AGENDA

MANAGEMENT AND FINANCE POLICY COMMITTEE

February 22, 2022
1:00 pm

Public Participant Dialing Instructions
Dial Access Number: 1-408-418-9388
Enter Participant Code: 2487-759-4852

Council Member Gardner, Chair
Council Member Murillo, Vice Chair
Council Member Zvonek
Deputy City Manager Roberto Venegas
Finance Director Terri Velasquez

The Management and Finance Committee oversees the following Council goal and objectives:
PROVIDE A WELL-MANAGED AND FINANCIALLY STRONG CITY

• Ensure the delivery of high-quality services to residents in an efficient and cost-effective manner.
• Maintain superior financial reporting, financial controls, appropriate reserves, budgeting financial management, and transparency, and invest in capital and infrastructure to support efficient and effective long-term provision of services.
• Maintain a high financial credit (bond) rating, maintain debt policies and debt practices that allow the assessment of appropriate debt levels, and periodically review debt and debt service to minimize costs.
• Provide appropriate stewardship of natural resources to ensure long-term sustainability for the city.

Pages

1. **Call to Order**

2. **Approval of Minutes** 1

3. **Consent Items**

   3.a. **January 2022 Sales Tax Chart** 33

   Presenter: Greg Hays, Budget Officer (5 minutes)

4. **General Business**

5. **Miscellaneous Matters for Consideration**

Next meeting tentatively scheduled for March 22 at 1:00 pm WebEx Meeting

6. **Adjournment**

Total projected meeting time: 90 minutes

MF POLICY COMMITTEE MEETING
January 25, 2022

Members Present: Council Member Gardner – Chair, Council Member Murillo, Council Member Zvonek

Others present: Council Member Marcano, Council Member Bergan, Council Member Sundberg, R. Venegas, T. Velasquez, G. Hays, W. Sommer, C. Dancy, T. Vaughn, R. Lantz, T. Sedmak, R. Allen, J. Cox, M. McGeady, M. Murphy, N. Wishmeyer, E. Cortese, J. Tana, D. Wilson, H. Hernandez, M. Crawford, D. Hudson, J. Ehmann, S. Van Buren, C. Kemm, D. Diorio, L. Saqib, D. Brotzman, J. Bajorek, K. Claspell, B. Orte, S. Newmann, S. Sunberg, A. Jamison, W. Douglas, D. O'Connor, D. Sisneros and T. Hoyle,

INTRODUCTIONS AND MINUTES

November 23, 2021 minutes were approved. Council Member Gardner was the only current Council Committee member present at the November meeting.

DECEMBER 2021 SALES TAX CHART

Summary of Issue and Discussion

An update on December Sales Tax Chart was given by Greg Hays. A single payment of $1.8 million dollars was made from one company and would be set aside, while the development offices verify its purpose. He stated that the money would be paid back out.

Sales Tax from furniture, building materials, clothing, auto dealers, parks, and department stores stayed up. Revenue from restaurants was up by 37%, while beer, wine, and liquor stayed down.

Committee Discussion

Council Member Gardner: Council Member Zvonek, any questions?

Council Member Zvonek: None for me.

G. Hays: Thank you.

Outcome

Information only.

Follow-up Action

No follow-up needed.

TITLE 32 METROPOLITAN DISTRICTS MAY 2022

Summary of Issue and Discussion

Cesarina Dancy, a senior project manager with the Office of Development Assistance gave an overview of the metro districts that are in compliance or non-compliance with the city's model service plan, which was adopted in 2004, and updated in December 2021. Non-compliant districts have requested edits that are outside the general scope of the model and have to be approved by ordinance.

One existing district is seeking to add some new property to its boundaries; a boundary amendment.

Ms. Dancy stated that this agenda item would be part of the study session for February 7th.

Committee Discussion

Council Member Gardner: All right. So for our agenda, I'm going to make sure we stay on time because we have quite a few to get through. So first up is Jacob.

C. Dancy: This is Cesarina Dancy. I'm sorry Jacob.

J. Cox: No problem, just going to introduce you. Thank you.

C. Dancy: I'm actually going to cover this item today for the metro districts. If I haven't met you, I'm Cesarina Dancy, a senior project manager in the Office of Development Assistance. Today we have got a group of metro districts for you in anticipation of the May election cycle. There are just a few things I'd like to mention before we sort of dig in. We do typically present these to M&F as one item, but they will be divided into individual items should they be moved forward to study session and subsequently regular council meeting. Some will be approved by resolution and others by ordinance. We outlined that in the commentary as well. So what we have today is one boundary amendment, nine districts that are conforming to the city's model service plan, and a group of three districts that are serving one collective service area, which are not in compliance with the city's model. And we do have outside counsel on the call today for questions. I'm happy to go through the list and provide a summary of each district or if you prefer, we can just start with your questions should you have any about individual districts.

Council Member Gardner: I've been through this a couple of times, so I'm fine with just opening up to questions unless Council Member Zvonek would like a presentation.

Council Member Zvonek: Yes. Since I haven't done this, I'd like to get a chance to go through it just to understand it more. I mean, I've gone through the backup, but this would be helpful for me to see the presentation if possible.

Council Member Gardner: All right.

C. Dancy: Certainly. In 2004, the city adopted our model service plan and there have been some tweaks along the way, but the bulk of the service plan is pretty much based on that 2004 model. Council just approved some updates at the end of last year, some language, and some transparency issues. So when the model was adopted, the intent was that any new metro districts that proposed a service plan would conform to that model. And we did outline some basic provisions within the model regarding maximum debtmill levy, the maximum term for debt repayment, and then an agreement to allocate a part of the mill levy to the ARI for Aurora Regional Improvements. So those are the three major provisions in the model. There's a lot of language in there. As you can see, it's a pretty comprehensive document and those were basically the guardrails that at the time the city wanted to adopt, to put into place. We do periodically request for new districts in the city or amendments to current service plans that have previously been approved to adhere to the model. In an even number year as we are in now, there were two election cycles that these districts are trying to get to. Once they leave the cities process, they still have quite a process ahead of them with the court.

So in even number years, we have a May election cycle and November. Odd election year, just the November. So, what we have today is everyone that's trying to move their items forward in anticipation of that May election cycle. The plans that are compliant with the model, truly the only edits that they have made are very specific and detailed to their district. Things like the name of their district, the location, the anticipated debt, et cetera. The red lines are very, very minimal and staff evaluates all of those as they come in and determine what is compliant, what is not. For those non-compliant, that means that they have requested edits that are outside of that general scope with the model and those have to be approved by ordinance typically. Then we also get things like we have today, the boundary amendment. That's an existing district that is seeking to add new property to its boundaries. So that's the three things we have today. There are other examples of things with metro districts will definitely come before the committee. The model compliant, the model non-compliant are the most common. So that's just a high level of metro districts in general, and I'm happy to talk through these, if that would be helpful as well.

Council Member Zvonek: No, I don't think that's necessary.

Council Member Gardner: Council Member Zvonek, any questions?

Council Member Zvonek: No.

Council Member Gardner: All right. Is this an action item that we need to move forward?

C. Dancy: That's correct. These would be on the Study Session agenda for February 7th if you chose to move all these items forward.

Council Member Gardner: All right, I'm fine moving it forward. Council Member Zvonek?

Council Member Zvonek: Yes, fine moving it forward.

Council Member Gardner: All right. Thank you.

C. Dancy: Thank you.

<u>Outcome</u>

The Committee recommended this move forward to Study Session.

Follow-up Action
Staff will move the items forward to Study Session.

PUBLIC BANKING ISSUE: MOUNTAIN WEST CREDIT UNION

Summary of Issue and Discussion
Chris Kemm and Dan Diorio from Mountain West Credit Union (MWCU) stated that they were seeking the Council's support on a public banking issue.

Mountain West Credit Union is the regional tri-state trade association representing 119-member credit unions, 4 million credit union members, and $58 billion in assets through Arizona, Colorado, and Wyoming.

The MWCU serves and supports the interests of credit unions through advocacy, community outreach, education, and training, public affairs, regulatory and compliance services, and strategic partnerships.

The Mountain West Credit Union is seeking the City's and Council's support in the push to pass legislation in Colorado that gives public entities a choice as to where to deposit monies. Under Colorado law, credit unions may accept public monies. However, currently, public entities cannot use credit unions. Since deposits are insured by NCUA, which is the same level as NDIC insured banks, public entities should be able to choose which financial institution offers the best deal for taxpayer money. Currently, public entities must use a bank.

27 states have authorized the credit unions to deposit public funds.

The bill is a bipartisan one, which has been drafted.

Council Member Gardner stated that the presentation was for information purposes only, because there's a potential impact to the budget.

Committee Discussion
Council Member Gardner: I'm going to make a quick change to the agenda. I'm going to have Dan and Chris from the Mountain West Credit Union Association talk briefly about the public banking issue. Because I know there are outside presenters, I want to have them go, and then we can get back to our agenda order. So Chris and Dan, are you guys available and ready? And Terri, I sent the presentation to you yesterday. If you wouldn't mind pulling those slides up.

T. Velasquez: And Tammy, can you go ahead and share those slides, please?

Council Member Gardner: All right, go ahead, guys.

C. Kemm: Good afternoon, thanks for having us. My name is Chris Kemm, I'm with the Mountain West Credit Union Association. I'm going on my 17th year there. I'm the VP of

Political Affairs. And thank you for allowing us to bring this issue before you. We are seeking the City Council and the city support on an issue going forward on public funds. This has been a longstanding issue. It's not a political issue at all, although others might believe that it is. But when I first came to the association in 2006, we had municipalities, particularly Saguache County, Fire Districts, water districts, PTA groups, small foundations that are associated with school districts. And we've had multiple cities come to us when there's federal funding, and they want to use credit unions as a pass-through on a nonprofit type status loan to the consumers. Credit unions have no prohibition on public funds. We can take any entity that wants to deposit or use us. The prohibition goes on the cities and the municipalities. There's a state statute under the PDP Act in Colorado that does not allow public entities to use credit unions as financial institutions. This goes back to the 1934 rule, wherein Congress enacted FDIC to cover any bank that needed to be federally insured. In 1934 credit unions were just coming into existence, so there was no federal insurer for credit unions at that time. It wasn't until 1970 when NCUA, the National Credit Union Association was created, and we became our own self-funder and a federal insurer under the federal government.

Since 1970, 27 states have changed their state statute specifically to strike the words FDIC and take out FDIC and substitute it with federally insured institutions. We have taken this on a couple of times in my reign, and it's become a political issue. And over and over and over again, our municipalities keep coming back to us for an answer and asking us to help them in this endeavor. So, we are moving forward. My colleague Dan Diorio, who's heading up our state affairs in Colorado and is our lead in the state legislature on this fight will give you a briefing. But before I did want to kind of give you an overview of our credit unions in the state, we do have 77 credit unions. We have over 2.1 million members in the state and just a little over 30 billion in assets. And if you want to put that in perspective, it's less than 15 percent of the market share in Colorado. So, we are still considered a mom and pop. Nationally, we’re at seven percent of national assets across the country. So, we are very small in our endeavors. So, Dan I'll turn it over to you and if there's any questions, I'll be happy to answer.

D. Diorio: Thanks, Chris. I appreciate that overview. I'm Dan Diorio with the Mountain West Credit Union Association. As Chris said, heading up the Colorado State Affairs for the association, in particular, this issue for this legislative session for 2022. Wanted to just briefly go through for those who may not be aware or may only have a kind of a brief understanding of credit unions, how we are different from banks. Credit unions are not-for-profit financial cooperatives. We were formed by people with a common bond who were seeking to leverage and pool their resources to provide a means of thrift, and often a means of thrift for people of modest means and low-income means may not have had access to good quality financial services otherwise. As not-for-profit cooperatives, we do not pay income tax because we are not allowed to make a profit. We must, according to our charter and according to the laws of the U.S., and to the state of Colorado, we must return any profit back to our members. Members of credit unions are part-owners of the credit union, and so they are entitled to the benefits of that which are higher yields on deposits than a traditional bank, lower loan rates, and lower fees than a traditional bank, and direct no dividends into their accounts as well. But even though we don't pay state corporate income tax, I think it's important, especially as city officials, municipal officials, and elected officials as we just heard the tax report at the beginning of this meeting that we, as credit unions, are required to pay all other relevant taxes.

That includes property taxes. That includes sales taxes, payroll taxes. You know, I think many of the taxes that are important to you all as city officials that come directly to the city, we are paying those taxes. So, it is just one thing which is the state corporate income tax because we cannot make a profit. You know, as Chris mentioned, we have 15 percent. It's actually just a little bit low; 15 percent is rounding up market share in Colorado. We are federally insured banks of FDIC and we have the National Credit Union Administration. We are insured to the exact same levels as the FDIC, $250,000 full faith and credit of the United States government. You know, you'll see on a bank ad FDIC insured, you'll see on a credit union ad NCUA insured. It's the exact same. And so, I think it's important to realize that your money is just as safe and sound in a credit union as it would be in the bank. And an important distinction that you may hear from opponents of credit unions or detractors from credit unions is regarding the Community Reinvestment Act. Credit unions are community-based and locally owned institutions. We are integral parts of our communities. We were started by community members. We still have the common bonds of community members.

And so, you know who we are and being an active participant in our community and lending to populations throughout the community, regardless of their status, is essential to our mission and our philosophy. Back in the 1970s, banks were, unfortunately, discriminating against minority populations, low-income populations, engaging in redlining practices. And Congress passed the Community Reinvestment Act (CRA), which placed additional reporting requirements on banks and requires them to do a certain amount of lending and activity in those areas that they have otherwise neglected. Congress took a good look at credit unions and said, “We are not going to subject you to that because you are fulfilling your mission, which is to serve those low-income and modest means population. You're not engaging in discriminatory practices. We are not going to subject you to this regulatory scrutiny because you're not doing it.” That's been affirmed over the years. It's something that we feel strongly that we continue to embody that in our mission and our philosophy. And again, that's been upheld over the years by Congress as they've looked at the CRA. So those are just kind of the big differences between credit unions and banks always want to make sure that that's understood. If you can move to the next slide.

This is, you know, as Chris mentioned, just a brief overview of the issue here in Colorado. Credit unions can accept public money, we can accept public funds, but it's public entities throughout the state that are not allowed to use credit unions. They have to use a state bank, national bank, or a savings and loan that's insured by the FDIC. Again, we're insured to the exact same levels, and your money is just as safe and secure in a credit union as it is in a bank. However, that statute’s out of date. It needs to be updated from FDIC to federally insured. I think as you know, there's federal money coming into the state. There's additional state assistance and local assistance that's needed as we hopefully come out of the pandemic soon. But as the economy is still in flux and we feel that public entities including you all as stewards of taxpayer dollars in the city of Aurora, should be able to choose the financial institution that offers you the best deal, whether it be a bank or a credit union. Currently, the law says you have to use a bank. We would like it to say, “Go out and find the best deal for your taxpayer dollars.” If you want to partner with the credit union, great. If you would prefer to go to a bank, that's great as well. But have that choice, have that competition have that free market. 27 states have gone through this process and have said, “Yes. It's appropriate for credit unions to be able to serve public entities.”

And you know, I've been at this association for four years and in the last two, I have seen a dramatic uptick in various types of public entities from your cities, your counties and your special districts to your district attorney's offices, your community colleges. They are looking to partner with credit unions. Sometimes it's come through existing relationships in the community. Sometimes it's happened just out of the blue. You know, an agency has shopped around and approached a credit union and said, “You're going to offer us the best deal.” And our credit unions have had to say, “I'm sorry we could take your money, but you could get sued and we could get sued.” And we've had a great response or a response from our public entities that have said, “This is crazy. I should be able to make my own financial decisions as to where I want to put this money because I'm being charged with being steward of taxpayer dollars.” So that is the crux of the issue as far as where it stands in the legislature, it's in drafting right now. Representative Kyle Mullica of Northglenn and Adams County is going to be our prime sponsor. We are going to have, and we have them pretty much locked down, but I don't want to give out names just yet in case anything changes. We'll have bipartisan support in both the House and Senate. We have a Senate Democrat, a Senate Republican lined up to support it, as well as a House Republican as well. So, it'll be bipartisan supported.

It is a bipartisan issue in the state legislature. We have gotten great responses from both Democrats and Republicans who recognize the need for choice out there. And it's in drafting right now. It's a pretty simple change. We hope to have the bill introduced next week. But you know, we just appreciate your time and attention to this. We really want to earn the city’s support and your support for this issue because we feel that now is really an excellent time to provide that choice as we come out of a pandemic, as we look at the different ways that we can maximize those taxpayer dollars. So, I'd be happy to field any questions about that, kind of where things stand with the bill and the legislature. We do have the Colorado Municipal League who has voted to support it, as well as the Special Districts Association. And we are talking to many of your peers throughout the state, up and down the front range to get them to support as well. And of course, as soon as the bill draft and the language is ready and we have the bill number, I’d love to send that along to have you go through any kind of formal process you need to do as well.

Council Member Gardner: Thank you for that presentation. So yes, just this is for informational purposes only because there's a potential impact to our budget. And just for awareness for the other council members we’ll have this at our advisory committee once we have a bill number for the city to take an official position on. But I think Council Member Murillo is on as well now. So, Council Member Murillo and or Zvonek any questions?

Council Member Zvonek: I have just one quick question. I think, Chris, you mentioned that this has been tried in the past, but politics have gotten in the way. I assume that the politics are those maybe the Colorado Bankers Association who might not want to see an expansion of choice and in the free market for this. Is there more than that? I mean, am I missing something? What is the legislative issue? Because it seems like a pretty common-sense thing to do. It's expanding choice. It's not mandating any local government choose credit unions over banks, just simply giving them the option. So, what am I missing beyond that, that might be there?

C. Kemm: That's a great question, Dustin. The last time it ran, we actually had overwhelming support in the House and the Senate. It died by one vote in committee, and it was the chair of the committee who killed it and basically made a broad statement of, “I didn't want public entities fighting in an election year.” Which was probably the wrong thing to say at the time. And understandably, this is becoming an issue for the Colorado Bankers Association for reasons we cannot understand because the arguments are not one that hold water. We've sat back for many years and tried other alternate ways to try and make this happen, to stay out of the public eye of trying to make it some kind of political fight that it's not. The last time we did this in 2016, the special water districts were told to take their money out of banks because of the high risk of some of their investments due to a federal law change. And so, they overwhelmingly came to credit unions, asking if they can put just $250,000 in deposits in CDs so that they can hold their money and get some modest returns on them. And those again were killed on behalf of the bankers, who are also at the same time telling them to take their money out of the banks. So as simple as it sounds with the bankers trying to make this an issue on their behalf. We're trying not to get into that. We're really trying to focus on our community's request. As Dan has mentioned, we've gone back to the cities, the municipalities. We've gone to the counties, and we've asked them to take it forward with their legislative process to raise more awareness over the years. And I think that's where we're at. We're back at that point where it's become such a public ask for a change that we've turned around and readdressed this. And as simple nature as possible, we're trying to keep the political process out of this. And just so you know there’s not a single credit union in the state large enough to take anyone’s city municipal treasurer. Just because of the regulatory requirements that go in that. This is a lot of small items that districts, and special districts and municipalities have asked us over the years to take, that simplistically they just not want to deal with the maximum on particular issues, or to have a choice on something small.

Council Member Zvonek: Well, Dan, I know that you said that the bill’s in draft form and there's obviously a more formal process through our FSIR committee to get the support of the city, but I encourage you to do that because I think it's a common-sense idea that will be potentially good for taxpayers, which is what we should be focused on, not necessarily protecting any one industries market share. So that's all I have.

D. Diorio: Yes, I appreciate those comments. I just want to reiterate what Chris said. Which is that the banks are really the only one who will oppose this. They try to make it a political fight about banks versus credit unions. Again, we feel as strongly that this is a choice issue. And quite honestly, they don't want the competition, so they don't want a credit union to be able to play in their area. And so that’s not the philosophy that we strive to do, which is, give everyone a choice if you're going to provide a better deal. If the bank provides a better deal than a credit union, great taxpayers win out. Credit union members are taxpayers too, and we just want the money to be used wisely.

Council Member Gardner: Okay, so we can stay on track. Council Member Murillo, do you have any questions?

Council Member Murillo: Thank you, Council Member Gardner. And apologies, I was having some technical issues and I jumped in towards the tail end of the presentation. You might have covered this so apology. What would be the benefit to a credit union if something like this were to pass? And how would that feel like on a community level? Are there any tangible impacts to community members if a credit union would be allowed this?

D. Diorio: Yes, certainly just with credit unions being able to offer those higher yields on deposits. We did a study, an economic study as part of this effort. Currently, per one million deposits public entities in the state are earning approximately $1,900 in interest. If were to allow credit unions to accept public funds, again per one million deposits, public entities could earn almost $3,800 in interest on that. So, you're talking about double the interest that can be leveraged on taxpayer money. So that's certainly a benefit to the community because their money is going further, and those funds can be grown then obviously. Right? And if they're especially assistance funds, or even if their small CDs that you take out again. You're pushing the taxpayer dollar further. And there are also just those kinds of tangible ways in which Aurora Federal Credit Union for example was started for city employees. And yet they can serve city employees, but they can't serve the city itself and help provide those same benefits. That they're already providing to city employees, so I think there's a real tangible benefit for taxpayers there and being able to have an option to go out if there's a need for a new fleet of city vehicles. To be able to go to a credit union, get a lower loan rate, where you can save thousands, tens of thousands of dollars over the life of that loan. That's real money that's coming back to taxpayers that's using it efficiently. And that's where we feel the real benefit is, and we'd be happy to provide any kind of data regarding community involvement for credit unions. I know Canvas Credit Union has been paying off lunch debt in Aurora Schools for years and they partnered with them. And so, we do a lot to stay engaged in our community, again because that's how we're founded that's our mission and our philosophy.

Council Member Murillo: Thank you, I don't have any additional questions.

Council Member Gardner: All right. Appreciate the presentation, thank you very much.

D. Diorio: Thanks, everyone, for your time and attention.

C. Kemm: Thanks for having us.

<u>Outcome</u>
Information only.

<u>Follow-up Action</u>
No follow-up needed.

PAINTED PRAIRIE BUSINESS IMPROVEMENT DISTRICTS NOS 1 AND 2 PETITIONS FOR EXCLUSION AND INCLUSION OF PROPERTY

Summary of Issue and Discussion

Painted Prairie Business Improvement Districts 1&2 were approved by Council in 2017. They request to modify their boundaries to include property, as they've modified development plans.

Committee Discussion

Council Member Gardner: All right. Item 4b painted Prairie Business Improvement District. Who's making that presentation?

C. Dancy: This is Cesarina Dancy, again. I'll be taking this one as well. So, the Painted Prairie Business Improvement Districts Numbers 1 and 2 were approved by Council in 2017. Since that time, they have modified their development plans, essentially the location of residential, commercial, etc. And as such, the request is to modify their boundaries, so they need to include some property, while at the same time excluding other property because no residential property is allowed to be within the boundaries of a business improvement district. And we do have outside counsel on the call for this one as well if you all have any additional questions.

Council Member Gardner: Council Member Zvonek, any questions?

Council Member Zvonek: No.

Council Member Gardner: Council Member Murillo, any questions?

Council Member Murillo: No.

Council Member Gardner: Are you both okay with moving it forward?

Council Member Zvonek: Yes.

Council Member Gardner: All right, thank you for the presentation.

C. Dancy: Thank you.

Outcome

The Committee recommended the item move forward to Study Session.

Follow-up Action

Staff will forward the item to February 7, 2022 Study Session.

PROPOSAL TO CREATE COUNCIL AIDE POSITIONS

Summary of Issue and Discussion

This proposal seeks to create a part-time council aide position, similar to the structure that exists at the state legislature. According to the proposal, $350,000 would be allocated for the purposes of each council member hiring a part-time aide, which would amount to approximately 29 hours per week. Each Council Member would get $35,000 in their budget to hire aides.

Council Member Gardner emphasized that the aides would be strictly for council business.

Council Members Zvonek and Murillo were in agreement that hiring aides would help members of the council better run the city's affairs.

Clarification on benefits and structure were provided by City Attorney, Dan Brotzman, and Ryan Lantz, Director of Human Resources.

<u>Committee Discussion</u>

Council Member Gardner: I'm going to give a brief little background on this and then open it up to other Council Members Zvonek or Murillo that have questions. Again, I want to try to stay on time for our agenda because we have quite a few items. Essentially, this proposal is to create a part-time council aide position similar to the legislative aide structure that exists at the state legislature. The proposal that I created would allocate three hundred and fifty thousand dollars to the City Council budget for the purposes of each council member hiring a part-time aide, so that would be up to 29 hours per week. Each council member would get $35,000 in their budget to hire that individual and pay them. The duties obviously would vary quite a bit from each council member, depending on what it was that they wanted in or needed. But of course, there would be no political activities allowed. This would strictly be council business.

So, for little background of where I've been, I reached out and met with the HR director Ryan Lantz. We have an employee classification. I forgot the name of it. It's essentially a contract employee, so that's one possibility. The other possibility would be to hire these individuals as part-time employees, that part-time classification. And so that's one area I did reach out to Dan Brotzman to talk about the legal issues that Council allowed to have direct reports and essentially what we would do is have these individuals report through the city manager structure to each council member. So, each council member would have their leeway to hire and obviously separate if needed from who their aide was. I know there are probably going to be a lot of different opinions on what this would look like. And so, I wanted to just briefly talk about what I'm looking to do and then, open it up to discussion and or questions. So, Council Member Zvonek. Do you want to go first with questions or comment?

Council Member Zvonek: Sure. A couple of questions. You know, I've had a chance to talk about this a little bit. So first with the city manager, you'd mentioned this to me last time with them being reporting up to the city manager structure. I have a little bit of heartache over that because as I've mentioned, the legislative aide is up to 20 hours and if you separate, they're gone. I guess my question is if they're reporting up through the city manager system is that if we separate with them, if we decide that the aide is not working out, are they gone from the city, or do they just get moved somewhere else in the city?

Council Member Gardner: In most cases, they would be gone from the city. I mean, if the reason for the separation was a fire-able offense then they would be gone from the city. If it was a personality difference, I guess that would depend. In some cases, they could be reassigned to other parts of the city, and in some cases, they would have to find new employment. So, in that circumstance, I think it would depend a little bit. And obviously, if they were hired as part-time employees, they would have career service protection. I think from my perspective, where the due diligence is important is on the front end and the hiring to make sure you hire the right individual. Now obviously there will be times where that will happen, of course, but I think that's really where the real work happens upfront and making sure the right individual is selected.

Council Member Zvonek: Yes, I get that. So, I guess my feeling on this going forward is that one if we do it. I'd prefer it to be the independent contractor model where they would be at will to the individual members of council, that if there was separation and it could be, and it wouldn't necessarily be even if it was personality. And I get that. I've hired hundreds of people and I get that you can do your best due diligence on the front end. And sometimes it's just for whatever reason they interview great and you hit it off early, but it doesn't work out. And so being able to separate with them would be important, I think, and not just have them pushed somewhere else into the city's bureaucracy and have the employee stick around. So, I think we could work through those and get to that. The original concept of much like a legislative aide where it's up to 20 hours a week and you said think it's a 29. That would be fine, too. I think that just saying that there's a ceiling that you can go up to because I'm sure some members of council might not use them at all or use them a little bit less. And that's fine. The same thing happens in the Legislature. This really is an opportunity for somebody to learn and get some experience. And it should be that and not necessarily something that you're going to use as a career to get into the city bureaucracy if you will.

Council Member Gardner: Yes. Any other further questions or comments Council Member Zvonek?

Council Member Zvonek: That's it for me.

Council Member Gardner: Council Member Murillo?

Council Member Murillo: Thank you, Council Member Gardner. I really like this idea. I know you've been on council for a few years now. Same as I. Just this part-time capacity of being able to manage the different demands. I would say not every ward has the same volume of complaints, and I would say, Ward I feels it pretty strongly and it's difficult to manage with a full-time commitment in addition to that. So, I think, being able to ebb and flow to the needs of the Ward is really important. I'm real-time looking at Council Member Bergan's chat comments. I know. I like this model, and I don't know if this would be in lieu of the current structure or in addition to the three staff we have now. I'm assuming the former in lieu, but maybe you could clarify that for me. I enjoy working with those folks. I think there's a different level of capacity when you have to manage a workload and personality and issue areas and styles for 10 different members as opposed to solely being focused on one. So, I think that is a limitation of our current structure. So, I'm for it. I think it's a really positive step forward. I understand, since we are part-time council members the part-time aide concept. And if I'm not mistaken, Council Member Gardner, you used to work at the state capital as an aide. I was an intern myself, so I didn't get paid but we probably did similar work. So, I like this proposal.

