The New Green Bonds – Making ESG Bonds Work for You

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WHAT ARE ESG BONDS?

- ESG Bonds are those that incorporate environmental, social and governance factors...
  - ***Environmental*** might include building for climate-related events; cleaner/renewable energy; carbon emissions/pollution control; sustainable public transportation; nature conservation; and sustainable water and wastewater management
  - ***Social*** might include education, healthcare, affordable housing and water for underserved populations
  - ***Governance*** factors such as sound internal controls, financial practices and long-term planning

ESG GREW FROM GREEN BONDS

- Five years ago, the discussion was about Green Bonds...

Is There a Green Bond Premium? The Yield Differential Between Green and Conventional Bonds

THE AVENUE

Green bonds take root in the U.S. municipal bond market

Devashree Saha · Tuesday, October 25, 2016

S&P Global Market Intelligence

Global Credit Portal®
RatingsDirect

What's Next For U.S. Municipal Green Bonds?

07-Sep-2016

The issuance of U.S. municipal green bonds – bonds backing projects with positive environ
increasing, joining a trend in the broader market for similarly labeled debt instruments. S&P
the municipal market will see between \$6.3 billion and \$7.2 billion of green bonds in 2016 (

WHY EXPLORE ESG BONDS?

- Today, the market expanded to ESG Bonds
- Investors looking for "impact investing"
- Fund or portfolios with ESG selection goals
- Credit rating agencies integrated ESG factors in their rating processes
- Other market-based ESG scores and ratings developing provide context information to investors and other market participants

WHY EXPLORE ESG BONDS?

- But will it save you money?
  - Evidence of interest rate savings is too scarce to draw conclusions from
- A broader base of investors allows your Municipal Advisor greater discretion in structuring the offering to match your preferences
  - Also increases the target investor group that your underwriter can market to
- Regardless, ESG Bonds have great public optics highlighting the Port's community stewardship

RATING AGENCY EXAMPLE

- Rating agencies have a section about ESG in their credit reports
- We recently worked with a public utility district and this was from the rating report (emphasis added)
  - Environmental risks are **neutral to the credit**. The [project's] power is non-carbon-emitting hydroelectric, largely insulating the district from the uncertainty, costs, and operational challenges of legislative and regulatory initiatives to reduce greenhouse gas emissions. Nevertheless, the district, by virtue of operating the [project], is subject to fish mitigation regulations that add to costs and modestly reduce net generation.
  - Social risks are also **credit neutral**. We believe the [project], through the district, has minimal exposure to social factors (including health and safety issues related to COVID-19), in line with other rated utilities. In our view, the economic effects of the pandemic thus far have not affected the project's financial position given the nature of the power sales contracts. In addition, given the extremely low-cost power produced by the project, social risks are negligible.
  - We view the utility's governance factors as **credit supportive**, as they include full rate-setting autonomy, liquidity targets, a long-term capital plan and cybersecurity procedures, and long-term financial forecasting.

SO YOU THINK YOU'VE GOT A PROJECT...

- Call it Green and away you go!
  - You look out the window and say, "the breakwater rebuild is self-evidently good for the environment."
  - Bond Counsel doesn't fuss, your Municipal Advisor nods, and the Underwriter happily puts "GREEN" on the OS
  - Now you've issued Green Bonds
  - This was a pretty short session, right?
    Have a great drive home!

SO YOU THINK YOU'VE GOT A PROJECT...

- That old self-cert model is coming under pressure
- SEC and MSRB taking a concern with ESG disclosure
- SEC has been rigorously enforcing disclosure issues the past seven years.
- Increasingly worth investing time in:
  - Conforming to one of the ESG Bond frameworks
  - Considering third-party opinion/verification
  - Initial disclosure and continuing disclosure requirements

TYPES OF ESG BONDS

- Two international organizations with ESG bond standards – the International Capital Markets Ass'n (ICMA), and the Climate Bond Initiative (CBI)
- ICMA ESC bond classes:
  - Green Bonds
  - Social Bonds
  - Sustainability Bonds (both Green and Social)
  - Sustainability-Linked Bonds
- The Climate Bond Initiative adds... wait for it...
  - Climate Bonds

