SEC require the adoption of standards by which corporate issuers disclose material ESG risks. On February 24, 2021 SEC Acting Chair Allison Herron Lee issued a public statement directing the SEC Division of Corporation Finance to enhance its focus on climate-related disclosure in public company filings. On March 15, 2021, Acting Chair Lee then issued a public statement requesting public input from investors, registrants, and other market participants on climate change disclosure. Additionally, in March 2021, the SEC announced the creation of a Climate and ESG Task Force within the Division of Enforcement, indicating that the SEC will be seeking to "regulate through enforcement" in addition to implementing potential new rulemaking on ESG disclosure matters. SEC Commission Chair Gary Gensler noted in July 2021 that he wants mandatory disclosure on climate risks and wants the SEC to develop a rule by the end of 2021. Municipal issuers and underwriters routinely consider disclosure requirements imposed on reporting companies to assess regulator's views on what kind of information may be material to investors in the municipal market. In the event that the SEC issues new guidance or revises its disclosure rules in relation to ESG risks, municipal issuers of green bonds should familiarize themselves with the SEC's expectations for adequate ESG risk disclosure. While there may be much debate over what such regulatory enforcement will entail and the focus of any regulatory scrutiny, it is increasingly clear that the SEC is contemplating new mandates on ESG disclosure for public companies—rather than relying just on the anti-fraud principles—and municipal issuers should look to these mandates for analogous guidance when assessing ESG related disclosure for their municipal bonds, even in the absence of specific municipal securities regulation.

## POST-ISSUANCE REPORTING

Unless required by a third-party verifier to obtain or maintain a particular designation or certification, post-issuance reporting is not mandatory for ESG bonds, but many municipal issuers make voluntary commitments to provide such disclosure for their ESG bonds. CBI has provided best practices for post-issuance green bond reporting, including: (1) making information easy to find; (2) providing comprehensive reporting; (3) reporting regularly and consistently; (4) displaying information clearly with graphics, benchmarks, and comments; (5) obtaining post-issuance external reviews to confirm allocations and verify impact disclosure; (6) disclosing the funded projects, both at- and post-issuance; (7) disclosing impact methodologies and specifying if metrics are estimated or measured; (8) providing project-level reporting with bond and program-level summaries; and (9) complying with reporting commitments. While these best practices are specifically for green bonds, they also provide helpful benchmarks for municipal issuers of social bonds. Additionally, EIBs and SLBs require municipal issuers to provide post-issuance reporting on the quantified environmental impacts of the financed projects and improvements on KPIs to meet SPTs, respectively. In particular, for SLBs, reporting on progress towards SPTs are likely to impact the interest rate accruing on the bonds.

Best practices from CBI are for both corporate and municipal issuers but may present particular challenges for certain municipal issuers, which could face budget constraints, timely reporting challenges or difficulties deviating from established patterns in generalized (or statutorily-required) audit and/or budget reporting. Municipal issuers should confer with counsel, their financial advisors and their financing teams to determine the appropriate frequency, content, and impact metrics for any post-issuance reporting in order to provide useful disclosure to investors, while remaining cognizant of the municipal issuer's budget constraints and current reporting limitations, responsibilities, undertakings, and practices.

Depending on the nature of the financing, it may be imperative to memorialize the post-issuance reporting obligations in a continuing disclosure agreement or loan agreement, which should be disclosed to investors in the primary offering of the labeled bonds.

At a minimum, descriptions of post-issuance reporting in offering documents should include the timing and frequency of the reporting, content of the reports, and the anticipated access point for investors, such as posting to the relevant CUSIP numbers on the MSRB EMMA site, to the municipal issuer's own MSRB EMMA site, or to the municipal issuer's own website.

Municipal issuers also should be mindful of the staff legal bulletin issued on February 2, 2020 by the Office of Municipal Securities of the Securities and Exchange Commission (SEC), which indicates that the SEC views the antifraud provisions of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 as applicable to all statements by a municipal issuer (or omissions of material facts). For all post-issuance reporting for ESG bonds, municipal issuers should ensure that the information provided is accurate and not misleading.

***Reporting Requirements – Third-Party Verified ESG Bonds***

The particular post-issuance reporting obligations for ESG bonds that have been verified or certified by third parties will depend on the applicable third-party verifier. For instance, CBI requires all issuers of Certified Climate Bonds to report annually to CBI to maintain the certification. The annual report must contain information confirming the allocation of bond proceeds to eligible projects and confirmation of the eligible nature of the projects under the Climate Bonds Standard. Issuers of Certified Climate Bonds also are encouraged to disclose metrics or indicators that reflect the actual or expected impact of the projects, but this reporting is not mandatory. Certain third-party verifiers may be engaged to assist with ongoing reporting as part of the verification process.

***Reporting Requirements - Self-Designated ESG Bonds***

Self-designating municipal issuers have flexibility in determining their post-issuance reporting obligations, if any, the parameters of which may be driven by market considerations or the nature of the financed project. A common option is to provide for an annual report to be filed in conjunction with the municipal issuer's other continuing disclosure obligations, which describes any updates to the project, the application of proceeds, and any change regarding the status of the environmental or social benefits, as applicable, of the project. Post-issuance reporting requirements may only continue through the completion of the project, but could continue post-completion in order to provide disclosure of metrics that demonstrate the ongoing ESG impact of the financed projects. Municipal issuers should also pay attention to anticipated future pronouncements from the National Federation of Municipal Analysts on investor expectations for ongoing ESG reporting.