Council Member Zvonek: Council Member Gardner, can I ask a question of Dan? Just because as we think about moving forward, is it possible to do this kind of more at will, or does it have to be a part of the city manager structure for the ten of us?

D. Brotzman: The charter requires that all employees work for one of the appointees. So, in this case, it would be the city manager. I'd love to say this is truly creative and out there, but it currently exists. The mayor has an aide right now, has an assistant. They report through the city manager. So, what this is doing is taking that principle, which is a full-time position, and making it into a contract position. So, they'd be looking at the same way the mayor's aide is hired currently in just replicating that into a contract form.

Council Member Zvonek: And what type of benefit obligations does that, if any, require?

D. Brotzman: And I'm going to let Mr. Lantz answer that one.

R. Lantz: So, I can definitely provide some clarification on that. We do have an employee status called variable hour position, and it could be either benefit-eligible or non-benefit eligible. And if they don't work the hours required by the Affordable Care Act to be benefit-eligible in this case, they wouldn't be, then they would be considered non-benefit variable hours and they would be at will. So, they wouldn't be considered career service and have those career service rights. So, there's a lot of flexibility in terms of his classification and employment.

Council Member Zvonek: Okay.

Council Member Gardner: And I think to follow up to what Council Member Murillo said. As far as the difference in our current structure. For the current structure, essentially, what we have are folks to answer the phone right? And you know, I worked with Ryan to create a job description. I got a copy of the council aide job description from the City of Denver and then combined it with some of our admin job descriptions. And essentially the duties for these individuals would look different, depending on each council member, but things like responding to constituent emails. For example, we received 50 plus emails today about the camping ban, and I personally would like to respond to all those emails. But of course, you know that once we had our response ready, that individual could do that. They could attend community meetings on our behalf. They could respond to council requests. I think there's a variety of things that they do that are really significantly outside the scope of what our current support staff structure looks like. And I think that would be dependent upon each council member what types of things they had them do. Any further questions from the committee?

Council Member Murillo: Council Member Gardner, I have a follow-up question.

Council Member Gardner: Yes.

Council Member Murillo: Sorry. I understand there could be the option to create a benefit or non-benefitted position. What is this proposal including?

D. Brotzman: So, this proposal is for a non-benefitted position, I tried to mirror as closely as I could the legislative aide kind of setup and structure.

Council Member Murillo: I hear that. Is there any way just for knowledge's sake, that we could get a cost of what it would take to make this benefited?

D. Brotzman: So, yes, I asked that question, and it's going to vary pretty dramatically depending on health insurance, right? Is it individual or is it family? The cost varies quite a bit. I mean, it can be up to $15,000 for family coverage. So, to answer your question, and maybe Ryan can expand on that a little bit more, the other benefits aren't quite as expensive to the city, but the health insurance can get pretty expensive depending on what type of coverage is selected. Ryan, do you want to add to that at all?

R. Lantz: No, you nailed it. It's really the medical that's going to be the most expensive and the other ones would just be grouped in together, but there is that option.

Council Member Murillo: Can I just get the numbers shared with me or the committee?

R. Lantz: Sure. Yes, I can definitely send it separately, but our average cost for medical benefits is roughly about $12,500 per employee, depending on the plan and the tier of coverage that they have.

Council Member Murillo: Okay, thank you.

Council Member Gardner: Any further questions? Are you both okay with moving this item forward?

Council Member Zvonek: I want to see what you end up formalizing, so but as far as moving it forward to a Study Session and then coming down to exactly what this will look like. Benefit, non-benefit, and all of that. But moving it forward, I think, I'm fine with doing that.

Council Member Gardner: All right. Thank you.

Council Member Bergan: Council Member Gardner.

Council Member Gardner: Yes.

Council Member Bergan: Sorry.

Council Member Gardner: Who's speaking? I don't know who's speaking, Council Member Bergan: It's Bergan.

Council Member Gardner: Okay.

Council Member Bergan: I would like to see what exactly do these differ from what we currently have with our administrative assistants? I would like to see that kind of side by side.

Council Member Gardner: I continue the job description that I worked on with Ryan Lantz. But as I talked about before, our current administrative assistants really, I mean, they answer the phones for us. I think there's a large number to more than that.

Council Member Bergan: They do more than that, if you ask them though.

Council Member Gardner: Maybe depending on the comfort level. But again, I think there are political considerations that come into conversation when you have one individual for 10 council members with each with different political workings.

Council Member Bergan: Okay.

Council Member Gardner: I'd be happy to share the draft job description with you.

Council Member Bergan: Okay. No, I appreciate that. My concern is that we're increasing costs to taxpayers, and I want to make sure that it makes sense.

Council Member Gardner: I agree. Appreciate that.

Outcome
The Committee recommended the item move forward to Study Session.

Follow-up Action
Staff will forward to Study Session.

RESOLUTION TO AUTHORIZE RETENTION BONUSES FOR AFR/DISPATCH FROM ARPA FUNDS

Summary of Issue and Discussion
Council Member Gardner stated that the purpose of this resolution is to reduce the high rate of attrition in these departments. Payment of retention bonuses would help keep present employees, while the city moves to hire additional hands.

Council Member Zvonek made the submission that the AFR is actually overstaffed, not understaffed. He agreed that the dispatch service is understaffed and that the retention bonus would serve them. He did not support the proposal.

Council Member Murillo supported the proposal, and the item was moved forward.

Committee Discussion

Council Member Gardner: All right, next item. Guess, I'm up again. Resolution to authorize retention, bonuses for fire rescue and 911 dispatch from ARPA funds, so this will look very familiar to the council members. This was the same resolution that came forward to pay retention bonuses to our police department and just flopping in both Aurora Fire and 911 dispatch. I have some information that I want to cover as far as retention from Aurora as it's compared to Denver, South Metro, West Metro, and South Adams County. The four closest other agencies to us. So in the last seven years, Aurora has had 101 separations, and probably worth pointing out that we have an authorized force of 424 and we've had one hundred and one separations. Denver's had 45, so less than half, and yet they have an authorized force of 1055. South Metro has had 57 separations in the last seven years and an authorized force of 646. West Metro has had 18 separations in the last seven years and an authorized force of 388 slightly smaller, though pretty similar, and again they've had 18 to our 101. And South Adams County in the last seven years has had seven separations. So that's a much smaller agency. There are only 70 members. That's only one piece of the puzzle. Of course, I think the other piece of that is the mandatory overtime that we've had to use to keep our stations open because as I'm sure most of you know, we have to have four members per rig. And so, to keep our fire stations open in service, we've had to use a significant amount of overtime.

In 2020, we used just over a thousand hours of overtime, and in 2021 that number is exceeded 10,000 hours of overtime in order to maintain staffing levels that are required. So, I think it's a combination of both of the attrition, which is like I talked about significantly higher than those other four agencies, as well as the mandatory overtime piece. The other element to this, obviously, is retention bonuses for 911 dispatch staff. As I'm sure you all know, we have a significant shortage and have had it for quite some time. And my belief is that by paying these retention bonuses, we can keep employees there while we are able to hire additional reinforcements, hopefully over the upcoming months. So that's kind of it in a nutshell, I think it's pretty straightforward and self-explanatory, but certainly, I don't know how much we want to get into questions today. I do have this on the list for items to talk about at the workshop on Saturday. So, you certainly can answer some questions today. But I think Chief Gray and some other folks from the fire department will be available on Saturday if there are further questions at that point.

T. Velasquez: Council Member Gardener, if you'd like, Jackie Ehmann, can speak to the financial impact of your proposal.

Council Member Gardner: Please go ahead.

T. Velasquez: Thanks. Jackie?

J. Ehmann: Sure. Really, it's the same calculation as it is for police, so we took the number of budgeted positions times the $8,000 and then had to increase it for Medicare and FICA when they apply. So, for police, it came out to $6 million dollars. For fire, it came out to $3.6 million dollars. For Aurora 911, it's $784,000. For each budgeted position to get the $8,000.

Council Member Gardner: Thank you for that. Further questions?

Council Member Zvonek: Council Member Gardner, I have a couple of, I guess, questions and comments. I know that you talked about the attrition rate over the last seven years. I don't know if you have it handy and if not, we can wait till this weekend. But just looking at it in the last couple of years because I had a presentation in public safety two weeks ago from the Fire Department about their attrition. They show that their five-year average was 6.3 percent, but that had gone down in ‘21 to 5.3 percent and that currently that they're fully staffed. And in fact, if you take away the allotted staff members that they have for this year, there was a lot in 2022. And obviously, we are 15, 16 days into the year at that point. We are actually overstaffed. And so, it seems like a retention bonus for a department that is overstaffed, just doesn't seem appropriate. I totally agree with Dispatch. They have some significant problems. In fact, I've talked to that team and had them present, and they did not get the same bonus that fire did at the end of the year, the $2,000 everybody else did. And so, I have a proposal I'll be bringing to the workshop that deals directly with dispatch, but not just with retention, because one of their more challenging problems is actually recruitment, getting people in the door. So, it's actually retention, recruitment, and referral bonus because I do think that dispatch has been hammered. I mean, they are a department of 91 people and have 30 people down. They have real retention issues. I don't believe that Aurora Fire has any real retention issues. They have a tough job, and nobody denies that. But I think that when you look at what's happened in our Police Department and in the Dispatch, that's real retention issues. And I would hope that we would look for other ways to support the Fire Department where there's a real issue. And I just don't believe this is it. And so, I won't be supporting this proposal for that reason.

Council Member Gardner: Council Member Murillo, any questions or comments?

Council Member Murillo: Yeah, I mean, I was not in support of an arbitrary retention bonus for our police department when that proposal came about. Especially in light of us being a national example of what not to do when it comes to policing in communities of color. After the Elijah McClain situation, I thought it was wrong. Just given all that we've gone through and because it was an additional bonus that to what they were already going to be receiving, which is that $2000. Given that has passed, I do think that we should have some parity in how we're administering that bonus. So right now, I would be supportive of including our Fire Rescue and our 911 and public safety communications as well. I heard a very different picture communicating with the Fire Department, the Chief, different folks, about retention. You know, I don't necessarily agree that they don't have retention issues, but certainly, it looks different. But, you know, having been on council for four years, I know there's a nuance there, right? So, I would want there to be parity. So, I would support moving it forward and at this time, support the additional retention premium.

Council Member Gardner: All right. So, sounds like Council Member Murillo wants to move it forward. Council Member Zvonek doesn't. Obviously, I'd like to move it forward, so this will be on our agenda for Saturday for the workshop. Thanks for that.

Council Member Murillo: Council Member Gardner?

Council Member Gardner: Yes?

Council Member Murillo: I didn't mean to interrupt. I just wanted to let you know and the rest of the committee know, I need to jump off for a prior work commitment, starting at 2:00. That won't be an issue moving forward, it's just the first month of the year kind of got a little wonky, so unfortunately, I need to step off. But I just wanted to make that clear. We'll avoid that in the future.

Council Member Gardner: All right. Appreciate that. Thank you for letting us know.

<u>Outcome</u>
The Committee recommended the item move forward to Workshop.

<u>Follow-up Action</u>
Staff will forward to the January 29, 2022 Workshop.

JUNETEENTH
<u>Summary of Issue and Discussion</u>
Human Resources Director, Ryan Lantz is proposing that Juneteenth be recognized as a legal holiday. It requires an ordinance amending the city code. He stated that recognizing this holiday would show support for and embrace Aurora's diverse community.

He added that providing an extra holiday would send a message that the city cares about the personal wellbeing of its employees, as well as make working in the local government more attractive.

Council Member Zvonek stated that he couldn't support the proposal because it wasn't presented forward by an elected city official.

Council Member Gardner voted to move this item forward to the whole council for discussion.

<u>Committee Discussion</u>
R. Lantz: Thank you. So good afternoon, my name is Ryan Lantz, I'm the Director of Human Resources. I want to thank all the council members for the opportunity to present this proposal that we have here for Juneteenth as a legal paid holiday for the city of Aurora. This was brought to M&F Policy Committee on August 24th of last year and it was approved to move to study session. But due to multiple reasons, this item was delayed, and thought it would be good to bring it back to M&F Committee for review and consideration and then a request to move to study session. So, Juneteenth, National Independence Day, it's to celebrate annually on June 19th commemorating the emancipation of African American slaves. This became a bit of a hot topic last year as a federal government did sign into legislation on June 17th of last year to make this a federal holiday, enshrining June 19th as a national day to commemorate the end of slavery in the United States. Colorado has recognized this as a ceremonial only holiday since 2004, so it's not a

state-paid holiday. And I know last year, City Council did do a proclamation on June 28th for this to be a ceremonial holiday. It's worth noting that there's no obligation to make this a city paid holiday. This is both private sector, but also for any government or public employers.

Over the next few slides, I'll go ahead and just briefly show you for comparison's sake, what the federal government is doing for their paid holidays, the state of Colorado, and then Aurora. From a federal level, you could see here that there are 11 holidays. Now, they did add Juneteenth as the 11th holiday. I highlighted in red the ones that are the typical private employers' holidays. That's New Year's Memorial Day, Independence Day, Labor Day, Thanksgiving, and Christmas. So federal government does now recognize 11 paid holidays. On the state level, there are 10 holidays. One thing to note is that instead of Columbus Day at a federal level, it's Cabrini day. And then they do not, and they have not decided Juneteenth to be paid holiday. For the city of Aurora, we currently have 10 holidays. We do offer the day after Thanksgiving as a paid holiday, and that's a little bit different than the state and federal. And then for your consideration, I thought it would be good to go ahead and take a look at what other government agencies are doing, both in Colorado and then a few national cities for reference. The following data is here with Colorado. Some cities are still evaluating it. They are taking a look at their current revenues and then what kind of impact adding a holiday would have on their budget.

We did get some feedback from some of the other municipalities that they were waiting to see if the state of Colorado was adopting it in 2022 or if they're doing it for 2023, and that would at least have some level of impact on their decision. Other feedback we got is some of them were waiting to see what other cities were doing. Now with the surveys, we did have, 35 cities and counties confirm that they did add it for 2022. Here's just a list of 10 of the 35. In the supplemental materials, I have listed all of the cities. But I did want to point out that the city and county of Denver, as well as Colorado Springs, they have not added it for 2022 as a paid holiday. And then in terms of the other responses that we received, 11 cities, they haven't decided. They're still waiting. They're still evaluating. We have 15 cities that they actually responded with the surveys that they actually haven't discussed it at all. And then we have 53 of them that actually made the decision not to make it a paid holiday for 2022. And then nationally, well, you could see some of the cities that did confirm it as a paid holiday and then some that confirmed that they're not going to include it, at least for 2022.

So, our proposal is really to recognize that as a legal holiday. This does require an ordinance amending the city code pertaining to legal holidays. The other thing that we did notice through this process is that the 10th holiday that we have, the Friday after Thanksgiving is actually not in the city code. So, we do need to include that as an adjustment. And in terms of cost to the city, if we made this as an 11th holiday, so not substituting another one, but just adding this additional holiday, for a civil service and career service impact for our 24-hour services, it would be an extra cost of $246,000. And then some of the support and reasoning for it, so I'm only listing six reasons here, but I do think they're pretty meaty and they're pretty impactful. The first one is just honoring Juneteenth and recognizing for what it is. It's really celebrating and recognizing emancipation. Then supporting and embracing Aurora's diverse community and considering the identity of the City of Aurora and the community, we really do think it's important to support diversity within our community. Communities in themselves have their own identities and diversity is just a huge part of who we are. So, embracing our diversity only helps strengthen our identity, and I think it also honors our community members.

And then Civil Service Consent Decree, as you guys are all aware, we are just starting a journey to really improve our civil service responsibilities. So, this would send a strong message that we embrace, and we are honoring diversity and equity. Now for shifting over to our employees, we are all public servants, and we know it's tough not only to compete against private sector, but we're also competing against other cities and we also know that the current employment market is really tough right now. So, this helps to add the advantage of working in local government, and we think this would be an added benefit. In relation to that, we think it will help with attraction and retention of some of our employees. It provides other benefits and it sends a message to our employees. As we all know a lot of our employees that we work hard and we play hard, so we ask a lot from our employees. So being able to provide an extra holiday does send a great message of work-life balance to support, you know, their personal well-being as well as their families. So, we're requesting for approval to move this to a study session, if you guys determine it's appropriate and just want to see if you have any questions, comments, or concerns.

Council Member Gardner: Council Member Murillo, I don't know if you're still on, but if you are, I'll let you go first just because I know you have to hop off. Okay. She must be gone. Council Member Zvonek, any questions or comments?

Council Member Zvonek: Yes, first, a comment. So as far as moving this forward, and I know I'm still fairly new to this, but it would take an ordinance, correct?

R. Lantz: Yes, it does adjust the city code.

Council Member Zvonek: And is there an elected official who's bringing this forward?

R. Lantz: This would be something that, you know, as city management.

Council Member Zvonek: No. There’s not an elected official that's presenting this forward. I just personally and I know that this might be the way that it works in the city management form government or I'm not comfortable bringing forward or moving forward a proposal that's not being carried by an elected official. All of us ran for office for the ability to impact policy. This is a pretty significant policy change for the city of Aurora. And so, the idea that we're just going to move it forward for consideration and vote in a larger public discussion among a group of elected officials without an elected official actually carrying it, I won't support it for that reason alone. And secondly, I think that we should wait and see what the state does. I mean, let the state determine whether or not they're going to move forward and if it ends up being a paid holiday at state level, fine. But I think as far as us doing at the city, if one of my colleagues want to bring forward a proposal to do it, great. Let's have that debate in that conversation. But until then, I can't support moving it forward.

Council Member Gardner: Thank you. Is there any additional presentation required on this?

R. Lantz: I'm sorry, I didn't catch that.

Council Member Gardner: I just asked, is there any more presentation or is that the end of the presentation?

R. Lantz: This is the end of the presentation.

Council Member Gardner: Okay. I'm okay with moving it forward for the whole council can discuss it. So, let's do that.

R. Lantz: Thank you.

Outcome
The Committee recommended the item move forward to Study Session.

Follow-up Action
Staff will forward to Study Session.

SALES AND USE TAX EXEMPTION FOR DIAPERS
Summary of Issue and Discussion
Council Member Gardner put this forward. It proposes to exempt diapers from sales tax collection in the city. He stated that from a hygiene and sanitation perspective, a diaper is a medical product, and a lot of medical products are already exempt from tax collection.

He added that he had made a presentation to the Business Advisory Committee, and the majority voted to support the ordinance.

Council Member Zvonek suggested that a broad-based and more comprehensive tax reform, which would give relief to Aurora's citizens would be more beneficial.

This item was moved forward to the study session.

Committee Discussion
Council Member Gardner: Next, sales and use tax exemption for diapers. Trevor, I don't know, do you want to go first? Do you want me to go first? What do you prefer?

T. Vaughn: If you want to go first and I can fill in any gaps that you want me to?

Council Member Gardner: Okay, thanks. So, this is an ordinance that I'm bringing forward to exempt diapers from sales tax collection in the City of Aurora. I brought forward an ordinance last year to exempt menstrual products from the collection of sales tax, and this is somewhat of a companion ordinance. Some of you might know, there's also a proposed bill in the state legislature to exempt both menstrual products that they call feminine care products and diapers from sales tax collection in the state. And so, this would do the same thing on the city level. So, for a little background, you know, last year, when I brought forward the ordinance that menstrual products, we talked a lot about period poverty and some of those issues, and there are similar issues around diapers. Kids that have to go to school with plastic bags taped to them and other things like that because their families can't afford diapers. And while, you know, in some cases $2 on a $25 purchase might not seem like a lot of money. That could be a top ramen dinner for a family, and that could add up over time. And so, I think it's important to provide this type of relief.

Additionally, I think from a hygiene and sanitation perspective, a diaper is a medical product, and many other medical products we currently exempt from sales tax collection. It's worth noting I did present this proposal to the Business Advisory Board yesterday and the Business Advisory Board all members, but one voted to support this ordinance. They're in the process of typing up a letter, but there was one member whose objection was he didn't think the relief was enough to really make a difference, so it wasn't worth doing. But all other members of the Business Advisory Board voted to support this ordinance. And like I said, they're going to prepare a letter and I'll have that included in the backup when this item comes forward to study session. For the financial impact, I believe the amount of revenue to the city for sales tax for diapers is about $570,000, and Trevor can correct me if I'm wrong, but I believe that's the number. So that is the amount of revenue, obviously, that the city would potentially miss out on if we were to move forward with this exemption. And I think with that, I'll open it up to questions. Council Member Zvonek?

Council Member Zvonek: Yes. So, first, as a dad of three kids, I'm very sympathetic to the cost of diapers and formula. In fact, I remember vividly my first two kids having a specific line item in my family budget for diapers and formula. My concern with this is a couple of things just to put on your radar. But first is, I think that having some sort of a broad-based tax reform that actually benefits the entire city would be more beneficial. I know that this is targeted for diapers, but my question is there are a lot of things that people are getting hit with right now that I wish we could cut sales tax on. Inflation creeping up to seven percent and no end in sight makes me nervous. But I also worry because I just had a conversation last week with city staff about all of our capital needs and this potential plan to go forward and ask the city to pay for higher sales taxes in order to fund our capital projects, which I think has next to zero chance of passing in the environment that we're in now. But I worry that this will create even more upward pressure on the city's budget to go to the taxpayers in a broad way and ask for a sales tax increase. So, while I typically somebody who will always favor less government money going into government because I tend to think it gets wasted a lot, I don't know that I could support this moving forward. My question is what's next and why not instead of taking a bit by bit piece, look at a more comprehensive tax reform that gives relief to all of Aurora's citizens.

Council Member Gardner: Yes, I mean, I agree with you, taxation and stuff, but I'm certainly ready to have a conversation about ways that we can make additional tax cuts to Aurora residents. I am 100 percent on board with that conversation. So, but anyways, yes. I think as we move forward, this is probably another part of the discussion about city and county of Aurora and changing the way that we fund our city. We're not there today, but municipalities that are city and county like Broomfield or Denver, they obviously fund their city differently and they're not as sales tax dependent. And so that's certainly something that should enter the equation if and when we decide to have that conversation. Any further comments or questions?

Council Member Zvonek: No.

Council Member Gardner: Trevor, did you have anything you wanted to add?

T. Vaughn: No.

Council Member Gardner: Okay. So, it sounds like one to move forward, one not to move forward. So, I'd like to have this on the next study session.

T. Vaughn: Okay.

Outcome
The Committee recommended the item move forward to Study Session.

Follow-up Action
Staff will forward the item to Study Session.

ELIMINATE OBSOLETE LICENSING PROVISIONS

Summary of Issue and Discussion
Manager of Tax and Licensing, Trevor Vaughn, highlighted a number of licenses that were either obsolete or redundant, and proposed that they be repealed.

Committee Discussion
Council Member Gardner: All right, Trevor. Looks like you're up next in eliminating obsolete licensing provisions.

T. Vaughn: Yes, this is something that I brought forward in regards to some code provisions that we think are worth a look at eliminating. First one, dealing with mobile home park operator’s license. This license, this is a bit of code that hasn't been enforced that we can't find any recent records of anyone holding this license. And I think the reason for that is that deals with some of the code provisions, which, unfortunately, I'm sorry, didn't include those in the actual packet to make it easy for you. But the code provisions talk about basically what a new home park looks like. And I think what happened is years ago there was a decision to kind of let that lapse and not require current mobile home park operators to have that license. And so there was no enforcement on that. We've kind of looked at that for a number of years as to what to do with that. The state now has a mobile home park oversight entity dealing with that and really with licensing, you probably don't want a situation where you end up revoking a license and shutting down a mobile home park. That's usually not the goal you want. You want good service provision. So, we included this as far as the consideration for eliminating that code as a cleanup item.

Another provision in there has to deal with the retail seller's license and repealing that license, which is really duplicative of the business license requirement. We used to actually issue two of them and just issue a retail seller's license that was actually just right along with the business license. But as we switch systems, we didn't even really discern that from the business license requirement. And there's only one provision in there that talks about paying taxes, which is also a requirement of the business license. So, we don't believe that's needed any longer. The other one is the Christmas tree adjunct license. We require Christmas tree lots to obtain a license, which includes a fire code review to make sure we don't have fire issues out there. Also includes deposits for sales tax and for cleanup with the lots. However, there's a corresponding license for those that have Christmas tree lots that attach to their physical building, such as, you know, a department store that has a Christmas tree lot on there. And so, the Fire Department identified that this year and said, you know, with the way they do the operational permits now, they don't really believe a separate license for those is necessary anymore. There were only six of those that had obtained that license, so we are proposing to repeal that piece of code as well. So with that, I'll answer any questions.

Council Member Gardner: Council Member Zvonek, any questions?

Council Member Zvonek: No questions.

Council Member Gardner: Are you okay moving the plan forward?

Council Member Zvonek: Yes.

Council Member Gardner: All right, we'll move it forward. Thank you, Trevor.

Outcome
The Committee recommended the item move forward to Study Session.

Follow-up Action
Staff will forward the item to Study Session.

2022 PROPOSED MANAGEMENT AND FINANCE POLICY COMMITTEE WORK PLAN

Summary of Issue and Discussion
Staff presented the 2022 work plan. Redistricting, review of audit reports, and quarterly IT updates are on the committee's calendar for February and March.

Committee Discussion

Council Member Gardner: Next up, Management and Finance Committee Work Plan Proposed for 2022. Obviously, January is over. For February, a couple of things that I want to put on there. And then, Terri, I'll turn over to you to if you have anything you need to fill in the blanks. But we're going to have a presentation on ESG from Ryan Frazier at our February meeting as well as, and I don't want to put words in his mouth, I'll let him chime in. But I believe Council Member Zvonek wants to have a conversation about our review process for city council appointees. Council Member Zvonek, is that still the case?

Council Member Zvonek: Yes. So and I think Ryan, I had mentioned this briefly when I had my conversation with Laura's departments, but the idea of looking at the review process just generally across the board for the city, specifically looking at 360 reviews and then more common practice of having more regular check ins with direct reports just to get a better holistic view of employees performance. I think having a conversation of where HR, and I know they're working on this, where they are and how what we can expect going forward, especially as it relates to council appointees, but frankly, across the city enterprise at large.

Council Member Gardner: So, it sounds like for now, we'll have Ryan make a presentation about kind of the current status of those reviews. Is that what you're thinking?

Council Member Zvonek: Yes. And I think Ryan, correct me if I'm wrong, but I think this is a process that you're underway with right now. So, I think just having a presentation of where you are and when we can expect these to be implemented and maybe provide some feedback on it.

R. Lantz: Of course.

Council Member Gardner: All right. And are there any other items, Council Member Zvonek, which you want in the next couple of months?

Council Member Zvonek: No. Not anything specific right now. The one question I have, and I don't know if this is something, I guess the timing on is, if I understand that this year, we will be doing redistricting. It's my understanding, I think, that it does come to Management and Finance at some point in time. And I'm just curious as to when that would be and what that process looks like for us.

T. Velasquez: And I can follow up with the City Clerk’s office and see the timing for that and get back to the committee.

Council Member Gardner: Yes, we need to have a presentation on redistricting before that process starts. So, the council can provide input on how we'd like that to go.

T. Velasquez: Okay.

Council Member Gardner: Let's either plan that for February or March. Maybe March, February is getting a little crowded, but let's talk about that offline, Terri.

T. Velasquez: Certainly.

Council Member Gardner: Depending on what else we have for February.

T. Velasquez: Okay.

Council Member Gardner: Looks like March has already has some stuff to do, short-term rentals, and a couple of other things, so maybe February. Okay, Terri anything else? Go ahead.

T. Velasquez: If I could. I just want to just remind the committee that you also serve as our audit committee. So that is why some of these items are placed on the agenda while certain things can move. Some are ongoing as a result of being that audit committee, such as internal audit reports and also reports from our external auditors as we complete our annual external audit. In addition, at the Committee's desire, we provide sales tax revenue updates each month. We also provide quarterly IT updates. Scott had one quick question regarding that. But before I turn that over to him, I also wanted to remind you that for all of our financings, we bring debt-related and investment-related information to this committee, as well as career service commission and other HR items. So, Scott, questions.