BROAD PROJECT DISCRETION

- IMCA Green Bond projects can include:
  - Clean transportation
  - Climate change infrastructure updates
  - Eco-efficient technologies and processes
  - Energy efficiency
  - Sustainable natural resources and land use
  - Green buildings
  - Pollution prevention and control
  - Renewable energy
  - Sustainable water and wastewater management
  - Biodiversity conservation

BROAD PROJECT DISCRETION

- IMCA Social Bond Categories:
  - Affordable basic infrastructure (water, sewer, transport)
  - Access to essential services (education, healthcare)
  - Affordable housing
  - Employment generation; alleviate unemployment
  - Food security, sustainable food systems
  - Socioeconomic advancement and empowerment

BROAD PROJECT DISCRETION

- IMCA Sustainability Bonds are bonds that have both Green and Social elements.
- IMCA Sustainability-Linked bonds have structural elements (interest rate, etc) tied to meeting goals
- CBI Climate Bonds are for projects that are low carbon / climate-resilient (per Paris Agreement)

QUALIFYING BONDS AS ESG

- Core evaluation components shared by ESG Bonds:
  - Use of proceeds – An eligible project? Used as described to investors? Clear environmental/social benefits?
  - Project Evaluation and Selection Process – Governance in place for strategy/policy/objectives? Project analyzed for benefits and risks? Communicated to investor?
  - Proceeds Management – Tracking expenditures? External audits? Allocations all made to qualified projects?
  - Reporting – Able to share actual project expenditures? Expected impact? Achieved impact?

WHO SAID IT WAS ESG?

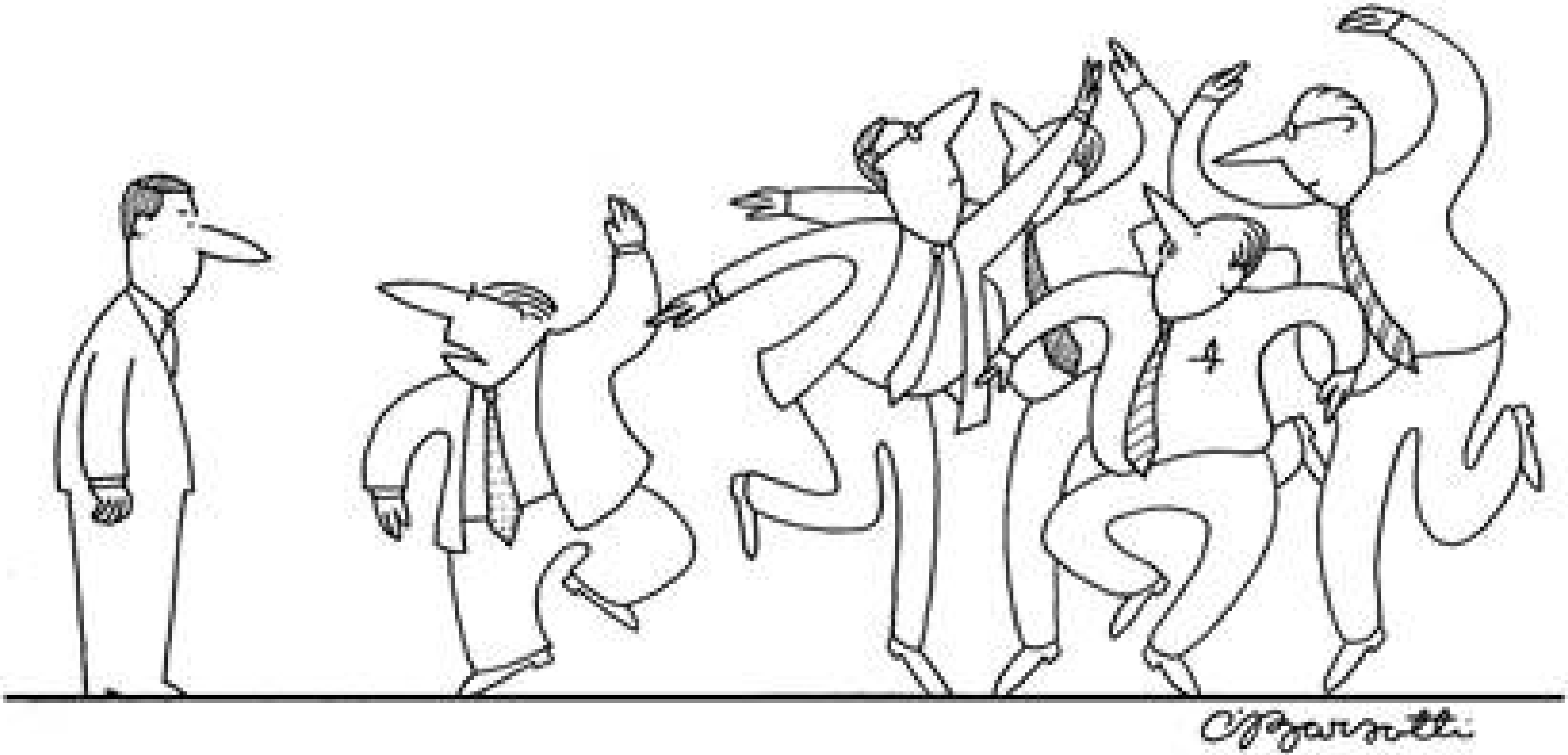
- External qualification of ESG Bonds
  - Third-party opinions on ICMA compliance available
  - CBI Climate Bonds must use an approved verifier; no self-certification
  - See, e.g., list of approved verifiers at https://www.climatebonds.net/certification/approved-verifiers
- Self-certification
  - Not available for CBI Climate Bonds
  - Vast majority of Green and Social Bonds have been and continue to be self-certified
  - Your Port Green projects are typically self-proving!
  - Increasing pressure to get 3rd party opinion given SEC and MSRB initiatives examining ESG disclosure