Below is an example of disclosure regarding limited (in duration) ongoing reporting, including the mechanisms for such reporting, to be included in an offering document in the section describing the green or social bonds designation, as may be applicable:

> *The [Issuer/Borrower] will annually, not later than [___] days after the close of the [Issuer/Borrower]'s fiscal year commencing with the fiscal year ending [________], 20[___], deliver a report to the [Trustee/Dissemination Agent] that includes a description of the projects financed with the Bonds, the amount of Bond proceeds spent on such projects, a statement to the effect that no changes have been made to the Project that would reasonably be expected to materially adversely affect the [environmental/social] benefits of the Project, and [describe impact metrics applicable to the specific financed project]. Such report will also be posted to the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board ("MSRB") on an annual basis not later than [___] days after the close of*

*the [Issuer/Borrower]'s fiscal year commencing with the fiscal year ending [_________], 20[___]. [Once the [Issuer/Borrower] has spent all of the proceeds of the Bonds, it will submit a final report to the [Trustee/Dissemination Agent] and for posting on EMMA that includes a statement that all of the proceeds of the Bonds have been spent. Thereafter, the [Issuer/Borrower] will no longer be obligated to provide the report to the [Trustee/Dissemination Agent] or to post the report to EMMA.] [The [Issuer/Borrower]'s obligations described in this paragraph will terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.] The failure of the [Issuer/Borrower] to comply, or to cause compliance with, the requirements of its obligations described in this paragraph, will not be considered an event of default under the [Indenture/Resolution].*

Given the ability for self-designating municipal issuers to determine the terms of their post-issuance reporting, municipal issuers should consider what remedies, if any, may be available to investors in the event the municipal issuer fails to comply with its self-imposed reporting undertakings.

## ADDITIONAL MUNICIPAL ISSUER CONSIDERATIONS

Below is a brief description of considerations for municipal issuers contemplating issuing ESG bonds. Note, this list is not comprehensive and municipal issuers also should discuss their particular circumstances with counsel and their financing team.

### *New Investor Focus*

By issuing ESG bonds, municipal issuers can attract both institutional and individual investors focused on ESG impact investing. As Larry Fink, the Chairman and Chief Executive Officer of Blackrock, described in his 2021 Letter to CEOs, "From January through November 2020, investors in mutual funds and ETFs invested $288 billion globally in sustainable assets, a 96% increase over the whole of 2019." Issuing an ESG bond provides a unique opportunity for municipal issuers to market to these investors and municipal issuers should consult with their financing team as to how they may be able to attract ESG-focused investors to their offering.

### *Greenwashing or Impact Washing*

As described herein, the process of designating ESG bonds is generally unregulated, particularly for municipal issuers that choose to self-designate their bonds as green or social. ESG bonds are subject to the same oversight from the SEC as non-ESG bonds, but no regulatory regime currently ensures that projects designated as "green" or "social" will actually lead to environmental or social impact benefits. For these reasons, ESG investors have become wary of the practice of "greenwashing" or "impact washing," which is the act of overstating a commitment to ESG objectives, usually for marketing purposes to attract funding, gain more favorable pricing, or obtain more advantageous tax treatment, or even when issuers apply an ESG label to projects that may not realize objective ESG standards or impacts and may have been financed regardless of the bond designation. Investors are becoming more sophisticated in their assessment of the ESG nature of both these bonds and their issuers and may be less inclined to invest if they suspect either greenwashing or impact washing.

Seeking third-party verification or certification can help to assuage investors that the municipal issuer and the financed projects are likely to contribute to legitimate ESG objectives and impacts. Municipal issuers who choose to self-designate their bonds should be thorough in their disclosure regarding the justification for labeling projects as green or social and should include adequate disclosure explaining how projects conform to external standards, such as the Green Bond Principles, Sustainable Development Goals, or Social Bond Principles.

***"Greenium"***

Because the green bond market is still relatively new, the existence of a pricing premium, or "greenium" as labeled by CBI, for green bonds as compared to non-green bonds (or green bonds with external verification as compared to self-designated green bonds) has occasionally been touted on the basis of anecdotal evidence. The growing prevalence of green bonds has led to research studies being conducted on green bond pricing. Results of these studies are mixed, likely due to differences in sample sets, underlying credit distinctions among the wide diversity of issuers, measured time periods, methodologies, or ratings, but there is increasing empirical data that suggests green bonds are issued at a premium to their non-green counterparts. And some studies suggest these pricing effects are stronger for green bonds with external certification. Third-party verifiers have also reported anecdotal evidence that municipal issuers receive more orders for green bonds.

While the evidence for the existence of a "greenium" is not yet conclusive across the municipal market, municipal issuers should consult with their financing team to assess the impacts on pricing for green bonds and whether any additional pricing benefits are likely to be derived from seeking third-party verification.

As the emerging social bond market is even newer than the green bond market, there have yet to be research studies on the existence of a premium for labeled social bonds. However, with the recent rapid growth of the social bond market, it is likely to be a topic of increased focus as more pricing data is available for analysis.

***Additional Financing Costs***

Issuing ESG bonds can lead to increased transaction costs for municipal issuers that pursue third-party verification or engage a provider for a second-party opinion. Additionally, municipal issuers that are subject to post-issuance reporting obligations may incur additional costs complying with these obligations. Municipal issuers should consider whether the potential for access to new investors and opportunity for premium pricing with ESG bonds outweigh these additional costs.

## CONCLUSION

ESG bonds can provide municipal issuers with opportunities to attract new investors, while providing a critical source of capital to achieve important ESG objectives. Many of these transactions are, frankly, traditional transactions in the municipal market and have long been the backbone of our industry. Issuing ESG bonds, however, requires more thought than simply tacking on a shiny new label. Municipal issuers must be cognizant of the changing regulatory environment and increasingly higher standards of investors for ESG bonds. The popularity of ESG investing will likely continue to grow, and municipal issuers can take advantage of increased investor demand to reduce their cost of capital—but they should do so with an informed approach to the expectations of the investors and regulators.

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