S. Newman: Thanks, Terri. And just to be brief for Council, as Council Member Gardner's already familiar we did present to Management and Finance Policy Committee (M&F) a couple of times last year, but I did check with the City Manager and IT is actually organized to report up to M&F. So, starting this year, as Terri mentioned, we want to bring that up as a quarterly presentation since we do have so many new members in the committee. I thought the March presentation would just be an overview. Here's IT staffing, IT metrics, the projects in front of us where we're at with some of the major projects, and our cybersecurity posture. But if there are any specific topics that you would like to discuss, then please let me know and we'll be sure to prepare those for the March and onward presentations.

Council Member Gardner: Appreciate that. Yes, I think that's always an illuminating conversation, so certainly looking forward to that.

T. Velasquez: Thank you.

Council Member Gardner: Terri, anything else we need to plug in right now? I know things will come up throughout the year, so don't want to get too wild, but it sounds like we have a plan, at least right now for February and March.

T. Velasquez: That sounds good. That's all I had.

<u>Outcome</u>
Information only.

<u>Follow-up Action</u>

No follow-up needed.

AUDIT REPORT: MAYOR AND CITY COUNCIL EXPENSES

Summary of Issue and Discussion

Council Member Gardner: Next item, the audit report, Wayne. So, for a little context for Council Member Zvonek, since you weren't on Council last year, as Terri just stated, the Management and Finance Committee is the Audit Committee for the City. And last year, early on in the year, it came to my attention that Mayor and City Council operating expenses for our card purchases and things like that had not been audited in quite some time, which obviously I had significant concerns with. I believe at the time we were told that that was at the direction of a prior city manager. And so, you know, I didn't necessarily think that there's anything illegal or unethical going on, but certainly, from an accountability and transparency standpoint, those expenses need to be audited on an ongoing basis going forward. And so that's the result. This audit is a result of that from the internal audit committee last year to audit mayor and council expenses. So, I will turn it over to Wayne.

W. Sommer: Thank you, Council Member Gardner. You have the report that was included in your agenda materials. Just a few quick highlights. This does represent 10 months of expenditures from January through October of 2021. We were not able to do a complete year in the first audit just because of the time constraints around the data becoming available through the normal course of accounting processes, then our ability to retrieve it, audit it, record it and report it. But going forward, we will be providing 12 months of data in each successive report. We're also going to be breaking up our work into quarters, so you'll be hearing from us on an exception basis at each of our normal quarterly reports on work done over the previous quarter on mayor and council expenses. We also will be going backward, as you had requested Council Member Gardner, as far as records are available. We know that there is a limited time for which purchasing card records are retained. So, we'll see how far back we can possibly go. But we'll take a look at those as well. As for this particular audit, you can see our opinion is that we believe that the Mayor and City Council are effectively complying with the rules of order and procedure for the scope period that we examined. We found a total of 11 of what we will call findings for which we have generated recommendations in the report. You'll see the first one has to do with missing approvals; there were some, I think it was a total of three, that we found in our sample that were missing appropriate authorization approvals.

We're recommending that the designated officials make sure that those forms are signed off on as evidence of a required review before they're moved forward for processing. The second finding had to do with inadequate detail, mostly this relate to not obtaining itemized lists for meal purchases when on travel. We had eight of these. The total for both of these findings is approximately $1,300. We looked at just short of 98 percent of all the expenses on a dollar basis. We are comfortable that this compliance level is good for now. I will tell you that I believe going forward, knowing that the auditors are paying attention to this, we're liable to see better compliance as we move forward. And the fact that we'll also be looking at it on a quarterly basis, it'll be a timelier review than what has taken place in the past. We did make some suggestions for improving council's orders. There are some items that, we believe, need clarifying, such as the ability to upgrade within an economy class. I know most of the upgrade provisions and rules like this typically deal with going from economy to business. But now that there are various levels of economy class, we think it would be good for a council to clarify whether someone can upgrade within an economy class.

There's also a term used that you can be reimbursed for the reasonable cost of a meal. There is no benchmark for what is reasonable nor who determines that. Also, reports are requested to be submitted in a timely manner. However, there is no benchmark for that either, or who determines what a timely manner is. I know, as a benchmark, staff is required to turn in travel expenses within ten days of the completion of a trip. There was one item, a paragraph reference, where the paragraph did not exist. We're also suggesting that there be some sort of review for coherence to make sure that everything that is cross-referenced within the rules going forward actually exists within the rules. We also, through some of our procedures, are suggesting that there be some joint training between Council and the admin staff so that they are seeing the rules together and are able to ask questions simultaneously and get a clear understanding of what's required under the rules in terms of processing travel and operating expenses. We also know that it can be intimidating for an admin staff person to question a council member about the validity of a particular transaction. We think it would go a long way for Council to give staff verbal permission to question those expenses so that they can feel some comfort in suggesting that a transaction perhaps be reconsidered as it may be problematic under the existing rules.

Also, purchasing (P)-cards are an excellent to use for travel because there's a greater level of documentation and tracking that goes along with those P-card. And we also suggest that Council consider applying the staff travel and expense policies to provide for some consistency across the city. In our next report, we'll have a table that compares existing rules with what city staff are required to do, so you'll have more information on which to assess that particular recommendation. We offer our audit clients the determination as to what you want to do with these recommendations. I think the ones that we've made regarding missing approvals and inadequate detail are fairly designed and benign, that is, non-controversial. We would recommend that those be accepted and then we would track those in our system and also track them through our subsequent audits to make sure that there's compliance there and we would inform you of any situations where there was non-compliance. And as for the items for clarification, that is solely up to the committee and council as to what they would like to do with those going forward since that's a matter of you generating your own rules for operations.

Council Member Gardner: Appreciate it, Wayne. First, going through this. I know we kind of added it midyear or whatever last year, but I think it was an important exercise to do, and I think it's important to do going forward. So, I appreciate you and your staff getting this done. Well, two things. First, I do think it's appropriate from a transparency and accountability standpoint to have this at a study session for all council. So, if you're okay with that, Wayne, I'd like to have staff get the same presentation scheduled for study session for the full council can hear it.

W. Sommer: Yes, sir.

Council Member Gardner: You know, similar length and the same presentation or whatever. But I do think I'd like council to know that the committee recognized the issue here and did get an update on it. And I think again, from a public transparency standpoint, I think that's important. Secondly, as far as the recommendations, I agree with you that the further we can tighten up some of those rules, I think for the better. So, you know, I'd like to see an ordinance come forward to make those changes. Well, I guess my question is I'd like to bring something forward. Do we need to do an ordinance or resolution to make those rule changes?

W. Sommer: I'm not sure.

Council Member Gardner: That may be more of a city attorney question.

W. Sommer: I think it is. Okay, we can talk to them about that.

Council Member Gardner: Okay, I'll follow up with Dan Brotzman offline.

W. Sommer: Okay.

Council Member Gardner: Council Member Zovnek, any questions?

Council Member Zovnek: No, that was my question. Just with recommendations, obviously not the first part where it's just making sure we're in better compliance with the rules that are already in place. But the second part is it a resolution, is it an ordinance because I think that it does make sense to where there's ambiguity tightened it up makes a lot of sense.

Council Member Gardner: Yes, I agree. All right. Thanks again, Wayne. And then it looks like you're up next to talk about our 2021 annual internal audit report.

Outcome
Information only.

Follow-up Action
No follow-up needed.

OFFICE OF THE INTERNAL AUDITOR 2021 ANNUAL REPORT

Summary of Issue and Discussion
Wayne Sommer gave an update of activities and engagements carried out by his office. A staff member was added to the team; the marijuana enforcement process will remain inactive until there are sufficient staff resources to deal with; culture surveys will be combined into one city-wide survey.

The P-card process would be discontinued, as it’s not providing the expected value. Visit Aurora and APD Records Division Culture Survey have gone forward and will be completed. The Crisis Intervention Program is in process.

77% of recommendations have been completed over the last few years.

<u>Committee Discussion</u>

W. Sommer: Yes, sir. And I know we're bumping up against the edge of the time, and so I will try to make this as concise as possible. We did add a staff member in 2021. Laiba Saqib has joined us as Michele Crawford moved over to become the police auditor. Since 2016, we have averaged about nine audit completions a year, which isn't bad. It's about four and a half engagements per auditor. They do work independently on these engagements. On occasion, we'll do teams, but mostly these are independent engagements for each auditor. I will note that under the very first chart on the thumbnail page 713 that reads currently slightly compared to 2021, that should say 2020. We had a pretty decent year in terms of being able to complete the engagements compared to the previous year. On thumbnail 715, you'll see a table that talks about the progress on our audits from this past year. I want to focus specifically on the columns. I noted it as active and inactive. We will be making some changes for these in our 2022 audit plan, the marijuana enforcement process, which is currently shown as inactive. That will remain so until we have staff resources sufficient to deal with that. The culture surveys that are referenced there for Aurora Fire and also for Planning and Development, we are going to combine all of our culture surveys into one citywide survey that we will do sometime during the first quarter of this year.

We brought it up this morning at the management meeting. We're going to provide management with some additional details, but we thought it would be more effective for us to combine all those into one and get a citywide baseline. The payroll and human resources process review that will also be set aside until the completion of the ERP project, at which time we'll have new procedures that we can actually review. It doesn't make any sense for us to review old ones since they're not going to be enforced anymore. The purchasing card monitoring, this is one that we began for 2020. Our purchasing card processes are fairly manual and paper sensitive, which doesn't mean we can effectively manage a monitoring process for those using our analytics capability, since the processes are mostly done outside of a system. The effort that we've put into it, we don't believe, is giving us the return that we actually want from an engagement like this. It's not adding the value that we think should be there, and so we're going to discontinue this for now. Hopefully, when the new ERP process is installed, we may be able to have more of an automated purchasing card process. In which case we'll go back and do some analytical monitoring of the transactions within that area. The citywide succession planning, we're going to be meeting with Ryan Lantz the beginning of next month to talk about if there's a way to combine this with an employee engagement survey that they are considering doing in Human Resources.

The Courts Case Management was requested by a council appointee in 2019; due to capacity limitations, we have not commenced any work on that, and we will now set it aside for future consideration. The Visit Aurora and APD Records Division Culture Survey, those both have gone forward and those will be completed. Crisis Intervention Program is also in process as well. The Canine Part 2 is moved to the police auditor’s 2022 audit plan. And APD Senate Bill 217 compliance has been removed from the police auditor's plan being replaced by other items considered higher exposure. Michelle Crawford is online today if you want to ask her any particular questions about those. The other big item within our report is the status of our recommendations. Those are on pages 716 and 717. We've got about 70 seven percent completed and this is a fairly steady rate for us over the last few years. In this quarter, though, we are taking some extra time to work with departments to do some implementation on some of the older items that are listed there. And we will provide a more detailed report on those in our first quarter report when we come back to you in April. The rest of the items there are basically information items that we include a report in terms of our additional activities. So, I'll stop right there.

Council Member Gardner: Council Member Zovnek, any question?

Council Member Zovnek: Yeah, just one question on the culture surveys. Do you have examples of what those look like in the past? I think those are incredibly critical across the city, of course, but I even think about the Aurora Police Department. I mean, one of my big concerns there, which is why we did the retention bonuses, is the fact that we're losing officers at a historic rate. And I understand that there's a whole host of factors. But I think that digging into the culture and frankly, the entire city, but in that department would be helpful. So, I'm just curious if you have a sample that I can look at that you've done in the past.

W. Sommer: Absolutely. We have a standard survey template that we use that's based on some work that Rensis Likert did in the sixties. We've updated it to be more useful for current times, but I'll be happy to share that with the committee so you can see just what kind of questions we're asking

Council Member Zovnek: And the timeline for that again, was Q1 of this year. Is that the goal citywide?

W. Sommer: Yes, sir. Q1 is our goal to issue that.

Council Member Zovnek: And what is that from a time frame perspective? When you start, how long does it take? And then she said that we would be able to kind of analyze the results of it.

W. Sommer: We usually like to keep the survey open for two to three weeks to give staff time to respond to it. It will be an anonymous survey. We find that those surveys do provide greater response rates, but we will provide demographic breakdowns by the department. So I am hoping that perhaps sometime mid-second quarter, we can have a presentation back to the committee on the results of that survey.

Council Member Zovnek: Okay, thank you. That's all I had.

W. Sommer: Sure.

Council Member Gardner: All right. Thank you, Wayne, for the presentation. Appreciate it.

W. Sommer: You're welcome.

Outcome
Information only.

Follow-up Action
No follow-up needed.

MISCELLANEOUS MATTERS
Summary of Issue and Discussion
The next meeting is on Tuesday, February 22, 2022 at 1:00 PM (WebEx)

THESE MINUTES WERE APPROVED AS SUBMITTED

_______________________________ _______________
Date

CITY OF AURORA
Council Agenda Commentary

Item Title: January 2022 Sales Tax Chart	
Item Initiator: Greg Hays	
Staff Source/Legal Source: Greg Hays, Hanosky Hernandez, Senior Assistant City Attorney	
Outside Speaker: N/A	
Council Goal: 2012: 6.0--Provide a well-managed and financially strong City	

COUNCIL MEETING DATES:

Study Session: N/A

Regular Meeting: N/A

ITEM DETAILS:

- Agenda long title
- Waiver of reconsideration requested, and if so, why
- Sponsor name
- Staff source name and title / Legal source name and title
- Outside speaker name and organization
- Estimated Presentation/discussion time

January 2022 Sales tax Chart

Members of the M&F Committee have asked for the monthly sales tax performance chart.

Attached is the December sales tax performance chart. January of 2022 was 9.8 percent higher than January of 2021.

ACTIONS(S) PROPOSED ***(Check all appropriate actions)***

☐ Approve Item and Move Forward to Study Session

☐ Approve Item as proposed at Study Session

☐ Approve Item and Move Forward to Regular Meeting

☐ Approve Item as proposed at Regular Meeting

☒ Information Only

☐ Approve Item with Waiver of Reconsideration
Reason for waiver is described in the Item Details field.

PREVIOUS ACTIONS OR REVIEWS:

Policy Committee Name: N/A

Policy Committee Date: N/A

Action Taken/Follow-up: ***(Check all that apply)***

☐ Recommends Approval ☐ Does Not Recommend Approval

☐ Forwarded Without Recommendation ☐ Recommendation Report Attached

☐ Minutes Attached ☐ Minutes Not Available

HISTORY ***(Dates reviewed by City council, Policy Committees, Boards and Commissions, or Staff. Summarize pertinent comments. ATTACH MINUTES OF COUNCIL MEETINGS, POLICY COMMITTEES AND BOARDS AND COMMISSIONS.)***

Members of the M&F Committee have asked for the monthly sales tax performance chart.

ITEM SUMMARY ***(Brief description of item, discussion, key points, recommendations, etc.)***

Attached is the December sales tax performance chart. January of 2022 was 9.8 percent higher than January of 2021.

QUESTIONS FOR COUNCIL

N/A

LEGAL COMMENTS

The city charter requires that the city manager shall keep the council advised of the financial condition and future needs of the city and make such recommendations to the council for adoption as he may deem necessary or expedient. This item is informational only. (Aurora City Charter Art. 7-4 (f)). (Hernandez)

PUBLIC FINANCIAL IMPACT

☐ YES ☒ NO

If yes, explain: Info only

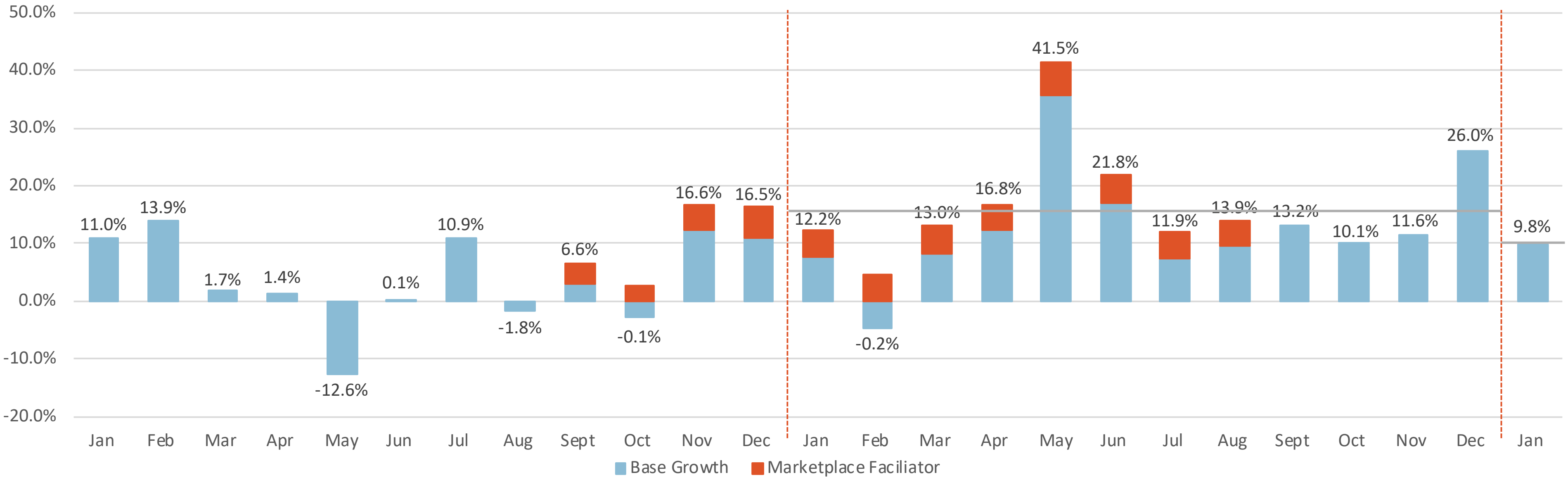
PRIVATE FISCAL IMPACT

☒ Not Applicable ☐ Significant ☐ Nominal

If Significant or Nominal, explain: Info only

January 2022 Sales Tax Performance

Percent Change from Prior Year By Month



2020
5.3%

2021
15.3%

2022
9.8%

CITY OF AURORA
Council Agenda Commentary

Item Title: Recognition of Joel Johnson's Service on the Aurora Investment Advisory Committee	
Item Initiator: Andrew Jamison, Debt, Treasury & Investments	
Staff Source/Legal Source: Andrew Jamison, Debt, Treasury & Investments	
Outside Speaker: Joel P Johnson, Moreton Capital Markets	
Council Goal: 2012: 6.0--Provide a well-managed and financially strong City	

COUNCIL MEETING DATES:

Study Session: N/A

Regular Meeting: N/A

ITEM DETAILS:

- Agenda long title
- Waiver of reconsideration requested, and if so, why
- Sponsor name
- Staff source name and title / Legal source name and title
- Outside speaker name and organization
- Estimated Presentation/discussion time

After long and storied professional career and nearly two decades of service on the Aurora Investment Advisory Committee, Joel Johnson has announced his retirement in 2022.

ACTIONS(S) PROPOSED ***(Check all appropriate actions)***

☐ Approve Item and Move Forward to Study Session

☐ Approve Item as proposed at Study Session

☐ Approve Item and Move Forward to Regular Meeting

☐ Approve Item as proposed at Regular Meeting

☒ Information Only

☐ Approve Item with Waiver of Reconsideration
Reason for waiver is described in the Item Details field.

PREVIOUS ACTIONS OR REVIEWS:

Policy Committee Name: N/A

Policy Committee Date: N/A

Action Taken/Follow-up: ***(Check all that apply)***

☐ Recommends Approval

☐ Does Not Recommend Approval

☐ Forwarded Without Recommendation

☐ Recommendation Report Attached

☐ Minutes Attached

☐ Minutes Not Available

HISTORY ***(Dates reviewed by City council, Policy Committees, Boards and Commissions, or Staff. Summarize pertinent comments. ATTACH MINUTES OF COUNCIL MEETINGS, POLICY COMMITTEES AND BOARDS AND COMMISSIONS.)***

The City's investment policy provides that the Investment Advisory Committee (IAC) shall be composed of several non-staff volunteers having investment experience who provide expertise and insight on market conditions, investing, and sound policy and practice. A council member serving on the M&F Committee is also invited. Staff members include the Finance Director, a City Manager appointee, the City Treasurer, City Attorney, Controller, and a representative from Internal Audit.

Volunteer nominees are solicited by staff. The Finance Director recommends nominees to the Management and Finance Committee, which makes the final selection. These volunteers provide valuable advice and feedback and are not afraid to ask difficult questions of staff. Volunteers are appointed for staggered three-year terms and may be re-appointed.

ITEM SUMMARY ***(Brief description of item, discussion, key points, recommendations, etc.)***

After long and storied professional career and nearly two decades of service on the Aurora Investment Advisory Committee, Joel Johnson has announced his retirement in 2022.

This year, Joel is retiring from Moreton Capital Markets. Joel has worked with public entities, corporations, not-for-profits and high net worth individuals throughout Colorado, Wyoming and several high-plains and mid-western states. Joel's prior experience spans 30 years with Wells Fargo; including three years with Wells Fargo Advisors and 27 years with Wells Fargo Securities as Director, SVP, Regional Manager and sales professional with the institutional Fixed Income Sales & Trading group. Joel earned a bachelor's degree in economics from the University of Denver

Joel has volunteered his time on the investment advisory committee since 2005. Over the years Joel contributed countless hours of insight, analysis, and guidance to the IAC. This contribution has translated into immeasurable benefits to the City. Joel provided important feedback and perspective as a member of the investment advisory committee. During market ups and downs and changing investment opportunities, the City benefited from Joel's knowledge and experience. His dedication and willingness to participate are commendable. We all agree that it was a pleasure working with Joel!

QUESTIONS FOR COUNCIL

Information only, please join us in thanking Joel for his service!

LEGAL COMMENTS

n/a

PUBLIC FINANCIAL IMPACT

☐ YES ☒ NO

If yes, explain: n/a

PRIVATE FISCAL IMPACT

☒ Not Applicable ☐ Significant ☐ Nominal

If Significant or Nominal, explain: n/a

CITY OF AURORA
Council Agenda Commentary

Item Title: ESG (Environmental, Social and Governance)
Item Initiator: Terri Velasquez, Finance Director
Staff Source/Legal Source: Terri Velasquez, Finance Director/Hanosky Hernandez, Senior Assistant City Attorney
Outside Speaker: Ryan Frazier
Council Goal: 2012: 6.0--Provide a well-managed and financially strong City

COUNCIL MEETING DATES:

Study Session: n/a

Regular Meeting: n/a

ITEM DETAILS:

- Agenda long title
- Waiver of reconsideration requested, and if so, why
- Sponsor name
- Staff source name and title / Legal source name and title
- Outside speaker name and organization
- Estimated Presentation/discussion time

ESG (Environmental, Social and Governance)
Sponsor name: Council Member Gardner
Estimated Presentation Time: 15 minutes

ACTIONS(S) PROPOSED ***(Check all appropriate actions)***

☐ Approve Item and Move Forward to Study Session

☐ Approve Item as proposed at Study Session

☐ Approve Item and Move Forward to Regular Meeting

☐ Approve Item as proposed at Regular Meeting

☒ Information Only

☐ Approve Item with Waiver of Reconsideration
Reason for waiver is described in the Item Details field.

PREVIOUS ACTIONS OR REVIEWS:

Policy Committee Name: N/A

Policy Committee Date: n/a

Action Taken/Follow-up: ***(Check all that apply)***

☐ Recommends Approval ☐ Does Not Recommend Approval

☐ Forwarded Without Recommendation ☐ Recommendation Report Attached

☐ Minutes Attached ☐ Minutes Not Available

HISTORY ***(Dates reviewed by City council, Policy Committees, Boards and Commissions, or Staff. Summarize pertinent comments. ATTACH MINUTES OF COUNCIL MEETINGS, POLICY COMMITTEES AND BOARDS AND COMMISSIONS.)***

n/a

ITEM SUMMARY ***(Brief description of item, discussion, key points, recommendations, etc.)***

Ryan Frazier will provide an overview of ESG as it relates to the city's credit rating and financial standing.

QUESTIONS FOR COUNCIL

n/a information only

LEGAL COMMENTS

The city charter requires that the city manager shall keep the council advised of the financial condition, future needs of the city, and the overall general condition of the city, and shall make such recommendations to the council for adoption as deemed necessary or expedient. This item is a presentation on the environmental and social governance topic, and it is presented for information purposes only. (*See*, Aurora City Charter Art. 7-4 (f)). (Hernandez).

PUBLIC FINANCIAL IMPACT

☐ YES ☒ NO

If yes, explain: n/a

PRIVATE FISCAL IMPACT

☒ Not Applicable ☐ Significant ☐ Nominal

If Significant or Nominal, explain: n/a

Frazier Global
Excellence. Everywhere.

"If sustainability is the journey, then ESG is how we measure progress"

Environmental. Social. Governance.

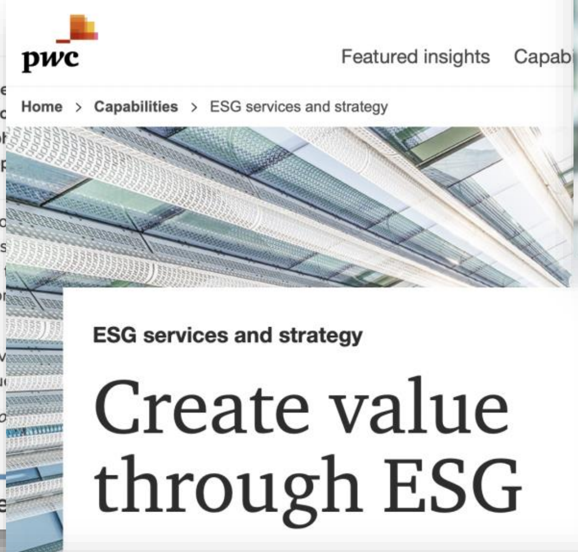
City of Aurora, Management and Finance Committee

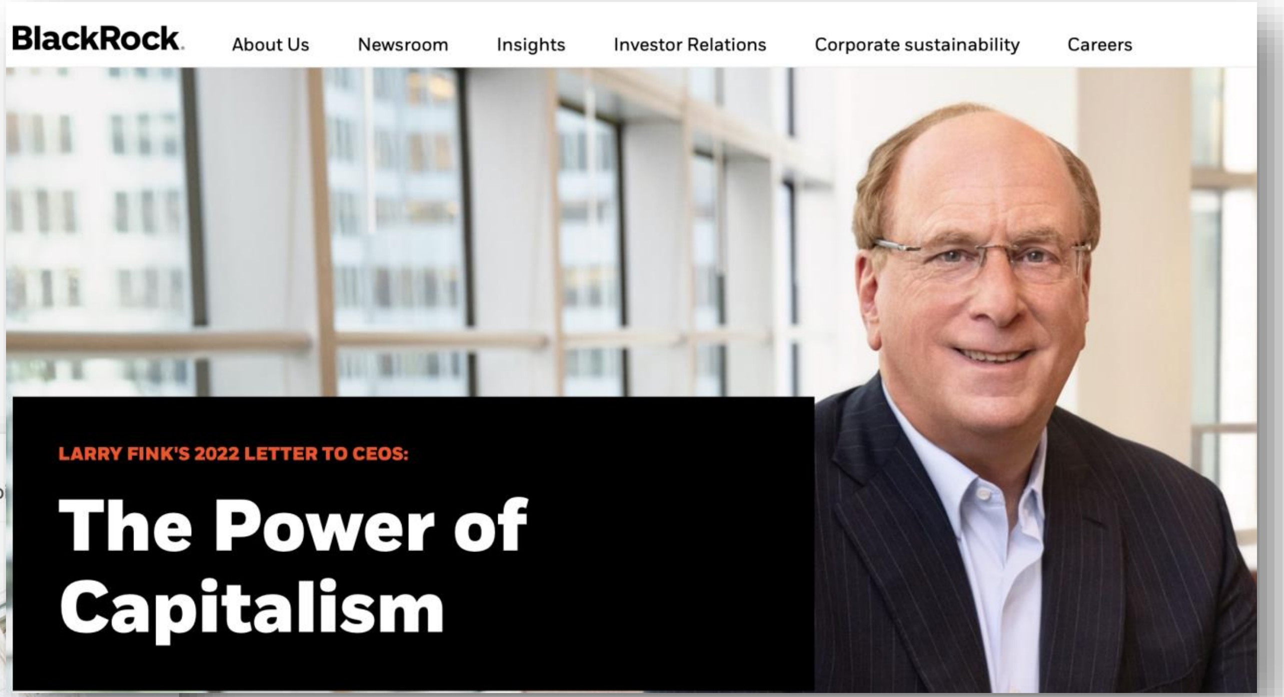
Presenter: Ryan Frazier, CEO, Frazier Global

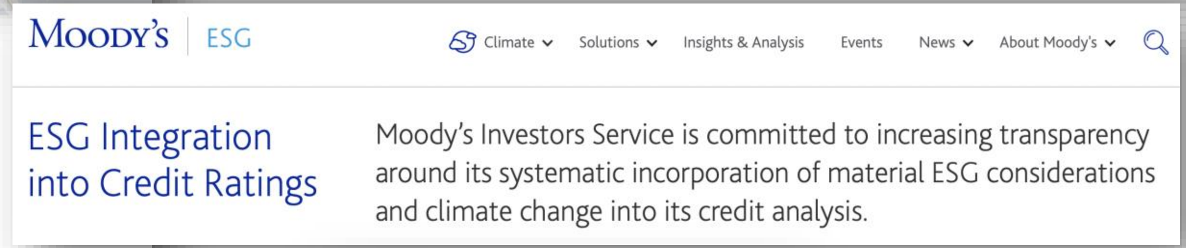
Fundamentals of Sustainability Accounting (FSA), Series 7, Series 63

February 22nd 2022

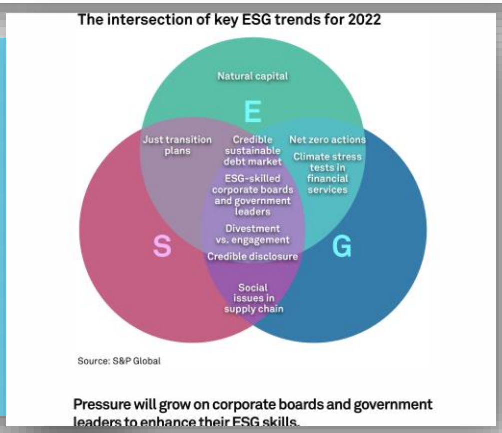
ESG is everywhere…







GFOA recommends that governments evaluate the development and disclosure of information regarding the primary environmental, social, and governmental risks applicable to municipal issuers and their bonds in their preliminary and final official statements used in connection with bond sales and in other voluntary disclosure.