ESG BOND ISSUER RISKS

- Legal requirements
  - Securities Act of 1934 section 17 (anti-fraud)
  - Rule 10b5 (fraud; full disclosure, no material omissions)
- SEC focus
  - 2022 Examination Priorities Report: “continue to focus on ESG-related advisory services and investment products”
  - Launched the Climate and ESG Task Force
  - More ESG enforcement actions in last 2 years than in the 12 years prior (none on municipal bonds)
- MSRB Notice 2021-17 – comments for ESG disclosure for possible coming rule changes.

ESG BOND ISSUER RISKS

- Legal requirements
  - Securities Act of 1934 section 17 “knew or should have known” standard
  - RULE 10b5 – Anti-fraud rule, unlawful “to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading”
  - RULE 15c2-12 – Reaches Ports through your underwriters. May grow to require ESG continuing disclosure



"Maybe you're right, maybe it won't ward off evil spirits, but maybe it will, and these days who wants to take a chance?"

BENEFITS OF ESG BONDS

- Worrying stuff aside, a reminder that with ESG Bond branding, we are looking to capture:
  - Broader, stronger base for marketing bonds.
  - Possible interest rate advantage / assurance you are accessing competitive rates.
  - Good public optics – highlights Port's stewardship role
- Your Municipal Advisor can work with the Port to review structuring, project identification, and value of pursuing a green or social bond label.

CASE STUDY – EDMONDS

- In 2020, the City of Edmonds issued the first Climate Certified Bonds in Washington
- 2020 Bonds provided funding for a Carbon Recovery Project at the City's Wastewater Treatment Plant
- Explored green certification of the bonds and, if possible, making them Climate Certified Bonds
- The bonds were sold via competitive sale
  - We asked the underwriter whether there was a discernable benefit to the designation and he said it helped the bonds to "get noticed"

New Issue – Book-Entry Only

S&P Global Ratings: AA
(See "UNDERWRITING AND LEGAL – Rating")

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the date of issuance of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

CITY OF EDMONDS, WASHINGTON
$13,875,000 WATER AND SEWER REVENUE BONDS, 2020
(CERTIFIED CLIMATE BONDS)

Climate Bond Certified

Dated: Date of Initial Delivery

Due: December 1, as shown on inside cover

CITY OF EDMONDS, WASHINGTON
$13,875,000 WATER AND SEWER REVENUE BONDS, 2020
(CERTIFIED CLIMATE BONDS)

Climate Bond Certified

State of Washington (the "State"), currently U.S. Bank National Association, will act as the registrar, paying agent, transfer agent, and authenticating agent for the Bonds (the "Registrar").