What the… is ESG?

- Sustainability is the evolution of long-term value creation for people, planet, and the economy

- So, if sustainability is the journey, then ESG is how we measure our progress.

- ESG is the integration of three material risk and opportunity factors that affect a company, investment, or government’s value creation, financial performance, cost of capitol, and ultimately impacts on communities.

- They include “E”nvironmental, “S”ocial, and “G”overnance policies, standards, practices, and metrics.

Example of general ESG issues:

Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management

Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

Source: Sustainability Accounting Standards Board

Why is ESG becoming a bigger deal? It Matters.

- Globally, sustainability is rated as an important purchase criterion for 60 percent of consumers. In the US, this number is just over the global average at 61 percent per *the Global Sustainability Study 2021*

- According to Morningstar, 72% of U.S. investors have expressed interest in sustainable investing

- Larry Fink, the CEO, of the world's largest asset manager, Black Rock, says we are seeing a tectonic shift in capital towards ESG across all asset classes – public equity, bonds, private markets

- According to MSCI, research indicates that ESG has affected the valuation and performance of companies both through their systematic risk profile (lower costs of capital and higher valuations) and their idiosyncratic risk profile (higher profitability and lower exposures to tail risk)

- Government Finance Officer Association (GFOA) says issuers of governmental securities should be aware that there could be credit rating differentiation depending on their approach to addressing ESG factors

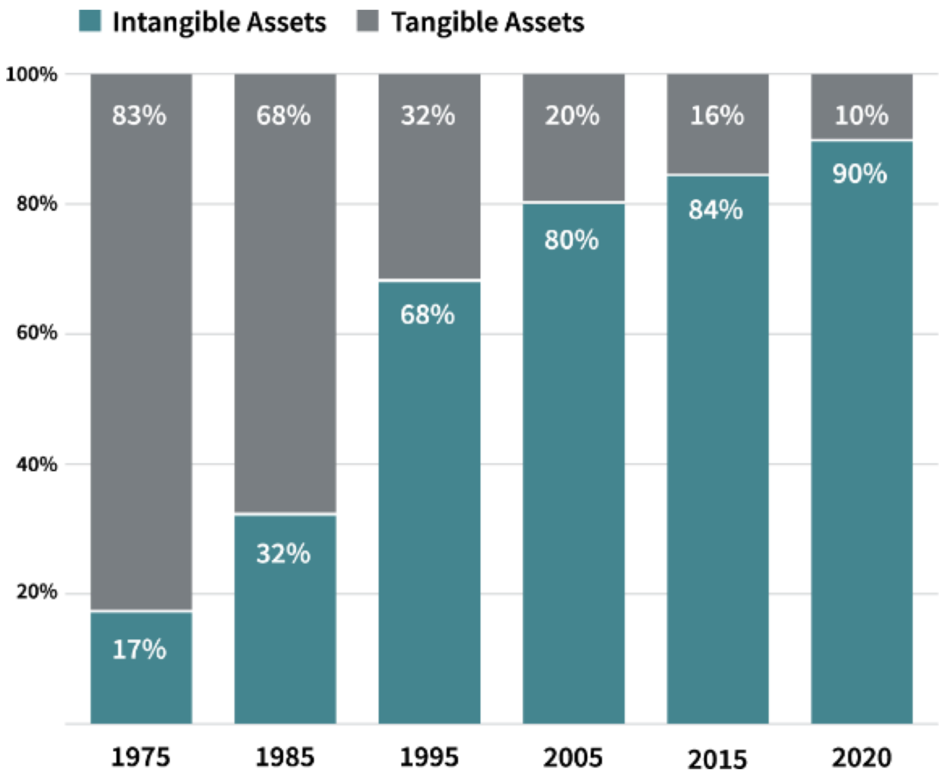
- Increasing data showing links between ESG and financial performance including risk avoidance, operational efficiencies, and lower cost of capital according to the NYU Stern Center for Sustainable Business

There is increasing awareness and data that “material” environmental, social and governance (ESG) factors can be tied to a company’s or government’s long-term value .

Changing Nature of Valuations Expands the Information Needs of Investors

Growing consensus that ESG factors can influence long-term risk and returns

Components of S&P 500 Market Value

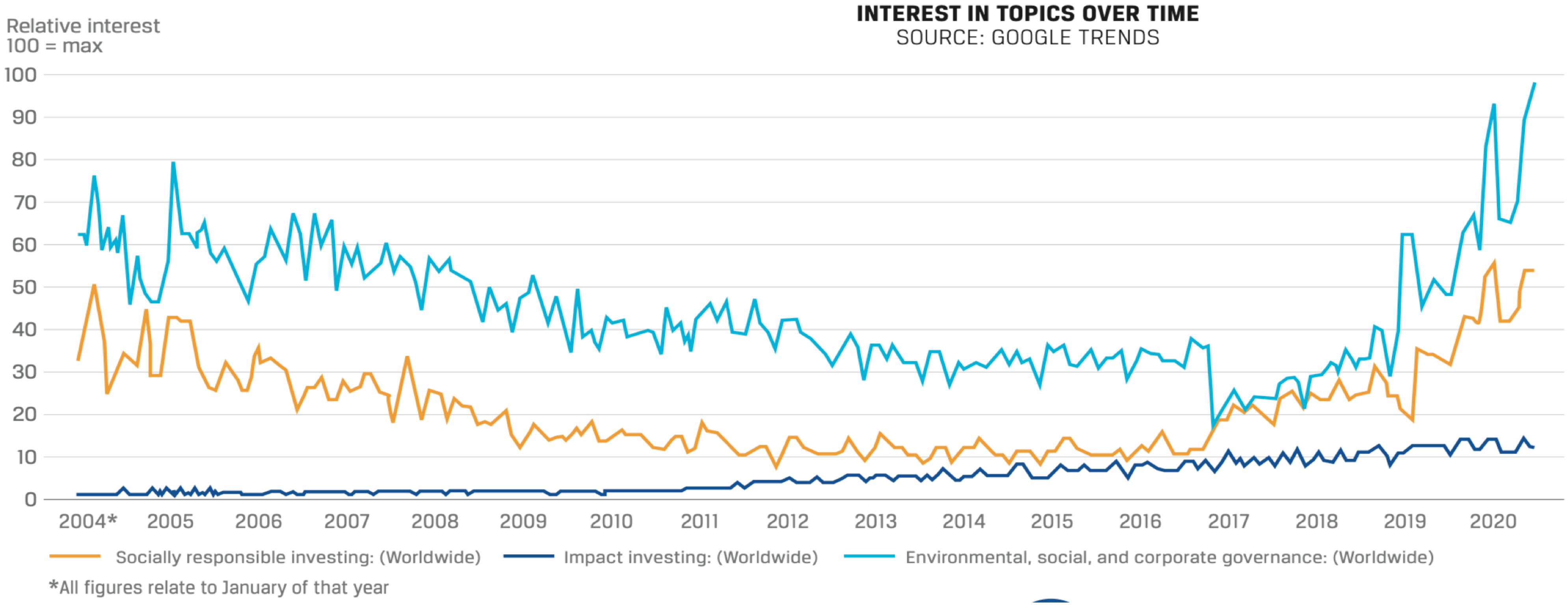


- Intangibles, such as intellectual capital, brand value, customer loyalty are increasing components of corporate valuations
- Investors are exposed to risks from relatively infrequent, but high impact ESG-related events (e.g. safety incidents, ethics scandals, natural resource shortages)
- ESG factors can give forward looking insight into performance and risk

Source: Ocean Tomo, *Ocean Tomo’s Intangible Asset Market Value Study,* November 2020.

Just follow the….investors….

A Brief History of Investor Interest in Sustainability and ESG



Source: CFA Institute: "Future of Sustainability in Investment Management" https://bit.ly/3wow7hc

CONSULTANT CONTENT PROGRAM

And…investors want more information transparency…

Figure 14: What investors would like from issuers

DATA

- More tailoring to specific sectors and geographies relevant to the bond issue
- Consistency and standardisation across issuers in the same sector
- Quantification of the financial costs and benefits related to ESG factors, to the extent possible
- Data on carbon emissions
- Adherence to the GFOA disclosure best practice guideline*

STRATEGY

- More explicit plans for identifying and managing specific ESG risks
- Updates on implementation/ progress of these plans and outcomes achieved
- Plans to reduce carbon emissions and prevent cyberattacks
- Clearer capital spending alignment with initiatives to boost resilience, where needed

ENGAGEMENT

- More openness by municipal leadership and opportunities to improve investor engagement
- Broader conversations around ESG topics to improve the assessment of issuers' long-term investment quality as well as their understanding of risks and opportunities

DISSEMINATION

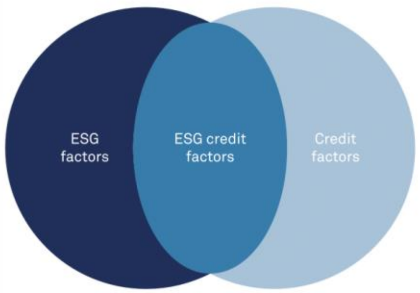
- An issuer webpage containing all relevant ESG data and plans
- More ESG information, especially on environmental risks, in preliminary and financial official statements accompanying bond issues
- Better disclosure through presentation of budget policies

Source: Principals for Responsible Investment: ESG Integration in Sub-Sovereign Debt – The U.S. Municipal Bond Market

ESG increasingly used by Credit Rating Agencies

According to S & P Global…

The Intersection Of ESG And Credit



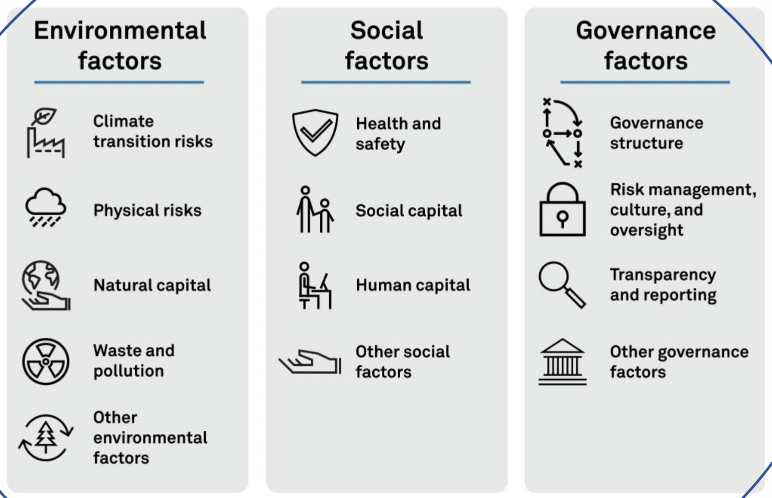
When sufficiently material to affect our view of creditworthiness, ESG credit factors can influence credit ratings through, for example:

— A change in the size and relative stability of an obligor's current or projected revenue base,
— Operating costs and requirements,
— Risk planning,
— Governance controls and standards,
— Profitability or earnings,
— Cash flows or liquidity, or
— The size and maturity of its financial commitments.

7. The following are examples of key ESG credit factors that have affected creditworthiness or [illegible]t, in our opinion, may influence future creditworthiness. Some events may relate to more than one of the ESG credit factors.

Chart 2

Examples Of ESG Credit Factors

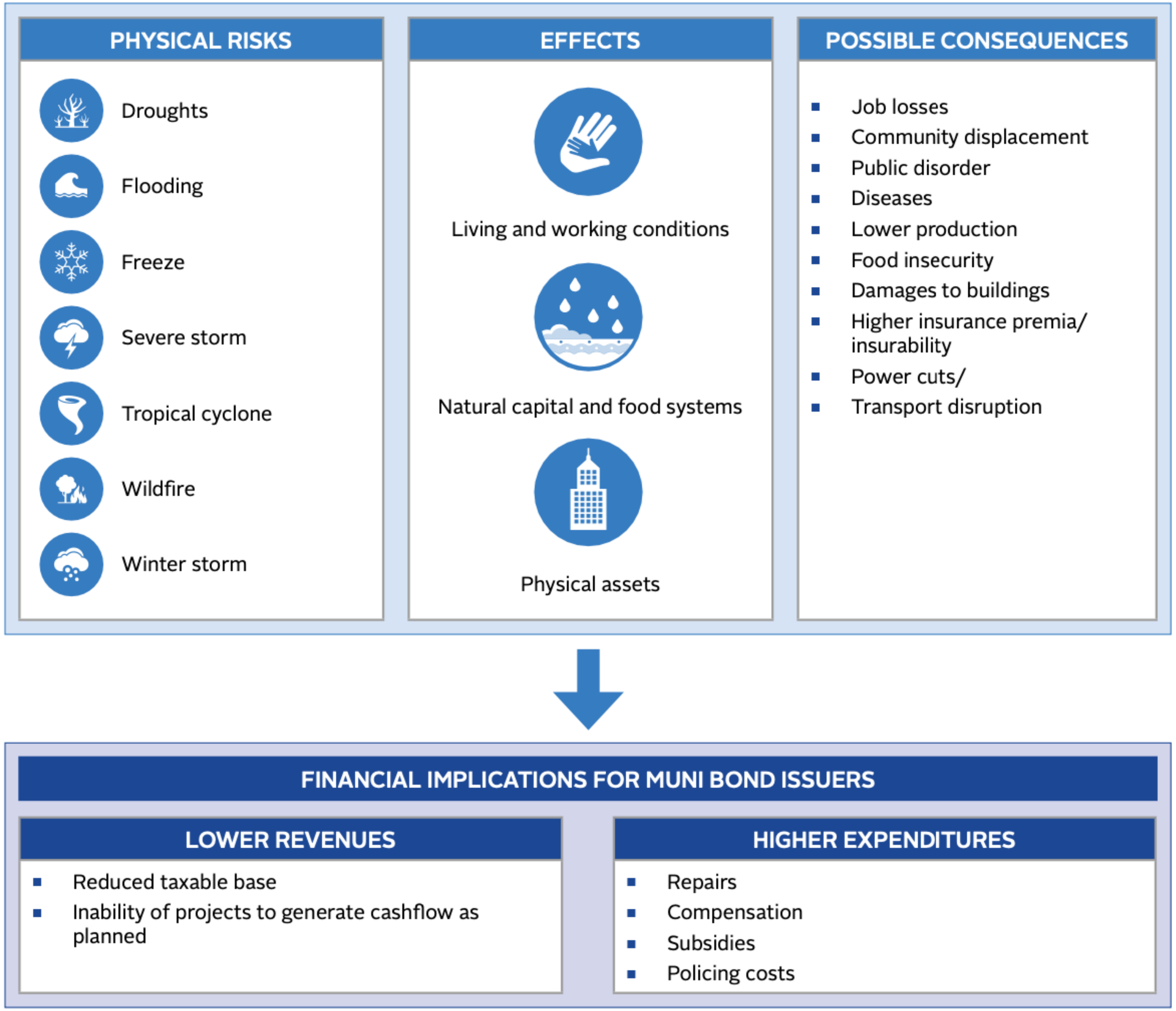


Examples of key ESG credit factors

Source: S&P Global: General Criteria: Environmental, Social, And Governance Principles In Credit Ratings https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12085396

Specific to ESG related Physical Risk factors and their potential for financial impacts on Governments.

Figure 7: Effects of physical risks and financial implications for muni bond issuers



Source: Principals for Responsible Investment: ESG Integration in Sub-Sovereign Debt – The U.S. Municipal Bond Market

Worth noting that the Sustainable debt market is rapidly expanding…

Source: S&P Global

But a few real examples of how ESG factors has impacted evaluations of municipal issuers

Environmental *Social* *Governance*

ISSUER:
MINNEAPOLIS, MINNESOTA[36]

Event

After George Floyd was killed by a police officer on 25 May 2020 in Minneapolis, Minnesota, the city became the site of unrest, with protests against racial inequality and calls for police reform. More than 1,500 businesses were damaged or destroyed in the wider urban area in the weeks following the death. Debate in the wake of the incident raised questions about police funding.

Credit implication

S&P changed the outlook from stable to negative for the city's general obligation debt in September 2020, attributed in part to the fallout from Floyd's death. The ratings agency pointed to potential costs related to reform of policing, potential liabilities from lawsuits related to his death, and increased worker compensation claims related to the unrest. It also said that it could revisit its assessment of the city's governance risk "if its approach to police reform perpetuates conditions that could lead to greater social unrest".

In March, Minneapolis agreed to pay a US$27m settlement to Floyd's family, some of which came from its general fund. Beyond this immediate cost, questions remain over how cities like Minneapolis reform and fund policing services and deal with discontent. In 2021, the city's police budget fell by US$28m, or 15%, compared with a general budget cut of 7% across city departments. While this appears to be a significant slash to policing services, additional funds are available to the police chief, with city council approval, and resources have also been re-allocated to alternatives to policing.

ISSUER:
UNIVERSITY OF SOUTHERN CALIFORNIA[38]

Event

The University of Southern California, based in Los Angeles and the largest private university in California, has agreed to pay more than US$1bn to women treated by its former gynecologist in relation to sexual harassment and abuse claims. Some US$852m of this was announced in March 2021, in what news organisation NPR called "the biggest sex abuse pay-out in higher education history."

Credit implication

Moody's changed USC's outlook from stable to negative in March 2021 as a result of financial exposure to the legal issues. It also said this could lead to reputational harm, which could perhaps reduce student demand or philanthropic support. However, the ratings agency said in March that this demand and support had remained robust so far.

ISSUER:
PARADISE, CALIFORNIA[22]

Event

The risk of wildfires has grown in California, amid drier and warmer weather in fire season and more people living in or near forested areas.

In late 2018 the Camp Fire struck Butte County, California, killing 85 people and destroying 19,000 buildings. The most damaging and deadly fire on record in the state devastated the town of Paradise and 90% of the 27,000 residents left, at least temporarily.

Credit implication

Paradise was one of three obligors in a pool for a series of bonds issued as part of the California Statewide Communities Development Authority's Pension Obligation Bond Program, which allows local governments to finance unfunded pension liabilities. Moody's downgraded the relevant securities, the 2007 Series A-2 Bonds, from B1 to Caa3 in January 2019.

The credit ratings agency said that the damage to Paradise would prevent it from paying debt service on its share of the bonds in the short term. At the time of the downgrade, its share of the debt service outstanding was 41%.

However, the bonds have since been upgraded to Ba2. Moody's said that a US$270m settlement Paradise received from utility PG&E for the latter's role in the fire boosts its ability to service debt while maintaining operations and investing in capital requirements.

ISSUERS:
BRAZOS ELECTRIC POWER COOPERATIVE, COSERV ELECTRIC[23]

Event

A winter storm in February 2021 had disastrous consequences in Texas, in large part because of its effect on the power supply. The state's grid is mostly separate from the rest of the US, leaving it vulnerable when generators fail. Electricity firms were forced to purchase power at the maximum rate allowed under regulations, US$9,000 per megawatt hour versus the average 2020 price of US$22. Natural gas fuel prices jumped too. Almost five million customers went without power and 700 people died, according to a Buzzfeed News analysis of excess deaths.

Credit implication

Companies faced large bills from the Electric Reliability Council of Texas (ERCOT), which operates the grid that encompasses most of the state. One company, Brazos Electric Power Cooperative (BEPC), filed for bankruptcy citing debt owed to ERCOT.

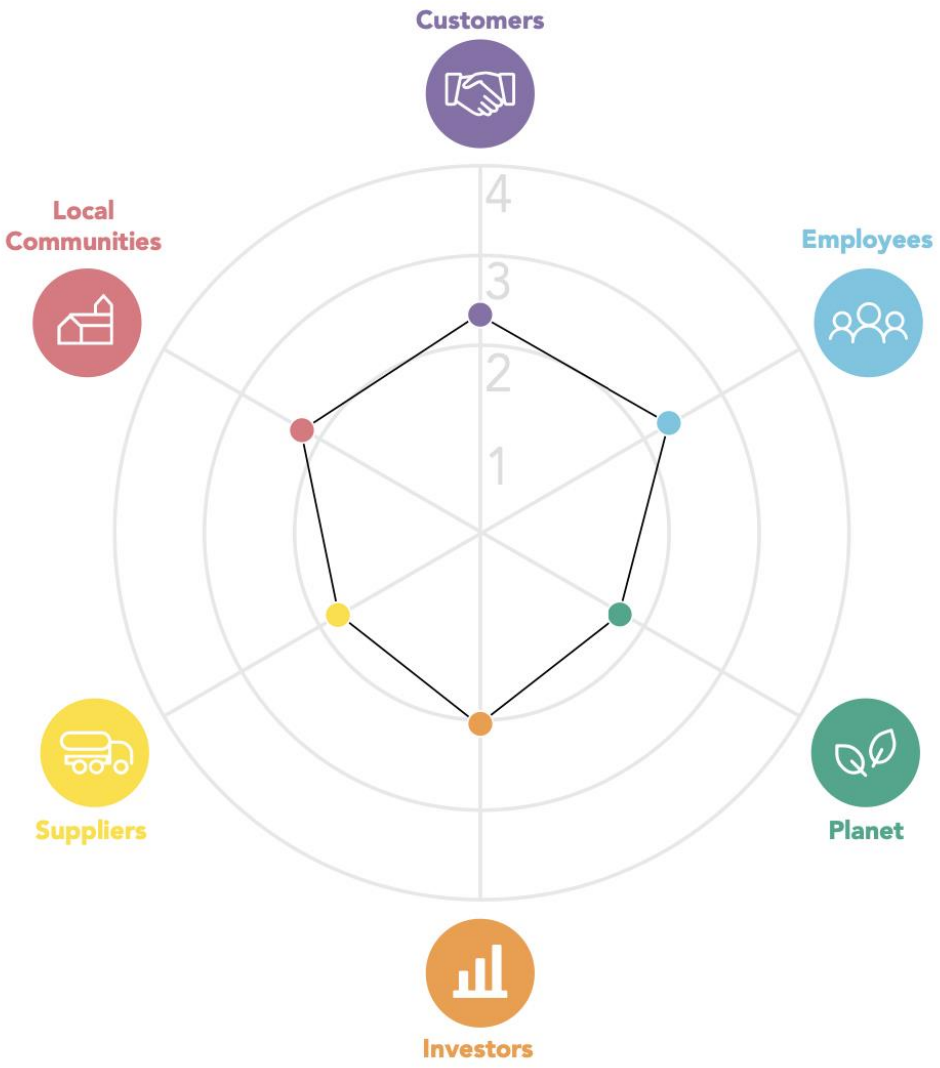
BEPC's troubles had repercussions for CoServ Electric, otherwise known as the Denton County Electric Cooperative. CoServ is the largest member of BEPC's distribution cooperative, taking a third of its electric sales, and it is obliged to buy from BEPC. In March, Fitch downgraded CoServ from AA- to A, based in part on the expectation that the cooperatives will be forced to bear BEPC's costs as determined by the bankruptcy court. However, the utilities may benefit from moves by state legislators, including allowing the issuance of bonds backed by customers' bills.

Source: Principals for Responsible Investment: ESG Integration in Sub-Sovereign Debt – The U.S. Municipal Bond Market

While this presentation has focused on Municipal Bond market-related ESG considerations, it's important to remember that a variety of Stakeholder's ESG priorities can influence other performance matters with financial, reputational, and constituency outcomes.

Stakeholders care issues including but not limited to:
- physical impacts of climate change
- health and safety of the workforce
- supply chain management
- data security
-sustainability of services,
- ethics
- water consumption
- approach to handling risks
- waste management
- supply chain management
- constituent services

All are among a host of ESG issues Stakeholders are seeking strategy, transparency, and accountability on.



ESG Continuum – Where are you?

Growing application across governments, companies, and investments

ESG Awareness

ESG Materiality Assessment

ESG Strategy, standards, & KPI Integration

ESG Reporting & Disclosure

- Companies
  - Public
  - Private
- Governments
  - Federal
  - State
  - Local
- Investment Portfolios
  - Equity or Stock
  - Debt or Bonds
  - Private Markets
- Non-Profits

Other considerations…A Shifting Regulatory Landscape

Key players in the move towards a comprehensive system of ESG reporting and disclosure (Investment and Corporate but State and Local Governments should be aware)

- The **European Commission** announced intent to develop European non-financial reporting standards with focus on 'double materiality'. Legislative proposal for **Corporate Sustainability Reporting Directive (CSRD)** published April 21, 2021
- The **United States Securities and Exchange Commission** has launched a consultation on climate change disclosure and is evaluating the development of a rule to drive climate-risk and/or broader ESG reporting
- **IFRS Foundation Trustees** announced International Sustainability Standards Board.
- **IOSCO** has established a Technical Experts Group chaired by the US SEC and the Monetary Authority of Singapore to assess the IFRS effort to establish a Sustainability Standards Board and evaluate the Prototype Climate Standard developed by the "Group of 5" private sector frameworks and standards-setters.
- **WEF IBC Stakeholder Capitalism Metrics Project** has proposed 21 cross-industry metrics to demonstrate company contribution to the SDGs, along with calling for a global system of standards. WEF is publicly supporting the IFRS effort.
- **"Group of Five"** private sector frameworks and standards-setters articulate a vision for a comprehensive corporate reporting system and offer to provide technical support to IFRS and the European Commission.

Source: Sustainability Accounting Standards Board

A complex and thriving landscape with many non-profit and for-profit providers playing different roles

Information producers

Reporters

Reporters are entities (e.g. corporates, governments, other institutions) that collect, validate, setup internal controls/procedures, involve internal and external audit, and then publish the information.

Disclosure platforms and software providers

XBRL

Auditors

Deloitte.
EY Building a better working world
KPMG
pwc

Fin. reporting standards

FASB
IASB
IFRS

Non-financial reporting standards*

GRI
SASB

Non-financial reporting frameworks*

CDSB Climate Disclosure Standards Board
IR
TCFD

Standards and frameworks underpin all information

Information users

Data Providers

CDP DISCLOSURE INSIGHT ACTION
SAM Now a Part of S&P Global
Bloomberg
REFINITIV

ESG Analytics Providers

FTSE4Good
ISS ESG
MSCI
RepRisk ESG data science and quantitative solutions
SUSTAINALYTICS
TRUVALUE LABS

End Users

Civil society and other stakeholders such as communities, employees, customers, governments and investors.

Source: Sustainability Accounting Standards Board

***Framework:** A set of principles and guidance for "how" a report is structured; **Standards:** Specific, replicable and detailed requirements for "what" should be reported for each topic

Suggestions for M&F Committee and Staff

1. Continue to raise awareness and ask questions about the relevance of ESG to your stakeholders and the financial implications

2. Think more strategically from a governance and leadership perspective on how this could play into both investment decisions as well as bond market considerations

3. GFOA recommends that governments evaluate the development and disclosure of information regarding the primary ESG risks – ref GFOA ESG Considerations

4. S&P Global states pressure will grow on both corporate boards and government leaders to enhance their ESG skills

5. We recommend committee and staff be more intentional about all of the above. Ideally, moving to integrate ESG broadly within city government with a focus on areas of financial materiality to your stakeholders and impacts on your communities.

Frazier Global
Excellence. Everywhere.

Questions?

- Thank you for your leadership – first step is awareness!

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Appendix info

Figure 6: ESG considerations: similarities and differences across different types of issuers

	CORPORATE*	US MUNI**	SOVEREIGN
ISSUER STRUCTURAL FEATURES THAT MAY OFFSET OR REDUCE AN ESG RISK			
Taxation authority to service debt	No	Depends on security; general obligation bonds are typically full faith and credit, which can include taxing power	Yes
Monopoly over selected products or services	Occasionally	Often	Often
Debt monetisation* **	No	Deficit financing is rare due to balanced budget requirements	Yes
External support	Potentially from a parent company or government subsidies	Borrowers may have access to other state or federal support, depending on the jurisdiction	No, aside from bilateral or multilateral debt relief
Diversity of economic activity as a risk mitigant	Depends on size, product offering, breadth of revenue streams	Depends on issuer economic characteristics, breadth of revenue and purpose of financing	Depends on issuer economic diversification and taxable base
MANAGING ESG ISSUES			
Availability of ESG data	▪ Disclosed by issuers ▪ Available through CRAs and third parties ▪ Peer comparison difficult	▪ Disclosed by public sources and issuers (often upon request) ▪ Available through CRAs and third parties ▪ Data can be patchy	▪ Disclosed by public sources and issuers (often upon request) ▪ Available through CRAs and third parties ▪ Data can be stale
Investors screening issuers for ESG reasons	Yes	Sometimes	Rarely
Degree of investor engagement with issuer	Less common than for shareholders	Less common than for corporate bondholders and more challenging	Less common than for corporate bondholders and more challenging
Able to move geographic location	Yes	No****	No
Social stakeholders	Employees, customers, supply chain	Local population, taxpayers, employees and the service base	National population, taxpayers
Governing body	Appointed	Depends on sector as to whether elected or appointed	May be elected

*Corporate excludes quasi-governmental organisations, which have the legal characteristics of both governmental and private entities.

**US muni issuers as per the classification of Figure 1.

***Debt monetisation is also known as monetary financing and is colloquially referred to as printing money by a central bank to allow a sovereign to finance its deficit or repay its debt.

****General obligation issuers typically cannot move. In rare cases revenue bond issuers may be able to relocate within their service area.

Source: Principals for Responsible Investment: ESG Integration in Sub-Sovereign Debt – The U.S. Municipal Bond Market

ESG Considerations for Governmental Issuers

Understanding ESG opportunities and risk factors and why governments should make them a priority

Government Finance Officers Association

JUNE 2020

Introduction

ESG (environmental, social, and governance) refers to three key types of factors that can impact a government's credit profile. In general, ESG factors represent areas believed to affect the long-term sustainability of a community, such as a community's exposure to climate risk ("E"), long-term demographic changes ("S"), or management of pension liabilities, among other governance issues ("G"). An increasing percentage of investors are considering ESG factors when evaluating, selecting, and monitoring their municipal bond investments. Many governmental issuers are also focused on addressing the significant ESG issues affecting their communities (e.g., climate change, pollution, cybersecurity, fraud, etc.) and how these ESG risks, as well as strategies and plans to mitigate them, are communicated to the municipal bond market and the public.

The majority of ESG factors are not new to issuers or investors; many ESG factors coincide with traditional credit factors historically looked at by both investors and credit rating agencies. However, current challenges, such as the climate crisis and concerns about population declines, particularly in rural areas, and the uptick in frequency and sophistication of cyber attacks have increased the focus on social issues, environmental risks and governance planning. Additionally, more information is now available, making it easier for investors to incorporate ESG factors into investment decisions.

ESG is being discussed and explored across the public finance industry. This resource is intended to help GFOA members understand the importance of ESG and how it relates to their communities.

Current challenges have increased the focus on **social issues, environmental risks and governance planning**.

What is ESG?

ESG factors refer to specific areas that present risks or opportunities that could affect the credit profile of a government issuer and long-term sustainability of an investment. An ESG *risk* is identified as such because it could pose a risk to the government issuer's ability or willingness to repay its debt. Examples of ESG risks can be found in Figure 1.

An ESG *opportunity* is a little more subtle than a risk. It refers to an ESG-related credit strength. Examples could include having an abundant water supply or affordable housing.

The term "ESG" is also sometimes used to discuss socially responsible investing, values-based investing, or impact investing, all areas of investment that are concerned with how bond proceeds are being used and the potential outcomes of that use. For the purposes of this paper, the term "ESG" will be used in discussion of credit risks/opportunities, and "socially responsible investing" to discuss use of proceeds analysis.

Figure 1 Examples of ESG Risk Factors

Environmental Factors

- Extreme weather, flooding, sea level rise
- Climate change affecting agriculture, infrastructure, and water supply
- Impact of carbon emission regs
- Violations & consent decrees
- Supply chain disruption

Social Factors

- Demographic changes & population trends affecting demand for services
- Income levels, inequality
- Dependent populations
- Affordability of government services
- Tax structure, taxing ability
- Labor unrest

Governance Factors

- Federal/state framework
- Management & policy framework
- Decision making transparency
- Headline risk
- Organizational structure
- Risk culture & risk mitigation
- Deferred maintenance
- Pension & OPEB

A note on climate risk

Climate risk has begun to receive significant attention. The increase in the number of wildfires and hurricanes in recent years have raised public awareness about climate change. The Yale Center for Climate Change Communication conducts a semi-annual survey of Americans on global warming and found that in December 2018, 59% were alarmed or concerned about global warming, up from 42% in December 2013.[1]

Investors are typically looking at two main categories of climate risk: physical risks (which could include exposure to wildfires, sea level rise, flooding, water stress, or heat stress) and transition risks, which seeks to measure exposure to the effects of the transition off fossil fuels. Transition risks could include significant concentration of employment or the tax base in the fossil fuel industry, or for an electric utility, significant reliance on fossil fuel burning generators.

In general, investors and the rating agencies are not just looking to see if these risks are present, but also what plans a government issuer has to manage these risks, which could include creation and enactment of a climate adaptation plan, as well as allocation of resources available to offset the risks.

Investor Considerations

There are more investors today considering ESG factors when making their investment decisions than there were just a few years ago. Many in the investment community believe this trend will only continue. The motivations behind those decisions can be based on ESG risk assessment or impact/social investing priorities (what impact does the financing have on the community?).

ESG Risk Analysis

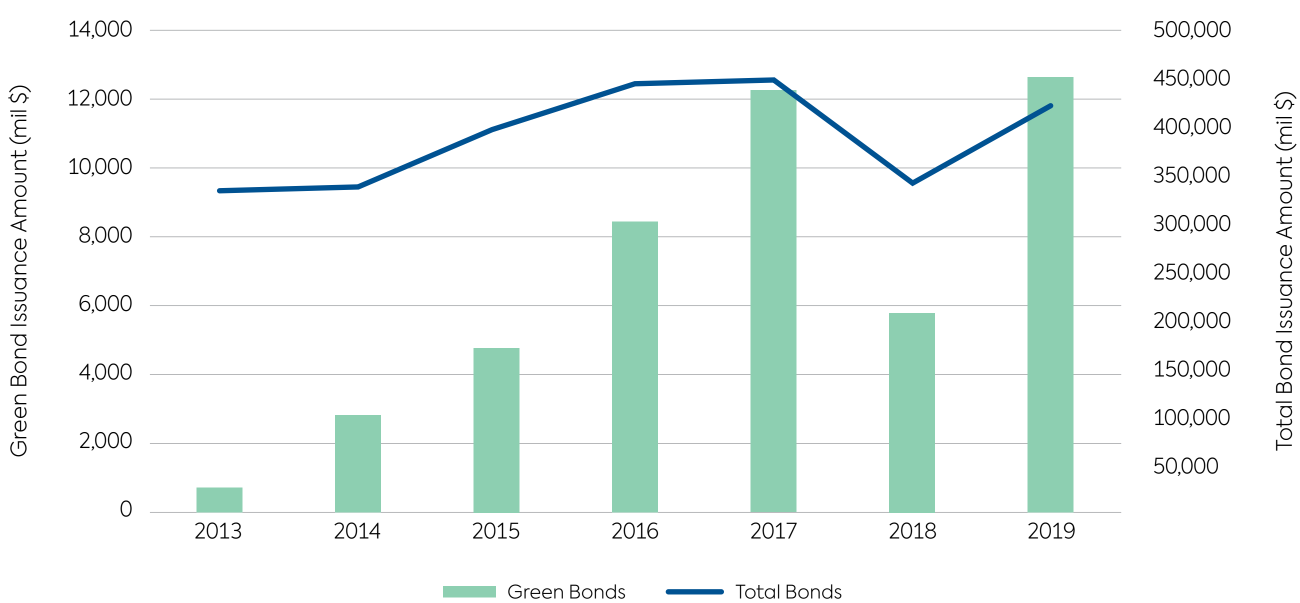
With regard to ESG risk assessment, many investors believe they will be able to sustain better returns over the long term and/or avoid credits experiencing distress by investing in entities that have fewer ESG risks or are actively managing those risks, as well as those who utilize good governance policies. These investors expect that with good ESG practices at the core of an issuer's operations, they will be less likely to experience a decline in credit quality stemming from disruptors such as climate change, income inequality or the pressure from underfunding pensions. Issuers with good governance practices and transparent, proactive policies also provide investors with comfort that the organization can adjust to a changing world.

Socially Responsible Investing

Some investors are concerned about the environmental and social impacts of their investments. These investors are typically looking at the use of bond proceeds and are gauging the potential impact of an investment based on not just the issuer itself and its ESG practices, but what types of projects the bond is funding. These investors might be searching for particular types of projects, such as renewable energy or K-12 education, to put in their portfolios (a "positive" screen) or could just be trying to eliminate projects seen as harmful (a "negative" screen).

The good news is that many cost-saving government initiatives related to long-term planning could be considered by investors as ESG projects. Some examples of ESG-related capital spending include switching to LED lighting in government buildings; solar powered street lights; affordable housing initiatives; community support centers, and even the creation of retention ponds and green space to reduce combined sewer overflows. Regardless of the ESG-focus of the investors, it can be helpful to all investors if issuers provide transparency about the expected impact of the projects being financed, if the data is available.

Figure 2 Historical Issuance of Green Bonds by Amount[2]



Green bonds are one way to present this type of information to investors, though issuers can also include the information in their offering documents without getting a specific certification. Green bonds are regular municipal bonds that fund projects deemed as having environmental benefits. In general, Green Bonds can be designated as such if they follow the Green Bond Principles, a widely-agreed upon set of standards developed by investors through the International Capital Market Association.[3] A number of certification organizations now exist that can officially classify bonds as "Green Bonds," or "Climate Bonds," or other categorizations, if issuers choose to seek out such certifications. Annual green bond issuance (across all assets classes) increased 120% in 2018,[4] exemplifying the increasing market interest in these types of projects.

Issuers with **good governance practices and transparent, proactive policies** provide investors with comfort that the organization can adjust to a changing world.

Figure 3 Historical Issuance of Green Bonds by Issuer[5]

Rank	Issuer	Par Amount (US$ mil)
1	Metropolitan Transport Authority (MTA)	**6,875.7**
2	NYC Housing Development Corporation	**6,221.3**
3	San Francisco City/County Public Utilities Commission	**2,068.5**
4	NYS Housing Finance-Mortgage Agency	**1,882.1**
5	Indiana Finance Authority	**1,859.6**
6	California Infrastructure & Economic Development Bank	**1,666.5**
7	Massachusetts Water Resources Authority	**1,629.5**
8	Massachusetts	**1,369.1**
9	Central Puget Sound Regional Transit Authority	**1,342.8**
10	San Francisco Bay Area Rapid Transit District	**1,183.9**

Case Study: Metropolitan Transit Authority (MTA), New York

MTA is leading the way in the issuer community for accessing capital in the municipal bond market to address ESG risks. The transit agency issued over $6.8 billion in green bonds through the end of 2019. For example, MTA has set an ambitious goal to transition to a zero-emissions bus fleet by 2040. Its fleet already includes more than 3,300 clean diesel buses, 1,683 hybrid-electric buses, 749 compressed natural gas buses, and 10 all-electric buses. Other sustainability initiatives for MTA include the construction of facilities that meet LEED standards and leasing millions of square feet of industrial roof space to companies interested in generating solar power.[6]

Credit Rating Agency Considerations

Similar to investors, credit rating agencies have long incorporated many of these ESG-type risks in their assessments, so in many ways talking about 'ESG' just puts a new frame on an existing picture. From a rating agency perspective, there is can be a correlation between higher credit quality and the inclusion of ESG factors in a government's goals and practices. An issuer that is transparent in implementing and adhering to policies which reduce or improve environmental or social pressures may also be assessed higher on the management component of their rating.

In order to achieve the highest level of transparency, it is important for issuers to understand what credit rating analysts need to evaluate and why. How issuers respond to a broad range of ESG-related questions from credit rating agencies is critical to making sure issuers demonstrate appropriate planning and preparedness.

Even though many core ESG factors have been a long-standing component of credit analysis, the rating agencies have responded to the changing needs of today's investors by becoming more transparent in their published works about how they integrate ESG factors into their municipal credit ratings. For example, the rating agencies have begun to add sections to their rating reports discussing the environmental risks of a governmental issuer, in particular in areas susceptible to increased flooding or wildfires, and all four agencies have publications describing what they are looking for in assessing ESG risks. Issuers should expect conversations surrounding ESG factors will be a consistent focus with ratings analysts going forward. There is no one-size fits all for questions or responses, as the relevance of ESG factors to a particular issuer can vary substantially depending on each issuer's geography, topography, existing infrastructure, etc. As the ESG concept continues to evolve, the landscape for

Issuers should expect conversations surrounding ESG factors will be a **consistent focus** with ratings analysts going forward.

how ESG factors are evaluated will likely mature significantly from where it stands today and we can expect ongoing information from the rating agencies on the topic of ESG and ratings.

Issuer Disclosure Considerations

With the increased focus from both investors and credit ratings agencies, issuers will likely continue to see more requests for better disclosure related to ESG factors. It is important to understand that an investor or credit rating agency's focus on assessing ESG can correlate closely to how well issuers are managing their operations via a responsible, transparent, and adaptable governance structure, particularly as it relates to the pressures that government faces. However, additional efforts or policies aligned with reducing harm or making improvements to environmental and social issues will likely be of interest to investors concerned about ESG risks. The key for municipal issuers is to determine which ESG factors are material to their own credit profile and relevant to investors. From there, issuers should tailor their disclosure around those elements.

Since the specific ESG risk factors that materially impact credit quality will vary significantly by sector and even for individual issuers within each sector, it is difficult, if not impossible, to prescribe one guideline for ESG disclosure that fits the needs of all municipal issuers.

However, generally speaking, good disclosure of ESG risk factors contain the following elements:

1. **vulnerability assessment**, or recognition of ESG related risks,
2. **plans/preparedness** for mitigating such risks, and
3. **progress updates**, including impacts of recent ESG elements/events and how they shape future response.

To comply with federal securities laws, issuers should already be considering and disclosing material risks to investors as part of their primary market disclosure practices and ESG disclosure can be an expansion of that practice.

The more clear issuers can be within their offering statement on the use of bond proceeds and benefits or expected impact of projects on the community, the more likely that these types of bonds will be sought out by impact investors therefore increasing demand for your bonds. However, issuers should use caution to not overstate such benefits without the facts to support those claims. Additionally, the question remains of whether or not certification programs, such as Green Bond assessments, yield savings to issuers through lower interest rates compared to the costs associated with obtaining and maintaining such certifications. Such programs can impose additional burdens on issuers in terms of time and money and those costs should be carefully considered, especially when tangible benefits in terms of reduced interest rates on bonds is unclear.

Conclusion

Both investors and rating analysts have been increasingly utilizing outside resources to assess the materiality of ESG risks for municipal issuers. Issuers play an important role in that overall assessment by providing specifics about their ESG challenges and action plans. This provides issuers the opportunity to tell the story of what they are facing on the ground, a point of view that is valuable to both investors and rating analysts.

Municipal bonds serve as a vehicle for impact investments and many investors want more information on the expected impact their municipal investments can have. This is where increased ESG or use of proceeds disclosure can help broaden the pool of potential investors. Additionally, since bond ratings and investor demand have a significant impact on the pricing of municipal bonds, it is generally in the issuer's best interest to provide this disclosure directly to their investing community through primary offering documents and secondary market disclosure. The increased focus and awareness from investors could also have the positive consequence of encouraging more issuers to increase their on-going efforts in identifying and mitigating ESG risks.

Overall, issuers should be aware that there could be credit rating differentiation depending on their approach to addressing ESG factors. From an investor perspective, without clear ESG information—either through a rating agency report or other disclosure—potential buyers may be conducting their own ESG analysis, which may not include the whole story as presented by an issuer. These factors should motivate municipal issuers who are still wondering if ESG should be a consideration for their disclosure practices, to invest the time needed to explore the subject and consider its application.

[1] Yale Center for Climate Change Communication. "Americans are Increasingly 'Alarmed' About Global Warming." February 12, 2019. https://climatecommunication.yale.edu/publications/americans-are-increasingly-alarmed-about-global-warming/.

[2] GFOA analysis of Thomson Reuters data available as of 12/31/2019

[3] *Green Bond Principles*. International Capital Market Association. https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/.

[4] GFOA analysis of Thomson Reuters data available as of 12/31/2019

[5] Ibid

[6] More information on MTA's Capital Program can be found at https://new.mta.info/document/10401.

Acknowledgments

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COMMENTS — CRITERIA — 10 Oct, 2021 | 15:55

General Criteria: Environmental, Social, And Governance Principles In Credit Ratings

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Tags	Americas, Latin America, United States of America, APAC, EMEA

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Table of Contents

OVERVIEW AND SCOPE

1. These criteria articulate the principles that S&P Global Ratings applies to incorporate environmental, social, and governance (ESG) credit factors into its credit ratings analysis. We do this through the application of our sector-specific criteria when we think the ESG factors are, or may be, relevant and material to our credit ratings. The methodology enhances the transparency of how ESG factors can influence creditworthiness.

2. The criteria apply to our ratings on all issuers and issues.

METHODOLOGY

3. The methodology is in two sections. The first section describes ESG credit factors and how we capture them in our credit ratings through the application of criteria. It also provides examples of key ESG credit factors. The second section describes general principles related to ESG credit factors:

- How their influence on creditworthiness can differ by industry, geography, and entity;
- How the visibility of some ESG factors (i.e., our ability to assess the likelihood or impact) is uncertain and how the influence of ESG credit factors may change as their visibility changes;
- The potential influence of the ESG credit factors on credit ratings over time; and
- The relationship between creditworthiness and ESG.

Key Publication Information

- Effective date: These criteria are effective Oct. 10, 2021, except in jurisdictions that require local registration. In those jurisdictions, the criteria are effective only after the local registration process is completed.
- This updated methodology follows our request for comment, "Request For Comment: Environmental, Social, And Governance Principles In Credit Ratings," May 17, 2021. For the changes between the RFC and the final criteria, see "RFC Process Summary: Environmental, Social, And Governance Principles In Credit Ratings," Oct. 10, 2021.

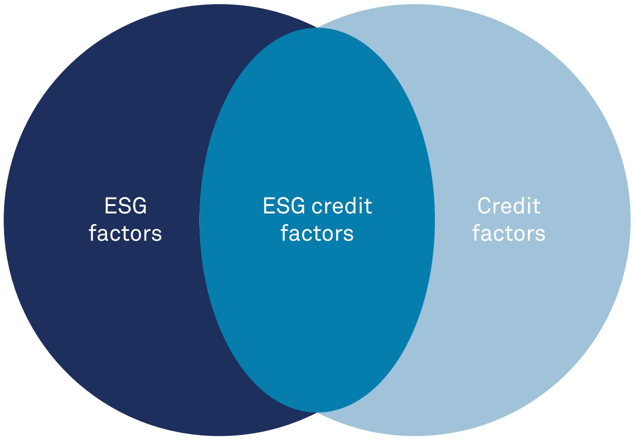
4. The appendix provides examples of how we incorporate relevant and material ESG credit factors (i.e., sizable enough to affect our analytical views on creditworthiness) into sector criteria.

Section 1: Credit Ratings And ESG Credit Factors

5. Environmental, social, and governance factors (ESG factors) typically incorporate an entity's effect on and impact from the natural and social environment and the quality of its governance; however, not all ESG factors materially influence creditworthiness and, thus, credit ratings, which measure the capacity and willingness of the entity to meet its financial commitments as they come due (see "**S&P Global Ratings Definitions**"). Therefore, we define ESG credit factors as those ESG factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis.

Chart 1

The Intersection Of ESG And Credit



ESG--Environmental, social, and governance. Source: S&P Global Ratings.

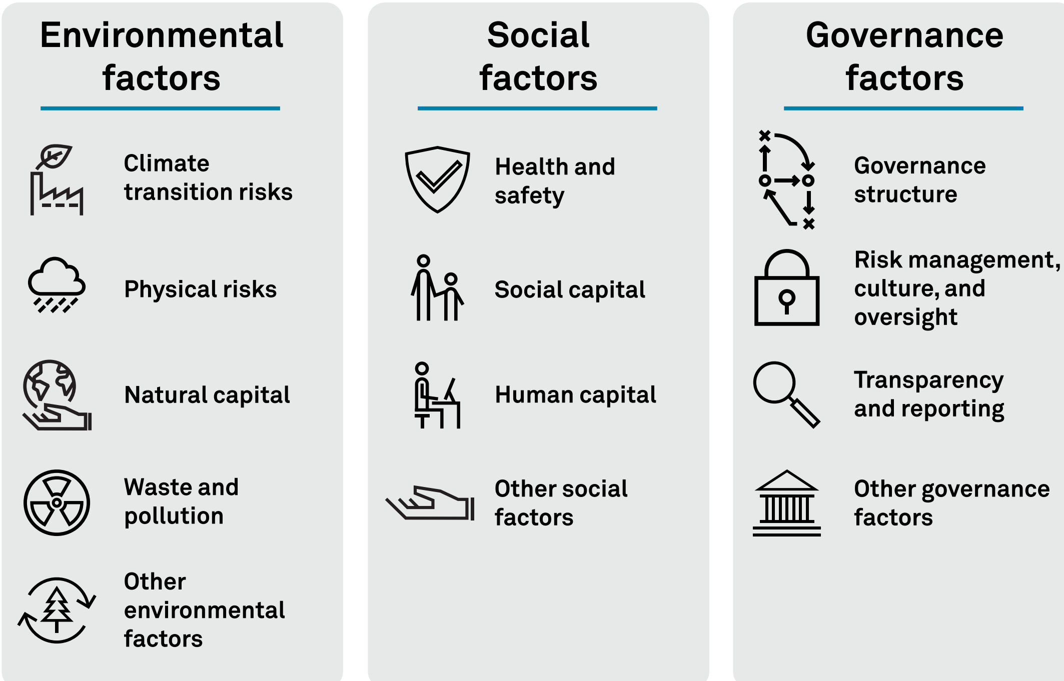
6. When sufficiently material to affect our view of creditworthiness, ESG credit factors can influence credit ratings through, for example:

- A change in the size and relative stability of an obligor's current or projected revenue base,
- Operating costs and requirements,
- Risk planning,
- Governance controls and standards,
- Profitability or earnings,
- Cash flows or liquidity, or
- The size and maturity of its financial commitments.

7. The following are examples of key ESG credit factors that have affected creditworthiness or that, in our opinion, may influence future creditworthiness. Some events may relate to more than one of the ESG credit factors.

Chart 2

Examples Of ESG Credit Factors



ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Examples of key ESG credit factors

8. These credit factors can have a negative or positive impact on creditworthiness, depending on whether they represent a risk or an opportunity.

9. Examples of environmental credit factors include:

- Climate transition risk factors, including those related to climate policy; legal, technology, and market changes to address mitigation; and adaptation requirements related to climate change;
- Physical risk factors, including event-driven or longer-term shifts in climate patterns, such as hurricanes or chronic heat waves;
- Natural capital factors, related to the stock of natural resources, which include plants, animals, soils, minerals, and air;
- Waste and pollution factors, such as waste products, water pollutants, and air emissions other than greenhouse gas emissions; and
- Other environmental factors.

10. Examples of social credit factors include:

- Health and safety factors, such as those related to health regulations that impose direct costs and safety violations that lead to financial and reputational damage;
- Social capital, including consumer and citizen relationship issues, such as mis-selling of products linked to environmental and social factors, as well as socioeconomic and demographic issues;
- Human capital factors, such as factors linked to employee disputes, employee productivity, talent attraction and retention, and access to skilled labor; and
- Other social factors.

11. Examples of governance credit factors include:

- Governance structure factors, including those linked to the board's composition, independence, turnover, skill sets, and key person risk, as well as the institutional framework or assessment for governments;
- Risk management, culture, and oversight factors, including cyber risk;
- Transparency and reporting factors, including factors linked to the quality of information disclosure; and
- Other governance factors.

12. Climate transition risk and physical risk-related factors may be among the most significant ESG credit factors that affect the creditworthiness of rated entities. This is primarily because of policymakers' efforts to reduce emissions or to ensure that greenhouse emissions reflect their full social costs ("climate transition risk") and climate change, which is leading to more frequent and severe extreme weather events ("physical risk").

Section 2: General Principles Of How ESG Credit

Factors Can Influence Credit Ratings

Chart 3

General Principles Of How ESG Credit Factors Can Influence Credit Ratings

Principle One

Our long-term issuer credit ratings do not have a pre-determined time horizon.

Principle Two

The current and potential future influence of ESG credit factors on creditworthiness can differ by industry, geography, and entity.

Principle Three

The direction of and visibility into ESG credit factors may be uncertain and can change rapidly.

Principle Four

The influence of ESG credit factors may change over time, which is reflected in the dynamic nature of our credit ratings.

Principle Five

Strong creditworthiness does not necessarily correlate with strong ESG credentials and vice versa.

ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Principle 1: Our long-term issuer credit ratings do not have a predetermined time horizon.

13. Our credit ratings are informed by an entity's current and past performance, are forward-looking, include both qualitative and quantitative factors, and typically incorporate our quantitative financial forecasts. These financial forecasts are for the period over which we believe we have a sufficiently clear view of an entity's potential financial performance, considering the asset class, capital structure, and the potential impact of relevant credit factors, including ESG credit factors.

14. For instance, an established business' next two years of revenues or an obligor's ability to refinance at a certain cost of funding within the short to medium term carries less uncertainty than longer-term forecast assumptions.

15. The uncertainty about when and how a credit factor can change can be very high. In this case, we would typically continue monitoring that credit factor, but we would not necessarily make specific assumptions about it in our analysis. An example of this would be an unexpected, drastic change in technology or customer behavior or extreme climate or political events that, while plausible, we may not have a view regarding their timing or likelihood. This uncertainty may limit our ability to take the impact into account in advance. However, as the timing and likelihood of these events become clearer, we may incorporate the impact of those risks into our view of creditworthiness.