Interest on the Bonds will be payable semiannually on each June 1 and December 1, commencing June 1, 2021, to the maturity or earlier redemption of the Bonds. The Bonds will mature on the dates and in the amounts and bear interest at the rates set forth on the inside cover. For so long as the Bonds are registered in the name of the Securities Depository, the principal of and interest on the Bonds are payable by the Registrar to the Securities Depository, which is obligated to remit such payments to its broker-dealer participants for subsequent disbursement to the Beneficial Owners. See "DESCRIPTION OF THE BONDS – Registration and Registrar" and Appendix B – "DTC AND ITS BOOK-ENTRY ONLY SYSTEM."

The Bonds are subject to redemption prior to their stated maturity dates. See "DESCRIPTION OF THE BONDS – Redemption Provisions and Purchase of Bonds."

The Bonds are special obligations of the City payable exclusively from the Bond Fund and the Net Revenue and ULID Assessments pledged to be paid into the Bond Fund to pay principal of and interest on the Bonds when due. The Net Revenue and ULID Assessments are pledged irrevocably to the payment of the Bonds, and the amounts pledged to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Bonds when due constitute a lien and charge on the Net Revenue and ULID Assessments on a parity with the lien and charge on the Net Revenue and ULID Assessments pledged to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Outstanding Parity Bonds and any Future Parity Bonds, and prior and superior to any other liens or charges whatsoever. **The Bonds do not constitute an obligation of the State, either general or special, or any political subdivision thereof other than the City. The Bonds are not general obligations of the City and do not constitute an indebtedness of the City within the meaning of the State constitution. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the Bonds.** See "SECURITY FOR THE BONDS."

The Bonds are offered when, as, and if issued, subject to the approving legal opinion of Foster Garvey PC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is included as Appendix A. It is expected that the Bonds will be available for delivery in New York, New York, through the facilities of DTC or to the Registrar on behalf of DTC by Fast Automated Securities Transfer on or about November 10, 2020.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

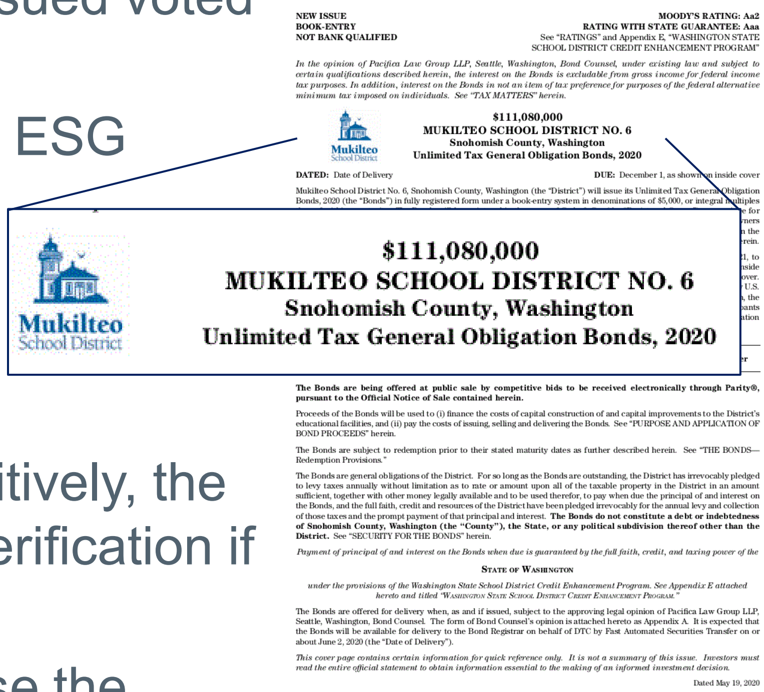
October 27, 2020.