16. Many credit factors that can affect our view of creditworthiness fall between these two extremes.

17. For instance, we include the impact of ESG credit factors, such as climate transition risks related to carbon dioxide and other greenhouse gas emission costs, waste and other pollution costs, or health and safety costs, if we deem these material to our analysis of creditworthiness and if we have sufficient visibility on how those factors will evolve or manifest.

18. An example of a climate transition risk that could be sufficiently visible to incorporate into financial forecasts would be a carbon emissions tax that an entity would have to pay and be unable to pass on the cost to its customers. On the other hand, financial forecasts would not include the potential future cost of an extreme weather event or potential future public policy decisions to levy carbon taxes because the timing and impact of the weather event and the potential public policy decision are not sufficiently visible.

19. Alternatively, if risk factors could be sufficiently visible but are expected to crystallize outside of the financial forecast horizon, we could factor those into our credit ratings in our qualitative considerations. In the case of a corporate entity, we can do this analysis at the industry level, through, for example, the forward-looking element of our industry risk assessment, which is an input to corporate ratings. We could also factor these into our credit ratings at the individual rated entity level, through the qualitative elements of the corporate competitive position analysis or the application of the corporate comparable ratings analysis modifier.

Principle 2: The current and potential future influence of ESG credit factors on creditworthiness can differ by industry, geography, and entity.

20. ESG credit factors may be relevant to our opinion of creditworthiness across sectors and asset classes. However, the materiality and visibility of those factors, as well as the risks and opportunities they bring--and our assessment of the cost and effectiveness of any measures taken to mitigate those risks and to profit from those opportunities--can differ by industry, geography, and entity.

21. A small subset of corporate industries may have greater exposure to climate transition risk than other corporate industries (see note 1). For example, the exposure to climate transition risks due to public policy actions aimed at increasing the cost of carbon dioxide and greenhouse gas emissions may be relatively concentrated in industries like transportation or fossil fuel and basic material production (see note 2).

22. Similarly, certain geographic areas may face greater physical risk exposure than others. A higher exposure to the impact of physical risks through extreme weather events depends on, among other things, geographic location, levels of economic development and vulnerability, and the choices and implementation of climate adaptation and mitigation options. Therefore, rated entities with assets located in certain countries and areas may face greater physical risk exposure too (see note 3).

23. In addition, how ESG risk exposures influence the creditworthiness of individual rated entities will depend on other factors, including how the rated entity is managing the risk exposure and whether the rated entity is implementing, or plans to implement, risk mitigation measures. Put another way, the gross potential exposure to ESG risks can be partially or fully offset if obligors (such as corporate entities, insurance companies, governments, banks, and other financial institutions) decide to eliminate or mitigate risks. They could do this, for example, through insurance or, over time, through business or economic transformation (including, for instance, investment in a resilient infrastructure capable of withstanding extreme weather events or rising sea levels) and other risk mitigation and adaptation measures.

Principle 3: The direction of and visibility into ESG credit factors may be uncertain and can change rapidly.

24. It is typically more difficult to forecast over the long term than it is over the short term. Therefore, how and when factors--including those related to ESG--will affect creditworthiness can be less certain and less visible over longer periods. Furthermore, the influence of many ESG credit factors on creditworthiness is uncertain, given their complex nature and the dynamic effects of public policy decisions.

25. For example, climate change, and extreme weather-related, physical risk factors are highly uncertain in terms of when and where they might occur, as well as their potential severity and impact on assets (see note 4). And, the potential impact of the events at the rated entity level will depend on what counterbalancing measures the entity has taken to mitigate or adapt to the risk.

26. Furthermore, potential public policy decisions will affect how ESG will influence creditworthiness (see note 5). For example, those decisions are often influenced by electoral cycles and may be subject to rapid change in areas such as carbon pricing, ESG disclosure, reporting and transparency requirements, general and ESG-linked governance standards, and social obligations.

27. Finally, feedback loops between certain ESG credit factors heighten future uncertainty. For example, public policy decisions about carbon pricing and emissions reduction targets may influence levels of greenhouse gas emissions, which may affect the frequency and severity of future physical risk beyond those stemming from historical emissions. Similarly, changes in public awareness of social risks may lead to changes in citizen or customer behavior, which may affect a government's or company's creditworthiness.

Principle 4: The influence of ESG credit factors may change over time, which is reflected in our dynamic credit ratings.

28. Our credit ratings are dynamic. As part of ratings surveillance, we analyze current and historical data that may be relevant to creditworthiness. If we observe events that are significant to our forward-looking view of relative creditworthiness, we may adjust our ratings accordingly and communicate our updated views to the market so that our ratings continue to appropriately differentiate relative creditworthiness. Our ratings can evolve over time to incorporate changes to market, industry, regulatory, or issuer-specific credit factors.

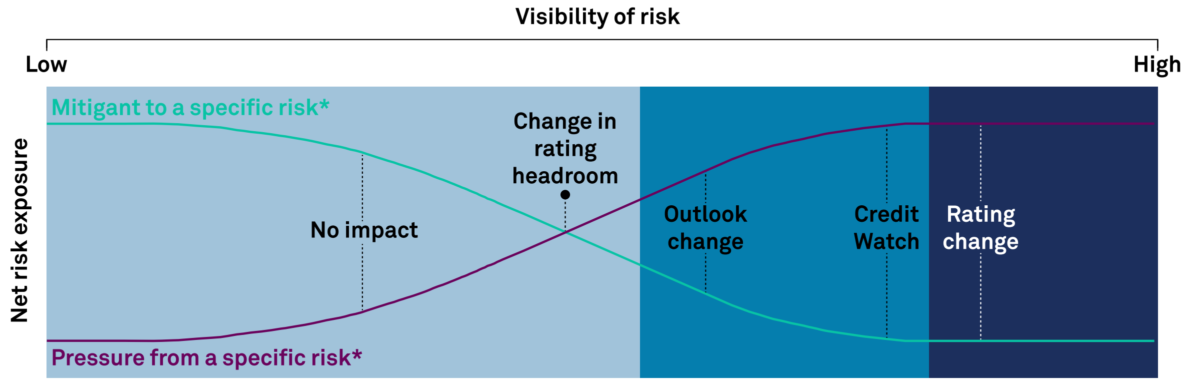
29. An obligor's exposure to credit factors, including ESG credit factors, and the way in which the exposure is disclosed, managed, and mitigated may evolve over time. A factor may become more visible, for example because of enhanced risk-based disclosures (see note 6). Also, the potential impact could become more certain or material over time--for example, in the case of a new public policy being enacted to increase the known cost of carbon emissions, thereby increasing climate transition risk and costs for entities that emit carbon. The potential net impact of an ESG credit factor may also become more certain over time if the obligor takes effective action to mitigate or eliminate its exposure by, for example, investing in climate adaptation infrastructure to reduce physical risk.

30. We monitor the impact of credit factors, including ESG credit factors, and our view can evolve as new information becomes available, perhaps as a result of new standardized disclosure regulations or as an issuer's fundamentals change. Also, our view can evolve, for example, if changes in public policy influence the economics of a business and its creditworthiness.

31. In some cases, a risk or strength that we currently consider immaterial to creditworthiness can later become material. This could happen, for example, if new information becomes available, or if a policy or legal change imposes new or higher costs, such as carbon dioxide and other greenhouse gas emission costs, on the obligor. Another example would be an asset-heavy business suffering a reduction in the value of its investments in carbon-intensive companies because of the transition to a low-carbon economy. The tipping point for a change that leads to a credit rating or outlook change or a CreditWatch placement may be influenced by the amount of headroom, if any, within the credit ratings on the obligor or issue. This headroom provides capacity for some of the credit factors (that are embedded in the rating) to change without the credit rating or outlook (where applicable) changing. Headroom can change over time.

Chart 4

Visibility Of Risks: Impact On Ratings



*Both the pressure from the risk and the mitigants to the risk can change or stay the same over time. This chart shows how the influence of a specific ESG risk--or opportunity--may change over time as visibility increases. Source: S&P Global Ratings.

32. A credit rating can include the potential effects of a given policy action when we believe that a policy will be implemented. This makes its potential credit implications more predictable. In some cases, we could also consider the potential credit implications, and possibly take credit rating actions, when a future policy change is agreed and highly certain to be implemented but with a delay.

Principle 5: Strong creditworthiness does not necessarily correlate with strong ESG characteristics and vice versa.

33. Creditworthiness measures an obligor's capacity and willingness to meet its financial commitments as they come due. ESG credit factors that may be relevant and material to creditworthiness are a subset of all the factors that could be relevant to creditworthiness (see "**Principles Of Credit Ratings**").

34. Given this, entities with strong creditworthiness may not necessarily have strong ESG characteristics. Take, for instance, an entity that has relatively weak environmental characteristics because of its exposure to climate transition risks but strong, relatively stable revenues, earnings, and cash flows, as well as minimal future financial commitments. We could view this entity as relatively creditworthy when we believe there is a strong likelihood that the obligor will continue to have sufficient resources to meet its minimal financial commitments in full and on time.

35. Similarly, we could view an auto company that complies with applicable laws, but whose current product line has relatively high carbon dioxide emissions per kilometer because of its less fuel-efficient cars and small share of hybrid and electric cars, as being creditworthy if we expect its available resources to remain reasonable relative to its financial commitments.

36. On the other hand, an entity that provides a product or service that is viewed as being ESG-friendly and whose social and governance standards are neutral, such as low-emission renewable energy wind turbines, could have relatively weak creditworthiness if its revenues, profitability, and available liquid resources are low and unstable relative to high, fixed future financial commitments. This is because, in this scenario, it's reasonably likely the entity would not have the resources to meet its financial commitments in full and on time and, therefore, could default on those commitments. This default risk would be independent of the entity's favorable ESG characteristics.

37. In addition, decisions that an entity or public policymakers make to balance the competing interests of different stakeholders may have the opposite impact on the entity's creditworthiness and its ESG reputation. For example, a community relations-focused regulation that imposes additional net costs on an entity could improve its ESG reputation but weaken its cash flows and ability to meet its financial commitments.

APPENDIX: SECTOR SPECIFIC

38. The credit factors, including ESG credit factors, that we may incorporate into our ratings are described in our criteria for each sector and asset class.

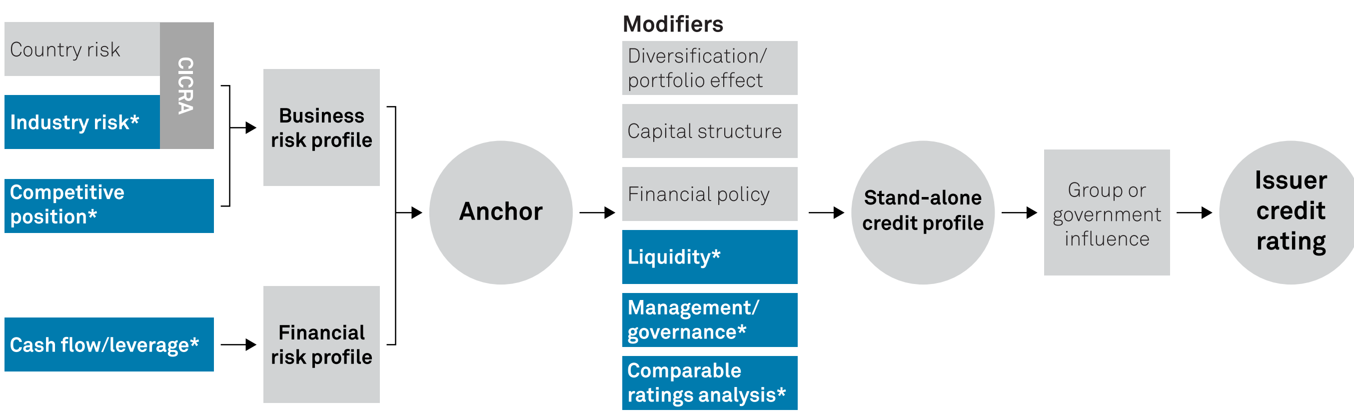
39. ESG credit factors can affect credit ratings through their influence on credit rating components, such as industry risk and country risk, as well as entity-specific factors, such as competitive position and financial performance and leverage. Any future changes in public policy that can materially influence credit risk through, for example, changes in product demand and industry economics, may be captured at the rated entity level in several ways, including through industry risk analytics. Any future structural changes in climate that can materially influence particular regions and countries may be captured at the rated entity level in several ways, including through our assessment of country risk.

40. The following sections provide examples of how we incorporate ESG risks through the application of our sector-specific criteria when we think ESG credit factors are, or may be, relevant and material to our credit ratings. The criteria frameworks identified are not an exhaustive list, but are meant to illustrate our approach.

Corporate Criteria

Chart 5

Corporate Criteria Framework



*Categories most likely to include consideration of environmental, social, and governance credit factors.
CICRA--Corporate industry and country risk assessment.

Examples of the potential influence of ESG credit factors on the corporate analysis

Environmental

Social

Governance

Climate transition risk: Higher carbon dioxide emission costs leading to weaker profitability--reflected in the competitive position category of the corporate criteria (see chart 5)--and debt service coverage ratios (cash flow leverage analysis)

Waste and pollution: Fines imposed due to breach of pollution regulations leading to weaker profitability and liquidity

Other environmental factors: Increasingly stringent and expensive regulatory requirements that can create prohibitively high barriers to entry in certain industries (reflected in industry risk)

Health and safety: Entities that suffer a drop in demand and revenues because of social distancing rules, including travel restrictions to stop the spread of virus, resulting in lower profitability

Social capital: Aging population trends in advanced economies leading to sustainable positive growth in certain sectors (such as old age homes and health care and pharmaceutical companies), which is reflected in industry risk

Risk management, culture, and oversight: Material deficiencies in governance and risk management leading to brand and reputation damage and financial losses (considered in the competitive position and management/governance categories)

Risk management, culture, and oversight: A history of regulatory, tax, or legal infractions beyond an isolated episode or outside industry norms, creating liability risk that can affect a company's balance sheet (as part of the cash flow leverage analysis) or liquidity

Hypothetical corporate environmental (climate transition risk) example

41. The company emits significant greenhouse gases from its production process and, as a result, is exposed to climate transition risk.

42. The company's posttax profitability declined last year and is forecast to fall further because of levied carbon taxes, which has weakened the debt service ratios, reflected in cash flow leverage. We think the company is vulnerable to even more profitability declines because of possible carbon tax rate increases.

43. Several lenders, insurers, and investors have stated their intention to reduce lending, investment, and provision of insurance coverage to the industry by 2030.

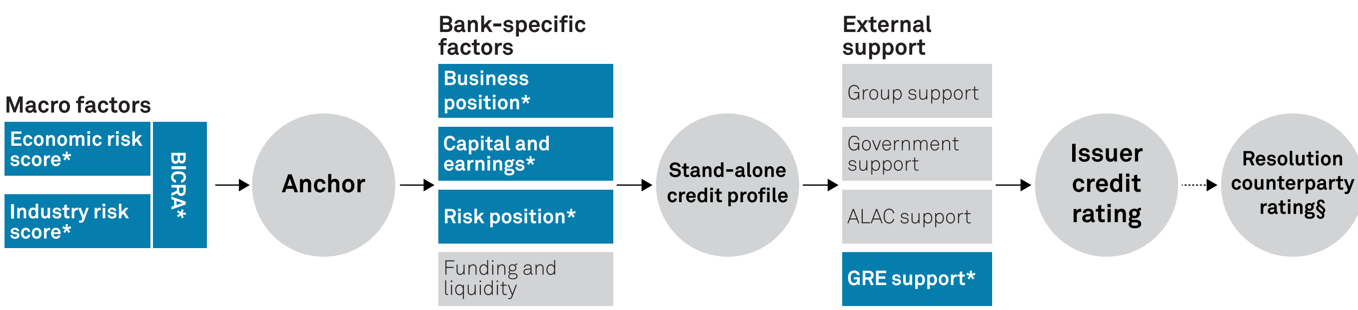
44. We apply a negative comparable ratings analysis adjustment to capture the carbon profitability risk beyond the financial forecast period and the risk of reduced access to debt, equity, and insurance. As a result, our ratings on the company are one notch lower than they otherwise would have been.

45. The ratings surveillance of the company continues to focus on the public policy debate regarding whether and when carbon tax rates could increase, and the exposure of lenders, investors, and insurers to the industry and the company, which will influence liquidity risk and risk mitigation (through insurance).

Financial Institution Criteria (Banks And Nonbank Financial Institutions)

Chart 6

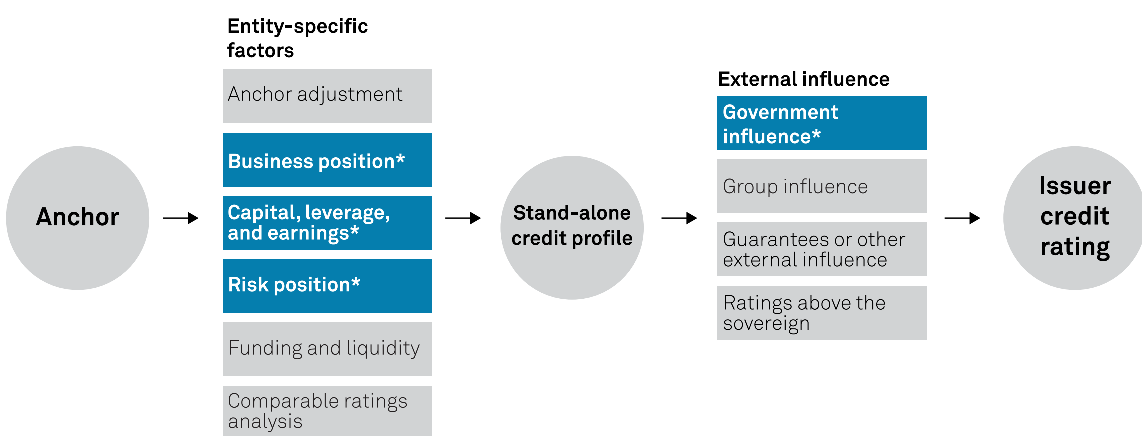
Bank Criteria Framework



*Categories most likely to include consideration of environmental, social and governance credit factors.
§Subject to jurisdictional assessment and expected resolution strategy.
BICRA--Banking industry and country risk assessment. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Chart 7

NBFI Criteria Framework



*Categories most likely to include consideration of environmental, social, and governance credit factors.

Examples of the potential influence of ESG credit factors on the financial institutions analysis

Environmental

Social

Governance

Climate transition risk: A financial institution's (FI) risk position--which is one of the sector-specific factors in the bank criteria and the nonbank financial institutions (NBFI) criteria (see charts 6 and 7)--may be affected if we anticipate the FI will suffer material charges due to the impact of climate transition risk on its loan and investment portfolios.

Physical risk: Business position could come under pressure because of weakening asset quality amid more extreme climate conditions.

Social capital: Lending activities that may be socially sensitive, such as high interest payday loans, can lead to reputation and regulatory risk (which we consider in our business position assessment)

Governance structure: Strategic execution risks that could lead to sustained lower absolute earnings (part of capital and earnings for banks and capital, leverage, and earnings for NBFIs) and relative to peers

Risk management, culture, and oversight: Litigation due to weaknesses in governance, risk appetite, or the control framework leading to new risks not related to the credit quality of loans and investments, including, for example, money laundering or cyber risk (reflected in business position)

Hypothetical bank governance (risk management, culture, and oversight) example

46. Governance and risk management failures mean that the bank fails to prevent significant money-laundering activities at some of its branches.

47. An investigation into these activities highlights material control and governance deficiencies, which causes us to revise down the bank's risk position assessment.

48. We also revise down the capital and earnings assessment since we expect the bank to incur significant regulatory fines or legal costs because of the money laundering and potential for earnings to fall materially due to reputational damage or the closure of business lines.

49. As a consequence, we lower the stand-alone credit profile (SACP).

50. If these events lead to changes in the bank's business model, we could also change the business position assessment.

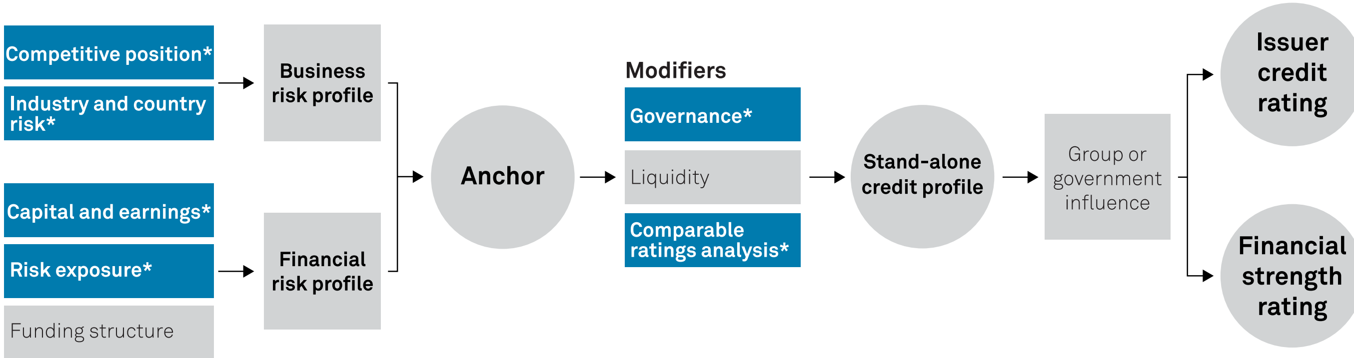
51. If money-laundering activities are also material for other banks in the same jurisdiction, this could weaken the industry risk score and the BICRA for that jurisdiction, which could lower the anchor for banks operating there.

52. Ratings surveillance continues to focus on how the bank changes its control and governance frameworks, how it rebuilds its capital and reputation, and the impact of changes to the business model.

Insurance Criteria

Chart 8

Insurance Criteria Framework



*Categories most likely to include consideration of environmental, social, and governance credit factors.

Examples of the potential influence of ESG credit factors on the insurance analysis

Environmental

Social

Governance

Climate transition risk: Insurers' risk exposure assessments--in the insurance criteria (see chart 8)--could weaken if they hold significant concentrations in assets with return characteristics that could be adversely affected by a change in investor appetite in response to shifts in policy or consumer demand.

Physical risk: If exposure to the impact of extreme weather events is material and may contribute to above-average volatility in prospective capital adequacy, we may revise down our risk exposure assessment.

Social capital: An insurer's competitive position may be affected by the way it treats its customers. For example, mis-selling policies or regularly avoiding legitimate claims could affect the strength of the insurer's brand and potentially its profitability if it incurs significant fines.

Risk management, culture, and oversight: Material deficiencies in governance and risk management (including cyber security failures) that damage an insurer's brand and reputation, and possibly lead to financial losses, can hurt its competitive position or financial risk profile (through, for example, capital and earnings).

Transparency and reporting: The suitability and transparency, or lack thereof, of an insurer's accounting policies can influence our assessment of the insurer's governance.

Hypothetical insurance environmental (physical risk) example

53. A non-life property/casualty insurer writes a large amount of property insurance in a region particularly prone to physical risk associated with potentially increased frequency and severity of extreme weather events as a result of climate change.

54. Windstorms in that region are occurring more often compared with historical trends, and the losses incurred are rising as the cost to replace damaged buildings has increased in order to meet new building codes. As a result, reinsurers are limiting their capacity to the region and charging a higher rate for coverage.

55. The insurance company is largely forgoing reinsurance and retaining much of its exposure on its own balance sheet to try to retain margins on the business.

56. The reduction in reinsurance protection and lack of other mitigating actions result in an increase in the company's 1-in-250 net probable maximum loss, which weakens our assessment of its capital position.

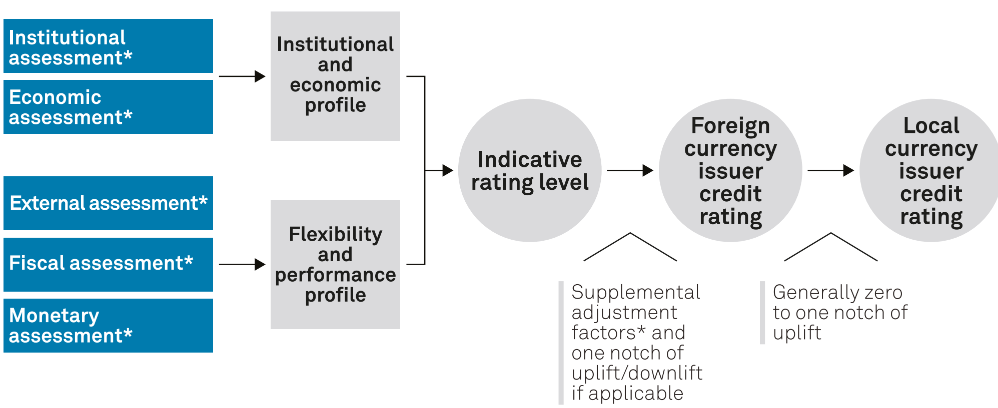
57. At the same time, our earnings forecasts are weaker because of the margin compression resulting from the increased losses and potential for more volatile earnings.

58. As a result, we revise down our capital and earnings assessment--an element of the financial risk profile analysis--for this insurance company and, consequently, revise our rating outlook to negative.

Sovereign Criteria

Chart 9

Sovereign Criteria Framework



*Categories most likely to include consideration of environmental, social, and governance credit factors.
Source: S&P Global Ratings.

Examples of the potential influence of ESG credit factors on the sovereign analysis

Environmental

Social

Governance

Climate transition risk: Quality and adequacy of planning for climate transition risks, including environmentally friendly policies and infrastructure (included in the institutional and fiscal assessments of the sovereign criteria, see chart 9)

Physical risk: Exposure to acute climate-related natural disasters exacerbated by the size of the economy (reflected in the economic, external, and fiscal assessments)

Climate transition risk: Impact of global emissions reduction objectives and, more broadly, energy transition risks on external accounts, economic prospects, and structure (considered in the economic and external assessments)

Social capital: Cohesiveness of civil society, including social mobility, social inclusion, the prevalence of civic organizations, degree of social order, and the capacity of political institutions to respond to societal priorities (reflected in the institutional assessment)

Social capital: Growing social problems, including inequality, could undermine social cohesion. If unaddressed, this could lead to political deadlock, protests, and even civil strife. This could limit the government's ability to make timely and difficult decisions during periods of economic stress to avoid weakening creditworthiness. We could reflect these trends by worsening our institutional assessment, which could result in a sovereign downgrade.

Health and safety: Impact of health and safety risks on economic, external, and fiscal performance and prospects (included in the economic, external, and fiscal assessments)

Transparency and reporting: Governance risks include freedom of the press, accountability, and the quality of information disclosure (included in the institutional, economic, and external assessments)

Other governance factors: Opinion on policy credibility, including the independence of the central bank, policymaking tools and effectiveness, track record on price stability, and role as lender of last resort (may be reflected in the institutional assessment)

Hypothetical sovereign (governance and social risks) example

59. The economic shock from a pandemic and a fall in oil prices affect the fiscal assessment and weaken the external assessment (due to rising financing requirements).

60. Historically weak political institutions and rising political uncertainty related to the upcoming election will likely reduce the effectiveness of policy responses (reflected in the institutional assessment) to the economic and fiscal issues the country faces. Legal challenges--faced by the executive and the ruling party's slim majority--complicate the situation.

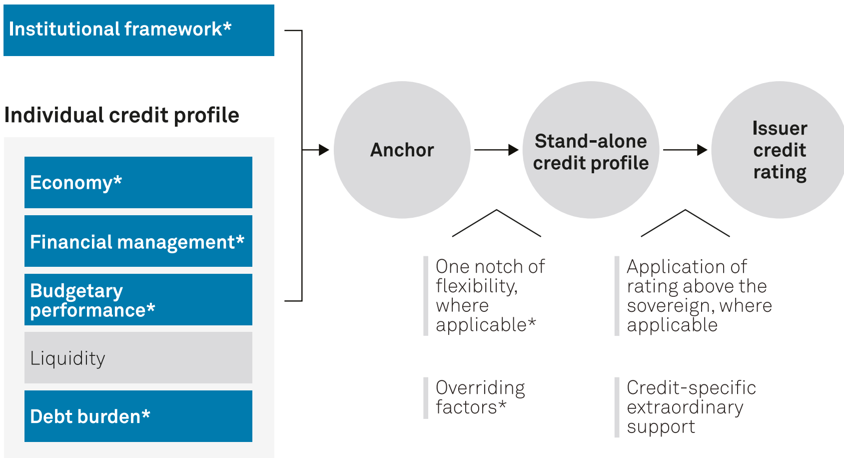
61. The resulting risk-averse stance of investors further elevates external financing risks. These stresses significantly undermine the government's willingness and ability to service its debt in full and on time.

62. We lower the sovereign rating based on the aforementioned risks, including those related to governance (specifically, in the area of strategy, execution, and monitoring) and social (health and safety risks, such as the pandemic impact) credit factors.

Non-U.S. Local And Regional Governments (LRG) Criteria

Chart 10

Non-U.S. Local And Regional Governments Criteria Framework



*Categories most likely to include consideration of environmental, social, and governance credit factors.
Source: S&P Global Ratings.

Examples of the potential influence of ESG credit factors on the non-U.S. LRG analysis

Environmental

Social

Governance

Physical risk: Impact of natural disasters (especially if exacerbated by a small and concentrated economy), rising sea levels, or pressure to reduce emissions on fiscal and economic profiles (considered in the economy and budgetary performance analysis of the non-U.S. LRG criteria, see chart 10); assessment of policies and infrastructure spending to mitigate those risks

Climate transition risk: Impact on economic growth expectations and financial performance of concentration of economic activity in sectors that are vulnerable to climate change (reflected in the economy analysis)

Physical risk: Strong management and proactive planning for resiliency that could mitigate the impact of physical risks, such as those related to rising sea levels (included in the financial management analysis)

Social capital: Impact of demographic and income factors on the need for services, economic growth prospects, budgetary balance, or provision of basic infrastructure (considered in the economy and budgetary performance analysis)

Social capital: Impact of social unrest, safety and security, or low social cohesion on economic growth prospects, budgetary balance, or provision of basic infrastructure (reflected in the economy and budgetary performance analysis)

Risk management, culture, and oversight: Impact of failure to manage pensions and other postemployment benefit obligations on financial performance (reflected in the financial management, budgetary performance, and debt burden analysis)

Other governance factors: Amount of government control over government-related entities, which could expose an LRG to additional ESG-related challenges (part of the financial management analysis)

Hypothetical non-U.S. LRG environmental (climate transition risk) example

63. A regional government with an economic base heavily concentrated in petroleum has had historically volatile revenues that fluctuate with the price of oil and natural gas.

64. Efforts to diversify and stimulate the economy have had limited success outside the petrochemical and commodities sectors and have weighed heavily on the province's budgetary performance and debt burden.

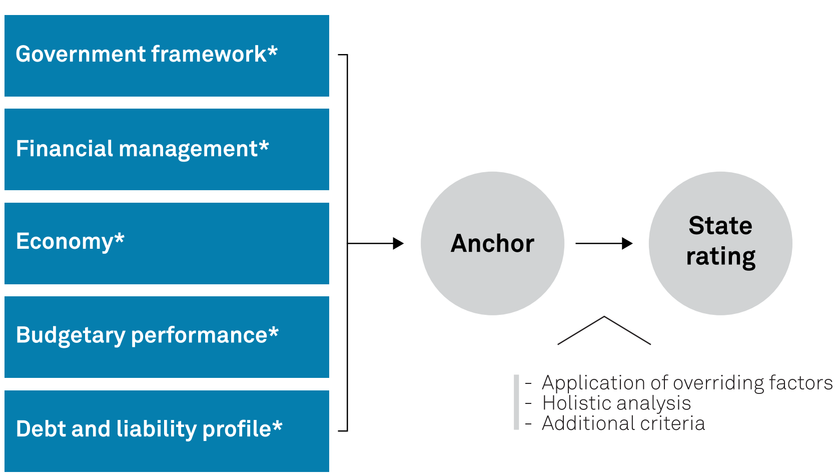
65. As oil price fluctuations and the transition to renewables threaten the oil and gas sector, major taxpayers and employers in the region face heightened financial pressure, which carries over to the province's projected budgetary performance.

66. A severe shock to oil prices causes a single-year drop in revenues, which is reflected in the budgetary performance, and the government struggles to recover its financial strength, resulting in a downgrade.

U.S. General Obligation Criteria (States And Local Governments)

Chart 11

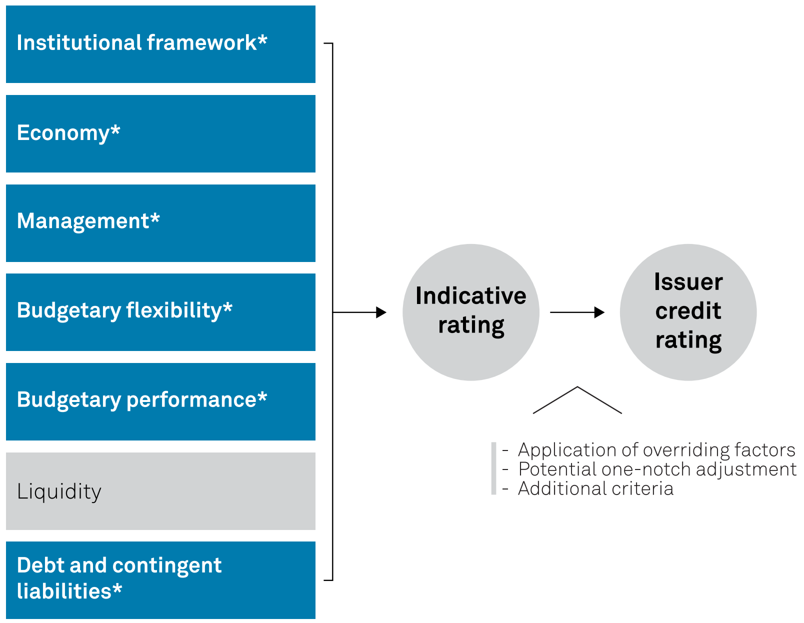
U.S. States Criteria Framework



*Categories most likely to include consideration of environmental, social, and governance credit factors.
Source: S&P Global Ratings.

Chart 12

U.S. Local Governments Criteria Framework



*Categories most likely to include consideration of environmental, social, and governance credit factors.
Source: S&P Global Ratings.

Examples of the potential influence of ESG credit factors on the U.S. states and local governments analysis

Environmental

Social

Governance

Physical risk: Exposure to weather events, rising sea levels, and other environmental and climate-related risks and evaluation of their potential impact in the context of management's long-term planning and preparation, risk assessments, and insurance coverage, as well as operational assessments (reflected in the financial management, budgetary performance, and debt and liability profile categories of the U.S. states criteria, and in the management, budgetary flexibility, budgetary performance, and debt and contingent liabilities categories of the U.S. local governments criteria, see charts 11 and 12)

Physical risk: Unmitigated variations in the local economy affecting budgetary performance as a result of changes in climate

Climate transition risk: Limitations on development and economic activity stemming from concentration in carbon emission-intensive industries, which may affect our view of the economy

Social capital: Impact of demographic and income factors on the need for services (reflected in budgetary performance), and economic growth prospects and income distribution (reflected in our view of the economy)

Human capital: Exposure to labor unrest, which may be reflected in budgetary performance as well as financial management for states and budgetary flexibility and management for local governments

Health and safety and other social factors: Exposure to health and safety issues, political unrest, and terrorism, which may be incorporated in our view of the economy and budgetary performance as well as financial management for states and budgetary flexibility and management for local governments

Risk management, culture, and oversight: Pension plan pressures stemming from funding discipline or assumptions governing the plan (included in the debt and liability profile for states and debt and contingent liabilities for local governments)

Governance structure: Oversight and board structure, including state funding for school districts, institutional framework for local governments, and government framework for states

Transparency and reporting: Transparency and disclosure (considered in the institutional framework for local governments and financial management for states)

Hypothetical U.S. local governments environmental (physical risk) example

67. Hurricanes are prevalent in the region, and physical risk is meaningful. A major hurricane devastates the city, with about 80% of structures sustaining damage and more than half of the city's residents displaced. This displacement creates significant near-term uncertainty for the local economy. If redevelopment is slow, market value and income levels could decline. Conversely, if redevelopment is robust, the economy could bounce back quickly.

68. With many local businesses closed, the city's revenues are likely to see at least near-term declines. Along with uncertainty around the city's recovery costs, this could affect its budgetary performance.

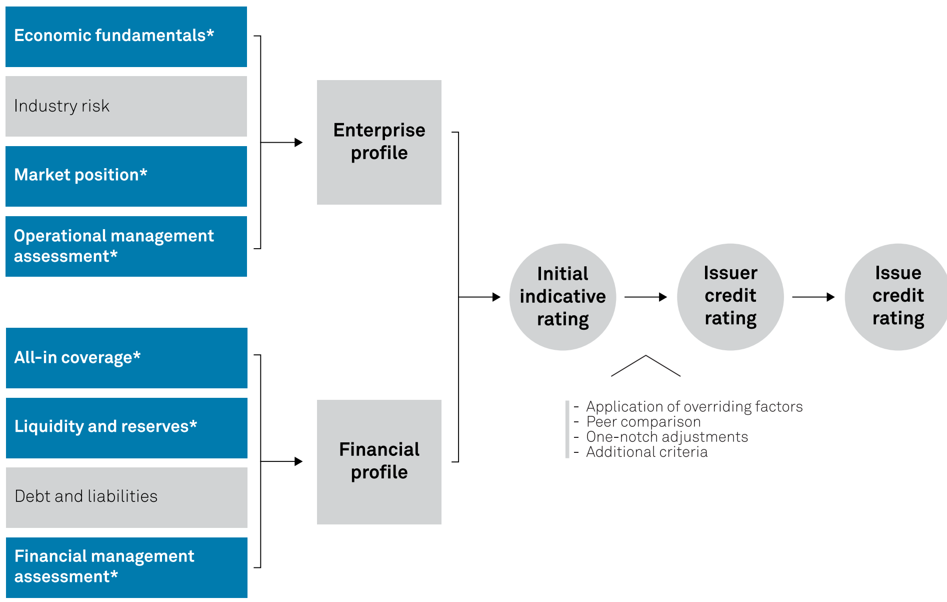
69. Although the city is vulnerable to significant weather events, such as hurricanes, its substantial budgetary flexibility enables it to address unexpected expenditures or revenue declines. However, that flexibility could decrease if the city taps reserves to address its hurricane-related capital needs, or to offset revenue declines. Additionally, debt and contingent liabilities could increase to fund projects protecting the city against future hurricanes.

70. We revise the rating outlook to negative from stable based on our view that we could lower the rating if redevelopment is slow and the economy weakens, weighing on the city's financial position (as part of budgetary flexibility and budgetary performance) and debt levels (as part of debt and contingent liabilities).

U.S. Water And Sewer Utility System Criteria

Chart 13

U.S. Public Finance Waterworks, Sanitary Sewer, And Drainage Utility Systems Criteria Framework
U.S. solid waste system financings



*Categories most likely to include consideration of environmental, social, and governance credit factors.
Source: S&P Global Ratings.

Examples of the potential influence of ESG credit factors on the U.S. water and sewer utility system analysis

Environmental

Social

Governance

Physical risk: Exposure to weather events, rising sea levels, and other environmental and climate-related risks and evaluation of their potential impact in the context of management's long-term planning and preparation, risk assessments, and insurance coverage, as well as operational assessments

(reflected in the financial management and operational management assessments of the waterworks, sanitary sewer, and drainage utility systems criteria, see chart 13)

Physical risk: Changes in the local economic fundamentals of the service area as a result of changes in climate, and climate change-driven impacts on natural capital stock affecting water quality and quantity that adversely affect the utility

Social capital: Impact of demographic and income factors on the affordability of services (reflected in market position), economic growth prospects (considered in economic fundamentals), and income distribution (part of market position)

Human capital: Organizational continuity and succession planning (included in the operational management assessment)

Governance structure: Compliance with environmental regulatory requirements (reflected in the financial management assessment and operational management assessment)

Risk management, culture, and oversight: Risk management, including capital expenditure planning and the magnitude of deferred maintenance, in the context of environmental regulation (incorporated in the financial management and operational management assessments)

Hypothetical U.S. water and sewer utility system governance (risk management, culture, and oversight) example

71. The city served by this utility has lingering effects from exposure to severe weather events, such as population declines and economic stagnation to a service area that already suffers from a poverty rate well above the national average.

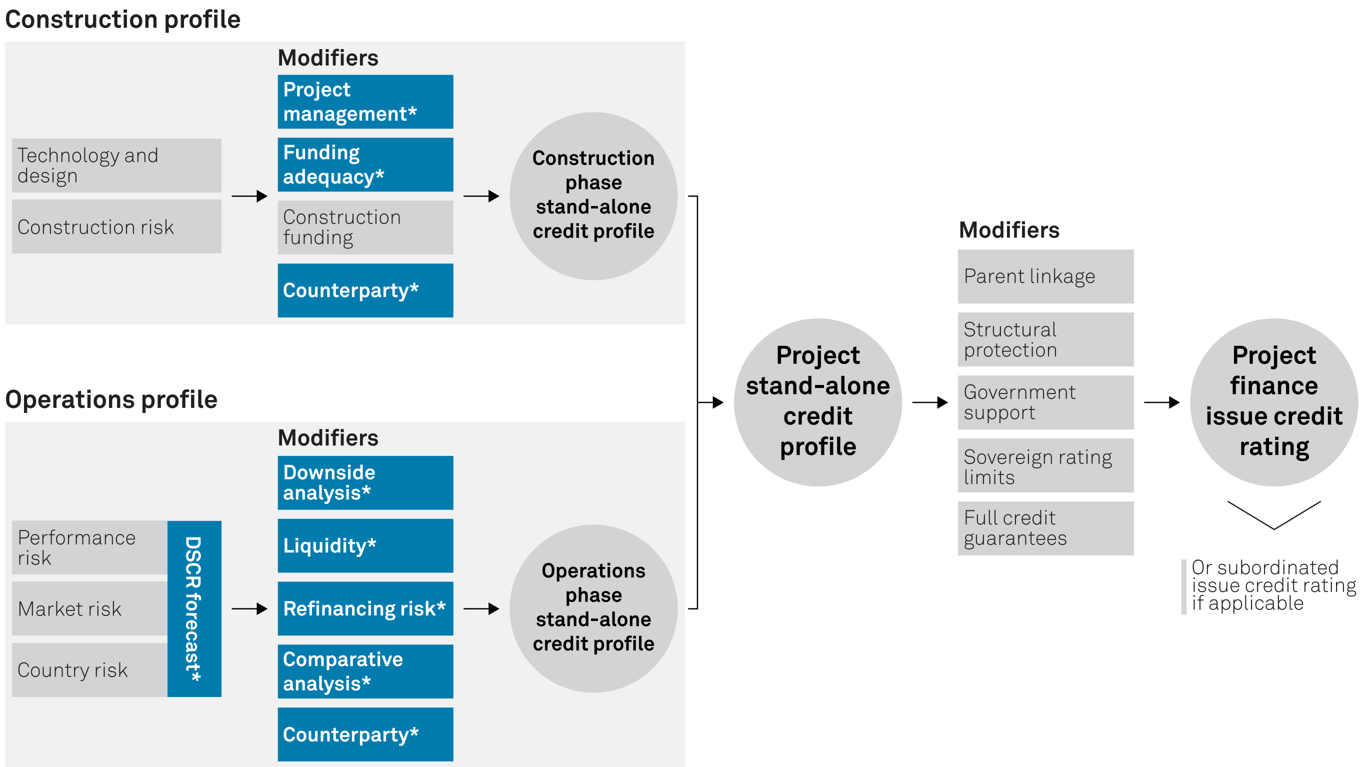
72. Because of both the sensitivities to high poverty rates and decades of deferred maintenance, much-needed rate increases either never happened or were scaled back in magnitude. Therefore, the system is in disrepair and remains in a state of noncompliance with environmental regulations.

73. We lower the rating as a result of the large unaddressed capital expenditures that reflect governance weaknesses (reflected in the financial management assessment), which have resulted in violations of environmental regulations and lowered the operational management assessment. An additional reason for the rating action--reflected in the market position assessment--is the system's uncertain path to increase utility rates given a customer base that suffers from appreciable poverty levels.

Project Finance Criteria

Chart 14

Project Finance Criteria Framework



*Categories most likely to include consideration of environmental, social, and governance credit factors.
DSCR--Debt service coverage ratio.

Examples of the potential influence of ESG credit factors on the project finance analysis

Environmental

Social

Governance

Climate transition risk: A project with refinancing risk whose product is greenhouse gas emissions-intensive could lead us to adjust interest rate and credit margin assumptions, which is included in the refinancing risk analysis in the project finance criteria framework (see chart 14).

Physical risk: If weather events delay project construction or lead to unmitigated damages, this can weaken the construction phase creditworthiness, which is reflected in the construction phase stand-alone credit profile.

Social capital: Toll roads facing opposition to tariff increases from toll road users could lead us to lower tariff rate assumptions in our cash flow assumptions, which we include in our DSCR forecast during the operations phase.

Governance structure: We may improve the construction period project management score if the concession contract clearly defines risk allocation and dispute resolution and is with a concession provider that has a history of predictable interaction with stakeholders, which is reflected in the project management analysis.

Risk management, culture, and oversight: If a project has relatively weak restrictions on additional debt and a management team that has historically tended to increase the asset's leverage after periods of overperformance, we may reflect this in the transaction structure assessment, which is part of the structural protection analysis.

Hypothetical project finance environmental (climate transition risk) example

74. A project-financed port built to enable coal exports is exposed to climate transition risk. The project has refinancing risk because it is structured with several bullet tranches of debt.

75. The project has long-term take-or-pay contracts with the mines, ensuring that revenues are predictable and stable through the term of the contracts. The mines have long-term sale contracts, minimizing the risk that they may be unable to meet their obligations.

76. Some lenders have announced plans to halt lending to the coal industry, including coal ports. This raises questions about the ability of the project to refinance, the cost of refinancing, and potentially the long-term viability of the mines and the port.

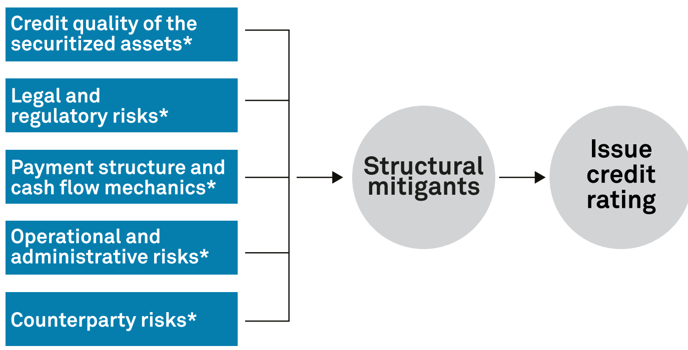
77. We incorporate this risk in the refinancing risk analysis by assuming a higher spread on refinancing and reducing the remaining useful life of the port at refinancing.

78. This has an impact on the debt service coverage ratio (DSCR) post-refinancing, which leads to a downgrade because we rate to minimum DSCR, which is reflected in the DSCR forecast analysis. The reduced useful life lowered recovery prospects and the project life coverage ratio (PLCR), which we assess in the refinancing analysis. A low PLCR caps the rating on the project.

Structured Finance Criteria

Chart 15

Structured Finance Analytical Framework



*Material environmental, social, and governance credit factors could impact any of the five key rating factors in our structured finance analytical framework.

Examples of the potential influence of ESG credit factors on the structured finance analysis

Environmental

Social

Governance

Climate transition risk: Exposure to vehicles not meeting the latest emissions standards could result in lower recovery rates or higher residual value losses, which is reflected in the credit quality of the securitized assets analysis of the structured finance analytical framework (see chart 15).

Physical risk: Concentrations by obligor, industry, or geography may increase exposure to potential natural disasters or other physical climate-related risks, such as hurricanes and flooding, which we would consider when analyzing the credit quality of the securitized assets.

Social capital: Interest rates deemed excessive could result in reduced yield or could challenge the validity of the loans in securitized pools, which would be part of the payment structure and cash flow mechanics and legal and regulatory risk analysis.

Health and safety: Social distancing restrictions implemented to control a pandemic could result in cash flow declines that affect required credit enhancement levels and increase liquidity risks, which we would incorporate in the credit quality of the securitized assets and payment structure and cash flow mechanics analysis.

Governance structure: Aggressive growth in originations may be accompanied by a weak internal control framework and looser underwriting, resulting in higher defaults, which is reflected in the credit quality of the securitized assets and payment structure and cash flow mechanics analysis.

Risk management, culture, and oversight: A successful cyber attack on the servicer could disrupt collections or result in a loss of borrower data that exposes the issuer to legal or regulatory risks, which we would factor into the legal and regulatory risk analysis.

Hypothetical structured finance social (health and safety) example

79. The outbreak of a pandemic results in unprecedented disruptions beyond more traditional risk. Activities viewed as potentially contributing to the spread of the virus, thereby posing health risks to stakeholders beyond direct employees, are more at risk.

80. These would typically include sectors reliant on social gathering, such as lodging. For some properties backing commercial mortgage-backed securities transactions, demand falls as potential customers' health and safety concerns cause a decline in the revenue per available room (RevPAR). This may ultimately impair loan credit quality, absent further liquidity support, if the property cash flows become insufficient to service the debt.

81. In addition, the ability to refinance certain of these loans becomes constrained, given significant uncertainty regarding the duration of the pandemic and the time needed for lodging demand to return to normal levels.

82. In such instances, we may decide to apply our lower net cash flow or decide to apply our higher capitalization rate on some properties to account for the increased volatility risks from the pandemic, which is reflected in the credit quality of the securitized assets and payment structure and cash flow mechanics analysis. Absent any mitigating factors, the changes in our stress assumptions could result in negative rating actions.

IMPACT ON OUTSTANDING RATINGS

83. The criteria formalize and restate in a single article our existing analytical approach to incorporating the impact of ESG credit factors in our credit analysis. Accordingly, we do not expect the criteria to affect any existing credit ratings.

RELATED PUBLICATIONS

Related Criteria

Note: The methodology relates to all foundational criteria articles used to assign credit ratings because they apply to our ratings on all issuers and issues where we believe ESG credit factors may be relevant. The related criteria list below includes the articles specifically referenced in the methodology.

- Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Insurers Rating Methodology, July 1, 2019
- Sovereign Rating Methodology, Dec. 18, 2017
- U.S. State Ratings Methodology, Oct. 17, 2016
- U.S. Public Finance Waterworks, Sanitary Sewer, And Drainage Utility Systems: Rating Methodology And Assumptions, Jan. 19, 2016
- Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Corporate Methodology, Nov. 19, 2013
- U.S. Local Governments General Obligation Ratings: Methodology And Assumptions, Sept. 12, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

S&P Global Ratings' research

- S&P Global Ratings Definitions, Jan. 5, 2021
- The Role Of Environmental, Social, And Governance Credit Factors In Our Ratings Analysis, Sept. 12, 2019
- Credit FAQ: How Does S&P Global Ratings Incorporate Environmental, Social, And Governance Risks Into Its Ratings Analysis, Nov. 21, 2017

Other research

- Managing Climate Risk in the U.S. Financial System Report of the Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the U.S. Commodity Futures Trading Commission, Sept. 9, 2020
- Integrating political and technological uncertainty into robust climate policy, Leslie Paul Thiele, Sept. 5, 2020
- IPCC, 2018: Global Warming of 1.5°C.
- Uncertainty and Ambiguity in Environmental Economics: Conceptual Issues, Geoffrey Heal and Antony Millner, September 2017
- CDP Carbon Majors Report 2017, July 2017

Notes

1) Research published in the "Carbon Majors Report" written by the CDP and Climate Accountability Institute in 2017 posited that just 100 companies have been the source of more than 70% of the world's greenhouse gas emissions since 1988.

2) Many scientists believe that the release of greenhouse gases into the atmosphere from human activity--such as the burning of fossil fuels--is a significant cause of climate change. According to the report "Global Warming of 1.5°C" (IPCC 2018), the IPCC believes with "high confidence" that "pathways limiting global warming to 1.5°C ...require rapid and far-reaching transitions in energy, land, urban and infrastructure...and industrial systems." The IPCC further believes with "medium confidence" that "transitions ... imply deep emissions reductions in all sectors."

3) Again, according to the report "Global Warming of 1.5°C" (IPCC 2018), the IPCC believes with "high confidence" that regions at disproportionately higher climate-related risk include Arctic ecosystems, dryland regions, small island developing states, and least developed countries.

4) Heal and Milner describe in their paper "Uncertainty and Ambiguity in Environmental Economics: Conceptual Issues" (Heal and Milner, September 2017) that "the scientific community understands some aspects of the behavior of the climate system well, but others poorly." They further state that "We are certainly no better, and often worse off, when it comes to our understanding of economic systems," concluding that "we are... particularly weak on the interactions between the two."

The Financial Stability Board (FSB) noted in its report "The Implications of Climate Change for Financial Stability" that "Risks to the financial system from climate change tend to be particularly uncertain in both their severity and the time horizon over which they might crystallise. They may also be more dependent on measures taken by policymakers." The FSB further notes that "It is difficult to quantify risks to financial stability from climate change precisely. The future path of climate change and its impact on the financial system are highly uncertain and could be nonlinear over time."

In its September 2020 report "Managing Climate Risk in the U.S. Financial System," the U.S. Commodity Futures Trading Commission noted that "A major concern for regulators is what we don't know. While understanding about particular kinds of climate risk is advancing quickly, understanding about how different types of climate risk could interact remains in an incipient stage. Physical and transition risks may well unfold in parallel, compounding the challenge."

5) The paper "Integrating political and technological uncertainty into robust climate policy" (Thiele, Sept. 5, 2020) describes that as "climate change is unlikely to follow a linear path, climate policies should anticipate varied outcomes and be flexibly responsive. The case for such 'robust policy' is compelling. However, advocates of robust approaches to policymaking often understate the challenge, as the variability of climate is just one of at least three

interactive arenas of uncertainty that require attention. Emerging technologies will have a significant but indeterminate impact on climate adaptation and mitigation efforts. Uncertainty is also heightened because politics is an arena of disruptive change."

6) According to the TCFD 2020 Status Report, "companies' disclosure of the potential financial impact of climate change on their businesses and strategies remains low. The Task Force recognizes the challenges associated with making such disclosures but encourages continued efforts and faster progress."

This article is a Criteria article. Criteria are the published analytic framework for determining Credit Ratings. Criteria include fundamental factors, analytical principles, methodologies, and /or key assumptions that we use in the ratings process to produce our Credit Ratings. Criteria, like our Credit Ratings, are forward-looking in nature. Criteria are intended to help users of our Credit Ratings understand how S&P Global Ratings analysts generally approach the analysis of Issuers or Issues in a given sector. Criteria include those material methodological elements identified by S&P Global Ratings as being relevant to credit analysis. However, S&P Global Ratings recognizes that there are many unique factors / facts and circumstances that may potentially apply to the analysis of a given Issuer or Issue. Accordingly, S&P Global Ratings Criteria is not designed to provide an exhaustive list of all factors applied in our rating analyses. Analysts exercise analytic judgement in the application of Criteria through the Rating Committee process to arrive at rating determinations.

This report does not constitute a rating action.