NORTHWEST MUNICIPAL ADVISORS

K&L GATES

CASE STUDY – MUKILTEO SCHOOL DISTRICT

- In 2020, Mukilteo School District issued voted bonds
- The District was approached by an ESG verifier who verified the bonds could be sold as green bonds
- The District did not pay for this service
- Since the bonds were sold competitively, the winning bidder would pay for the verification if there was a market benefit
- The winning bidder did not purchase the green bonds verification



NEW ISSUE
BOOK-ENTRY
NOT BANK QUALIFIED

MOODY'S RATING: Aa2
RATING WITH STATE GUARANTEE: Aaa
See "RATINGS" and Appendix E, "WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM"

In the opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, under existing law and subject to certain qualifications described herein, the interest on the Bonds is excludable from gross income for federal income tax purposes. In addition, interest on the Bonds in not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. See "TAX MATTERS" herein.

Mukilteo School District

$111,080,000
MUKILTEO SCHOOL DISTRICT NO. 6
Snohomish County, Washington
Unlimited Tax General Obligation Bonds, 2020

DATED: Date of Delivery

DUE: December 1, as shown on inside cover

Mukilteo School District No. 6, Snohomish County, Washington (the "District") will issue its Unlimited Tax General Obligation Bonds, 2020 (the "Bonds") in fully registered form under a book-entry system in denominations of $5,000, or integral multiples

The Bonds are being offered at public sale by competitive bids to be received electronically through Parity®, pursuant to the Official Notice of Sale contained herein.

Proceeds of the Bonds will be used to (i) finance the costs of capital construction of and capital improvements to the District's educational facilities, and (ii) pay the costs of issuing, selling and delivering the Bonds. See "PURPOSE AND APPLICATION OF BOND PROCEEDS" herein.

The Bonds are subject to redemption prior to their stated maturity dates as further described herein. See "THE BONDS—Redemption Provisions."

The Bonds are general obligations of the District. For so long as the Bonds are outstanding, the District has irrevocably pledged to levy taxes annually without limitation as to rate or amount upon all of the taxable property in the District in an amount sufficient, together with other money legally available and to be used therefor, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the District have been pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest. **The Bonds do not constitute a debt or indebtedness of Snohomish County, Washington (the "County"), the State, or any political subdivision thereof other than the District.** See "SECURITY FOR THE BONDS" herein.

Payment of principal of and interest on the Bonds when due is guaranteed by the full faith, credit, and taxing power of the

STATE OF WASHINGTON

under the provisions of the Washington State School District Credit Enhancement Program. See Appendix E attached hereto and titled "WASHINGTON STATE SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM."

The Bonds are offered for delivery when, as and if issued, subject to the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix A. It is expected that the Bonds will be available for delivery to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about June 2, 2020 (the "Date of Delivery").

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

Dated May 19, 2020

ESG DISCLOSURE REQUIREMENTS

- When going to market and preparing your OS, your ESG Bonds will provide disclosure for:
  - Environmental – if any, description including environmental improvements and measurement
  - Social – if any, description including underserved or target populations, services offered and measurement
  - Governance – a slam dunk for Ports, consider enhancing descriptions in the OS

ESG DISCLOSURE REQUIREMENTS

- GFOA has the current gold standard white papers for each of E S & G and their disclosure implications at https://www.gfoa.org/best-practices/debt-best-practices
- Risks disclosure will be more specific for actual environmental/social risks (including risk of not realizing planned ESG benefit); may be danger if just using old generic environmental risks
- Disclose any ongoing benefit measurement

"Let's change 'brink of chaos' to 'Everything is wonderful.'"

CONTINUING DISCLOSURE REQUIREMENTS

- Rule 15c2-12 requires underwriters to have the Port enter into a Continuing Disclosure Undertaking
- The CDU commits the Port to provide annual financial reports and notices within 10 days for listed event information
- CDUs often include additional financial or operating information like any taxes levied, occupancy rates, etc.

CONTINUING DISCLOSURE REQUIREMENTS

- If the Port is required to provide any follow-up reporting on the ESG Project, it would be described in the CDU.
- Issuers may want to limit scope of additional ESG reporting work.
- May want to provide for end date of ESG reporting (end of construction; achieving target environmental measurement, etc)

PROS & CONS OVERALL

+ Promote environmental work in the community
+ More robust investor pool
+ The hope of better rates
+ May prompt internal governance improvements

- Growing pressure to formalize ESG qualification
- Additional costs if need 3rd party opinion/verifier
- Additional disclosure / continuing disclosure work
- Current focus of SEC enforcement efforts

Thank you!

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