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Principles for Responsible Investment

ESG INTEGRATION IN SUB-SOVEREIGN DEBT

THE US MUNICIPAL BOND MARKET

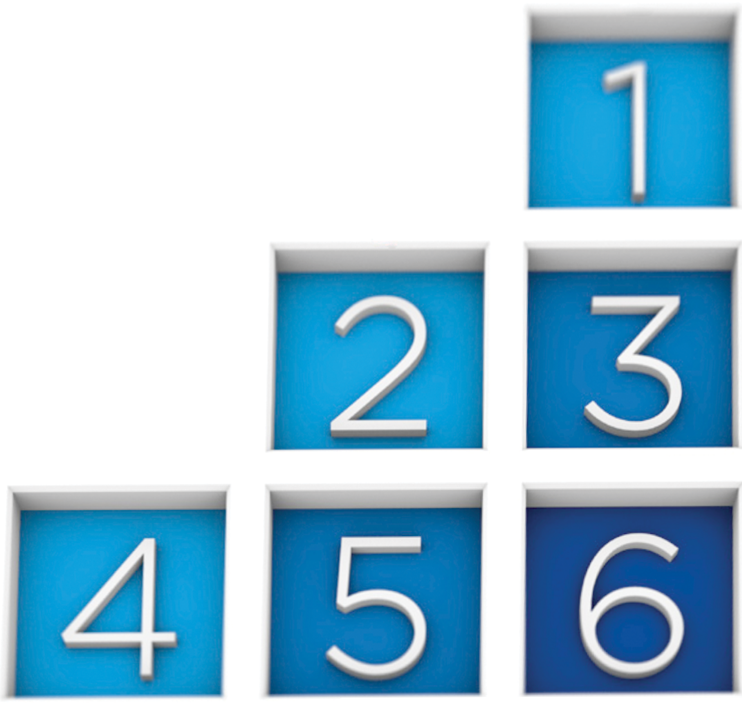
An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

CONTENTS

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- Adam Kennedy, Research Analyst, Head of Municipal ESG Strategy, DWS
- Alexa Gordon, Portfolio Manager, Goldman Sachs Asset Management
- Rachida Mourahib, Head of Fixed Income ESG and Green Research, HSBC Global Asset Management
- David Gao, Head of Tax Aware Investment Grade and ESG Research, JP Morgan Asset Management
- Frances Lewis, Senior Managing Director, MacKay Shields
- Saad Qazi, Senior Investment Analyst, Manulife Asset Management
- Mahesh Jayakumar, Investment Officer, Fixed Income Research Analyst, MFS Investment Management
- James Lyman, Director of Municipal Fixed Income Research and Co-Portfolio Manager of NB Municipal Impact Fund, Neuberger Berman
- Sarah Wilson, Managing Director and Head of ESG Integration, Nuveen
- Ksenia Koban, Payden & Rygel, Senior Vice President, Municipal Strategist, Co-Chair of ESG Committee
- Deborah Voit, Investment Analyst, Vanguard
- Thomas Stoeckmann, Head of Municipal Research, Wells Capital Management
- Michael Linko, Credit Analyst, Western Asset Management

EXECUTIVE SUMMARY

Momentum is building for investors in US municipal bonds (munis) to incorporate environmental, social and governance (ESG) factors systematically in their analysis and valuations.

As with other fixed income sub-asset classes, ESG factors have traditionally been integrated in muni bond valuations to an extent. However, the need to explicitly integrate ESG factors has historically not been a priority due to muni characteristics, such as their tax-advantaged status, a better credit quality relative to corporate bonds and higher returns compared with Treasuries.

New developments have heightened awareness of the need for an explicit ESG risk assessment, including:

- Rising commercial pressure on asset managers to demonstrate ESG incorporation in bond assessment to asset owners;
- Growing demand from non-US investors, including European investors, who are now required to explain how they consider ESG factors in their investment choices;[1]
- Shifting priorities at the federal level, where the administration has shown increased ambition to tackle climate change and boost infrastructure projects, many of which are funded by state and local governments;
- Changing expectations from financial regulators around ESG disclosure and transparency, starting in Europe and spreading to the US, where signals are increasing.[2]

Despite an increasingly favourable environment for ESG incorporation, challenges remain:

- Assessing factors relevant to munis is more nuanced. Topics such as physical or transition climate risk and inequality are similar for munis and other sub-asset classes, however munis may benefit from federal or state support, potentially mitigating the effect on valuations.
- Risks vary with the type of muni bond. Munis can at times resemble sovereign borrowers and at times corporate issuers (see Figure 1).
- Data is inconsistent. For governance and social factors data is plentiful and often free but not disseminated effectively; for environmental factors it is still insufficient. Moreover, some issuers lack the necessary resources or perceive disclosure as a burden rather than a benefit to risk management and borrowing costs.

This report looks at ESG integration, an approach focused on measuring and managing ESG risks to investment performance. Future work will address thematic and screening approaches to ESG investing and investor engagement on ESG topics. Sub-sovereign debt in other countries will also be a future topic.

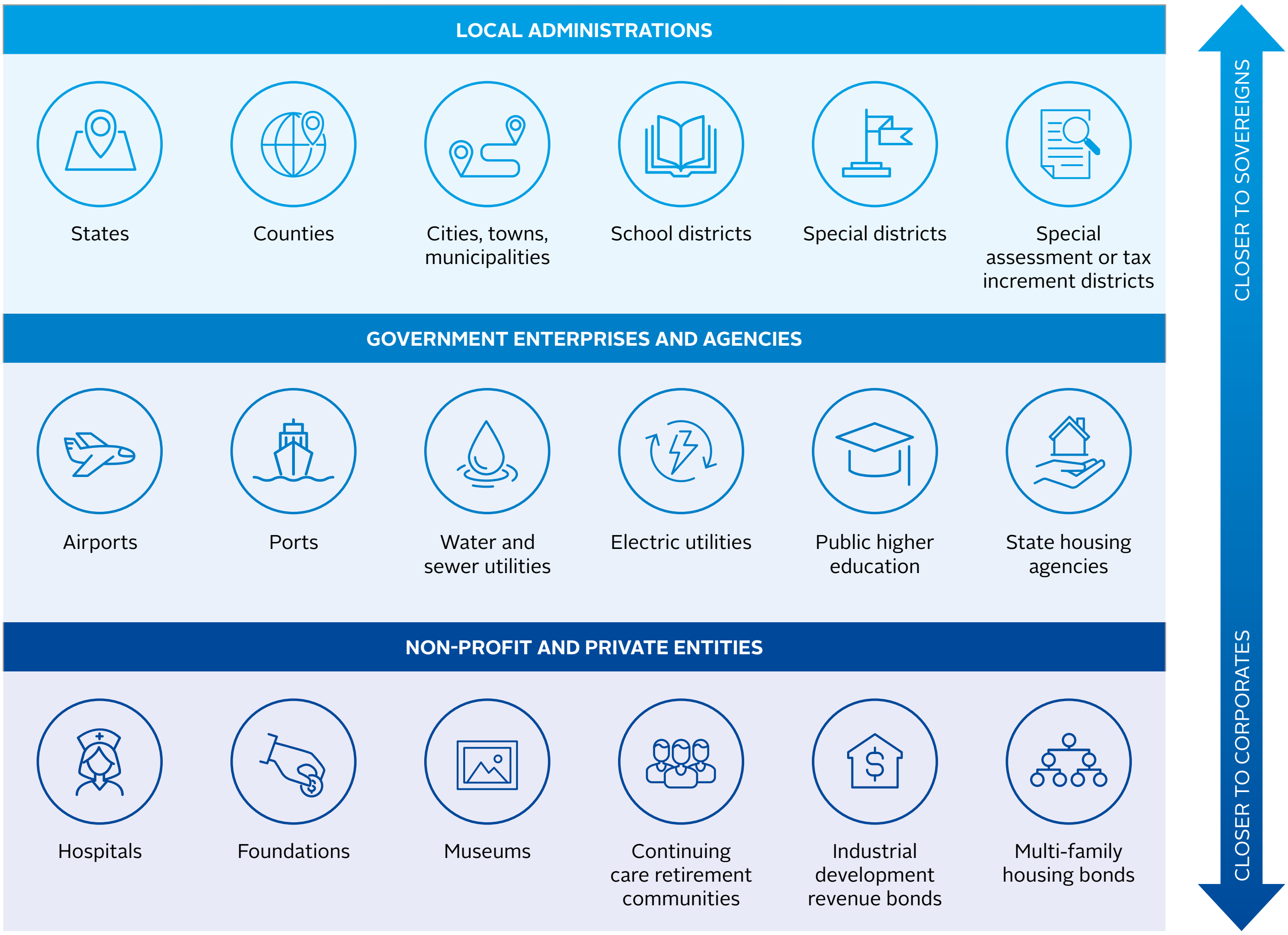
Importantly, the PRI will also endeavour to broaden the investor dialogue with issuers, credit rating agencies (CRAs) and ESG information providers,[3] along the lines of a similar PRI programme in the corporate market. Such dialogues have helped stakeholders understand expectations, challenges, and market nuances from a variety of perspectives.

1 Since the EU Commission launched its action plan on sustainable finance in 2018 and the European Green Deal in 2019, it has introduced several regulations. These include the EU sustainability-related disclosures in financial sector regulation and the EU taxonomy for sustainable activities – a classification system establishing a list of environmentally sustainable economic activities. It is also working towards an EU green bond standard.

2 These signals include the US Securities and Exchange Commission requesting public input from investors, registrants and other market participants on climate change disclosure; the Commodity Futures Trading Commission establishing a new climate risk unit; the Federal Reserve creating a new committee to examine the effects of climate change on banking and the economy; and the Federal Housing Finance Agency issuing a request for input on the current and future natural disaster risk to the housing finance system.

3 See PRI's ESG in credit risk and ratings initiative and Do ESG information providers meet the needs of fixed income investors?

Figure 1: The universe of muni bond issuers is complex[4]



4 The source of information for figures is PRI unless otherwise noted.

FOREWORD

I spoke recently with a county finance officer who remarked that when it comes to ESG issues, investors often take what makes sense for corporate research and apply it to public finance. But as any public official will tell you, companies and municipalities aren't the same – public finance operates with different stakeholders, laws, mandates, pressures, and revenue-raising mechanisms than a public company – and investors' approach to ESG assessment in muni bonds needs to reflect this.

While we have seen growth in market participants' appreciation of the need to assess ESG risks, systematic incorporation of ESG in credit analysis still lags in the municipal market. Muni credit analysts rightly point out that some ESG factors overlap with traditional municipal credit analysis. However, an enormous amount of research, critical thinking, and collaborative effort is needed to further the understanding of rapidly evolving ESG risks and their impact on credit quality.

This report is particularly timely: in the last 18 months, not only has our world been entirely upended by the coronavirus pandemic, but we have also seen record-breaking wildfires, extreme drought in many regions of North America, a deep freeze in Texas that drove several electric utilities to bankruptcy, and one of the largest protest movements in US history, leading to renewed attention to racial injustice.

The combined impact of these events and a growing recognition of ESG risks have escalated many ESG issues on the investor and issuer agenda. But ESG research isn't all about risks – it's about opportunities, too. The number of municipalities establishing greenhouse gas emission reduction targets is increasing.[5] The number of cities paying attention to, and deploying resources toward, racial equity and social justice is also growing.[6] Finally, early regulatory signals point to possible changes that could significantly affect sustainable investment practices in US markets. We expect these efforts to implement positive change on ESG issues will only increase in the coming years.

I would like to thank my committee colleagues for their collaboration, dedication, and willingness to engage on these topics, and the PRI for its interest in exploring this topic in greater depth.

Emily Robare
Chair, PRI Sub-Sovereign Debt Advisory Committee
Vice President, PIMCO

5 Forty-five of the 100 most populated US cities have established greenhouse gas reduction targets and corresponding baseline inventories, with the most common representing an 80% reduction in emissions by 2050. See Brookings (2020) Pledges and progress: Steps toward greenhouse gas emissions reductions in the 100 largest cities across the United States.

6 See Truth, Justice and Reconciliation Commission (2020) Grassroot Law Project and Leading Reform District Attorneys Announce Truth, Justice & Reconciliation Commissions to Address Decades of Harm Caused by Law Enforcement and Prosecutorial Overreach.

ABOUT THIS PAPER

This report provides an overview of current muni market practices and challenges to ESG integration in investment decisions. ESG integration focuses primarily on measuring and managing ESG risks to investment performance. It is one of three approaches that investors use to incorporate ESG into their valuation process.

The report's content is suitable for fixed income investors and credit analysts in muni bonds who have not yet started incorporating ESG factors in their investment practices or are only just beginning to formalise them. The report is based on desk-based research and draws on the experience of the members of the SSDAC.

The US muni market is one of the largest and most liquid sub-sovereign bond markets in the world. Muni bonds are unique in many ways. They are similar to sovereign bonds in that the issuer can often raise and collect taxes.[7] However, the issuers may not be as large or as diverse as sovereigns. Moreover, some muni issuers are focused on only one sector or service, making them more comparable to corporates than sovereigns. As a result, when it comes to ESG integration, some considerations are similar to those for corporate bonds, while others resemble sovereign debt due to the public-sector nature of the issuers.

Future work will examine ESG screening, which is driven by ESG-related norms and rules; a thematic approach, reflecting a desire to achieve specific real-world outcomes; and engagement around ESG topics.

With this report, the PRI is expanding its fixed income work of recent years beyond ESG incorporation in corporate and sovereign bonds, private debt and securitised products. Anyone new to responsible investment concepts should refer to the PRI's series of guides, An introduction to responsible investment and to the Reporting Framework glossary. The PRI's fixed income resources can be found on its fixed income page.

7 See OECD Library for a definition of the differences between central and local government.

OVERVIEW OF US MUNI MARKET

KEY MESSAGES

- The US muni bond market is characterised by a myriad of issuers operating in different sectors.
- Issuers may receive varying levels of support from state or federal governments and muni bonds generally offer a tax benefit. Some are backed by the revenue streams from specific projects; others are general obligation (GO) issues.
- Retail investors own a large share of muni bonds although this has declined in recent years.

At nearly US$4trn[8], the muni market represents about 8% of the US bond market and is one of the largest sub-sovereign markets in the world (see Figure 2).

Before addressing how ESG considerations feature in this asset class, it is important to understand the muni market's distinct characteristics.

- **The market is very broad.** The number of active issuers with bonds outstanding is around 36,000[9] and the number of issues is even larger.
- **Issuer types vary significantly** (see Figure 3).

Figure 2: US fixed income market: outstanding bonds as a percent of total (4Q 2020). Source: SIFMA

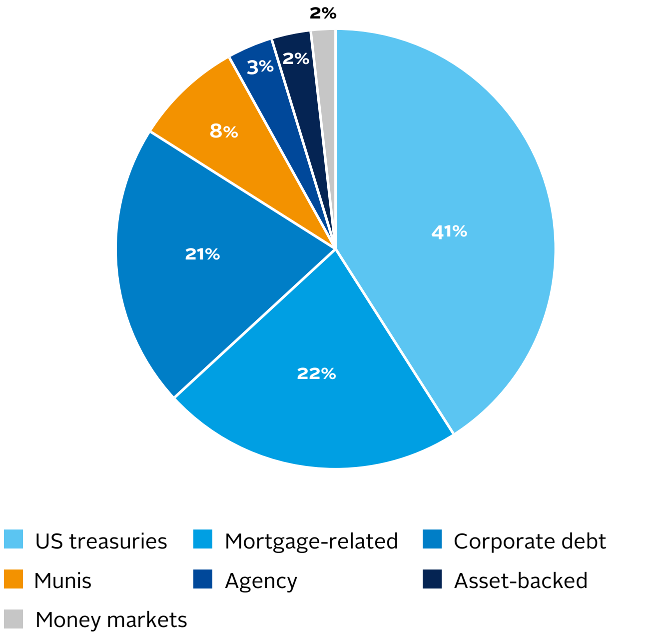
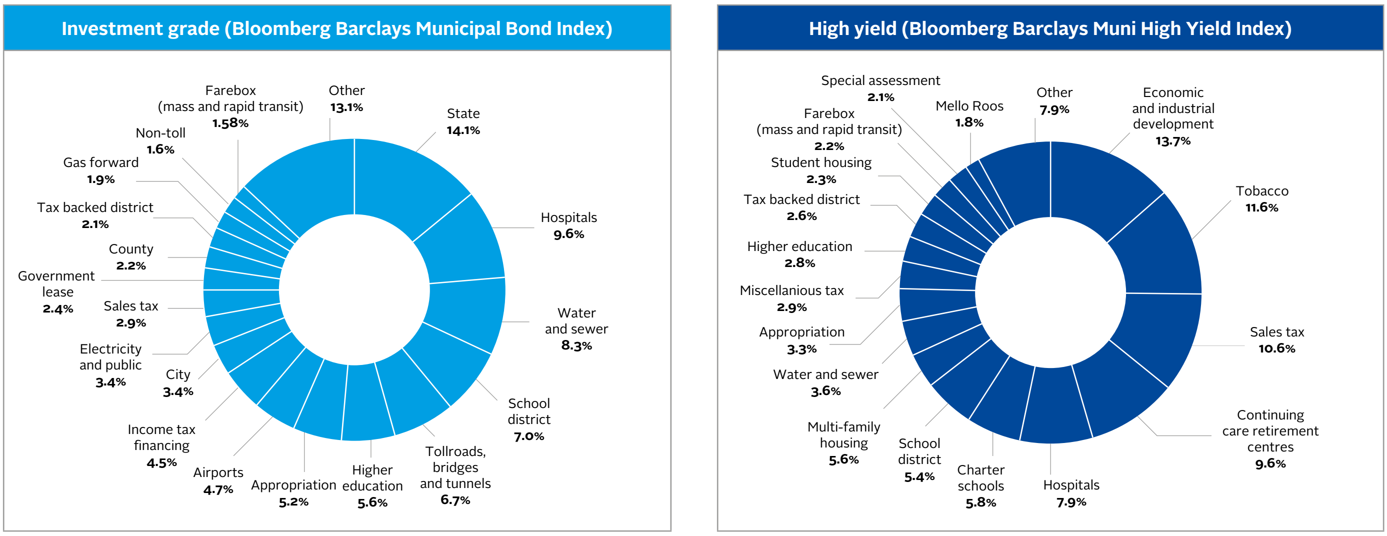


Figure 3: Composition of Bloomberg Barclays tax-exempt municipal indices by issuer type. Source: Bloomberg*



*Sectors that comprise 1.5% or less of the total are included in the "Other" category[10]

8 Source: SIFMA, as of the fourth quarter 2020.

9 Source: Bloomberg (as of May 2021). We note that the number of municipal bond issuers is frequently quoted as 50,000. According to the Municipal Securities Rulemaking Board (MSRB), this is an estimate of the number of total historic issuers of municipal bond debt, some of which has been retired. See MSRB (2019) Municipal Securities: Financing the Nation's Infrastructure.

10 In the investment grade index, the "Other" category includes: miscellaneous tax; ports and marinas; combined utilities; single-family housing; economic and industrial development; bond bank; education lease; multi-family housing; tobacco; primary and secondary education; continuing care retirement centres; guaranteed student housing; tax increment financing; student loans; ad valorem lease; charter schools; resource recovery; special assessment; Mello-Roos; nursing and assisted living; private schools; parking facilities. In the high yield index, the "Other" category includes: tax increment financing; nursing and assisted living; resource recovery; government lease; city; electricity and public power; toll roads, bridges and tunnels; single-family housing; private schools; ad valorem lease; airports; bond bank; education lease; primary and secondary education; income tax financing; guaranteed; parking facilities; ports and marinas; state; combined utilities; student loans; county; gas forward; non-toll.

- **The average maturity of munis at issuance is long.** In January-May 2021, the average tenor was 16.9 years (compared with 15.7 for corporate bonds) reflecting the long-term nature of many projects being financed (see Figure 4, which shows the use of proceeds of muni bonds).[11]
- **Most bonds offer a favourable tax treatment.** Interest on nearly 90% of outstanding muni bonds is tax-exempt at the federal level, and many are also exempt from state taxes when the investor is a resident of the state where the bond was issued. Taxation considerations are important for issuers too; borrowing costs are restrained by investors' willingness to accept a lower yield in exchange for the tax advantage.[12]
- **Retail investors are an important part of the buyer base.** The proportion of muni securities held by households and non-profit organisations stands at about 45%, however that figure declined by nearly 10 percentage points since 2005 (see Figure 5).
- **Debt servicing sources vary.** Revenue bonds fund a specific project that generates a revenue stream to service the debt, such as charges on toll roads. GO bonds instead pledge the full faith and credit of the issuer. They often fund public projects that do not generate revenues and can be serviced through local taxes or other means.
- **State and local governments operate under different jurisdictions.** Regulatory requirements and the level of support from other entities, such as state or federal governments, can vary substantially.

Figure 4: US muni bond issuance by use of proceeds (Jan-May 2021). Sources: Refinitiv, SIFMA Research

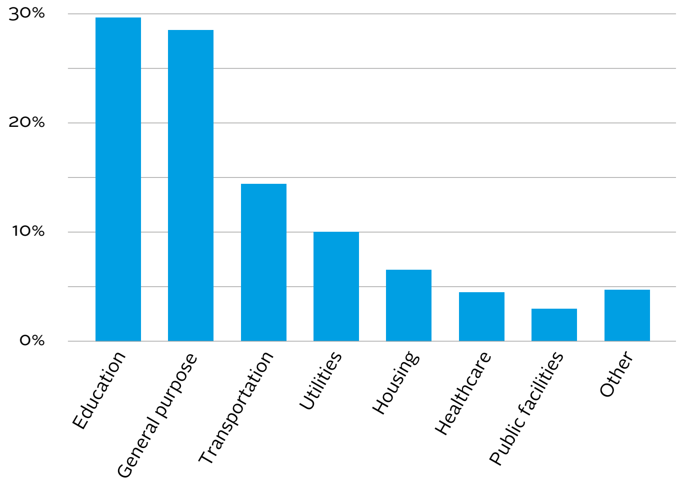
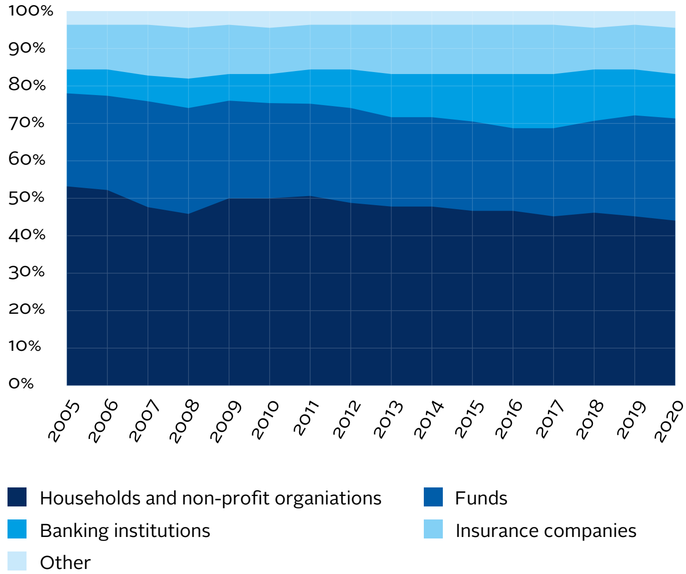


Figure 5: Holders of muni bonds by type (4Q 2020). Sources: SIFMA, Federal Reserve*



* The Federal Reserve classifies "households and non-profit organisations" as including domestic hedge funds, private equity funds and personal trusts. However, at least recently, the proportion of munis held by non-profits and domestic hedge funds appears to be minimal. "Funds" include mutual funds, money market funds, closed-end funds and exchange traded funds. The category 'Other' includes holdings by a variety of institutions including state and local governments and non-US residents.

11 Sources: Refinitiv, SIFMA Research.

12 See Brookings (2020) Why the surge in taxable municipal bonds?; MSRB (2021) 2020 Municipal Bond Market in Review.

CURRENT ESG PRACTICES

KEY MESSAGES

- Investors have been slower to formally incorporate ESG factors into muni bond analysis compared with other fixed income sub-asset classes.
- The complexity of the market and its relatively better credit quality have made the need for a more holistic approach to risk assessment appear less urgent.
- Muni issuers display ESG risk characteristics that in some instances resemble sovereign issuers and in others corporate issuers.

Many ESG factors have traditionally been viewed as inherent in, and integrated into, muni risk assessment, similar to other fixed income instruments. It is only recently that institutional investors have started to frame muni ESG risks in a more formal fashion.

The diversity and complexity of the market highlighted in the "Overview of US muni market" section partly explains why it has taken longer than in other fixed income sub-asset classes for muni bond market participants to frame ESG considerations in investment decisions. Issuers reflect the wide geographical diversity of the US, implying that environmental and social risks also vary significantly.

Furthermore, although riskier than Treasury bonds, muni credit quality is generally better than corporate bonds: the average credit quality of the Bloomberg Barclays US Municipal Bond Index is Aa2/Aa3, while the average credit quality of the Bloomberg Barclays US Corporate Bond Index is A3/Baa1. This perceived safer-asset status and higher yields than Treasuries may have contributed to delays in taking a more holistic approach to risk assessment, amid low interest rates and low inflation.

Finally, municipalities may receive state or federal support beyond that offered to corporates to mitigate environmental and social risks. This support may vary: for example, the response to the coronavirus pandemic[13] was more generous than after the 2009 recession. And, while such support is not guaranteed, it may diminish the credit risk of muni bonds.

As a result, identifying the materiality of ESG factors in the muni market has historically attracted less interest compared with other fixed income asset classes. ESG factors are considered material if they affect the bond's initial pricing, its performance or credit quality (i.e. the issuer's willingness or ability to service and repay debt). However, other factors generally play a greater role in price and yield in the muni market, such as interest rates, inflation and tax status.

The muni bond market can resemble corporates, sovereigns or neither when considering ESG factors, as shown in Figure 6.

13 See BlackRock (February 2021) Municipal Market Update; Financial Times (January 2021) Investors race into munis as Biden announces stimulus plan to cash-strapped states.

Figure 6: ESG considerations: similarities and differences across different types of issuers

	CORPORATE*	US MUNI**	SOVEREIGN
ISSUER STRUCTURAL FEATURES THAT MAY OFFSET OR REDUCE AN ESG RISK			
Taxation authority to service debt	No	Depends on security; general obligation bonds are typically full faith and credit, which can include taxing power	Yes
Monopoly over selected products or services	Occasionally	Often	Often
Debt monetisation* **	No	Deficit financing is rare due to balanced budget requirements	Yes
External support	Potentially from a parent company or government subsidies	Borrowers may have access to other state or federal support, depending on the jurisdiction	No, aside from bilateral or multilateral debt relief
Diversity of economic activity as a risk mitigant	Depends on size, product offering, breadth of revenue streams	Depends on issuer economic characteristics, breadth of revenue and purpose of financing	Depends on issuer economic diversification and taxable base
MANAGING ESG ISSUES			
Availability of ESG data	▪ Disclosed by issuers ▪ Available through CRAs and third parties ▪ Peer comparison difficult	▪ Disclosed by public sources and issuers (often upon request) ▪ Available through CRAs and third parties ▪ Data can be patchy	▪ Disclosed by public sources and issuers (often upon request) ▪ Available through CRAs and third parties ▪ Data can be stale
Investors screening issuers for ESG reasons	Yes	Sometimes	Rarely
Degree of investor engagement with issuer	Less common than for shareholders	Less common than for corporate bondholders and more challenging	Less common than for corporate bondholders and more challenging
Able to move geographic location	Yes	No****	No
Social stakeholders	Employees, customers, supply chain	Local population, taxpayers, employees and the service base	National population, taxpayers
Governing body	Appointed	Depends on sector as to whether elected or appointed	May be elected

*Corporate excludes quasi-governmental organisations, which have the legal characteristics of both governmental and private entities.

**US muni issuers as per the classification of Figure 1.

***Debt monetisation is also known as monetary financing and is colloquially referred to as printing money by a central bank to allow a sovereign to finance its deficit or repay its debt.

****General obligation issuers typically cannot move. In rare cases revenue bond issuers may be able to relocate within their service area.

However, whilst investors have been slow to adopt a formal ESG incorporation approach to date, new factors have come into play that are changing the landscape:

- There is evidence that retail and institutional investors want to be more informed about ESG investing options.[14]
- Asset management firms are working to demonstrate ESG incorporation across all asset classes in a standardised fashion, driven by commercial pressures from clients and beneficiaries.
- CRAs have sharpened their focus on ESG factors.[15]
- Foreign investors have been increasingly interested in the taxable segment of the muni market. European investors – who are relatively more advanced in ESG incorporation practices – are part of this trend.[16]

QUALITATIVE FINDINGS FROM THE PRI REPORTING DATA

From the 2020 annual reporting to the PRI by signatories on their responsible investment practices the following can be observed:

- Many signatories invest in munis that fund purposeful projects, particularly infrastructure with positive environmental and societal outcomes (e.g. related to affordable housing, waste management, pollution control).
- Given the high credit quality of many of the muni issuers in their portfolios (e.g. Federal Home Loan Banks), some signatories admit that they tend to downplay ESG risks.
- Of the three ESG categories, governance is the most scrutinised. Signatories list several aspects that they consider in addition to financial management, including diversity and board independence, disclosure policies, pension plan management and past controversies.
- Data coverage and scoring of muni bonds by third-parties is scarce. As a result, beyond traditional credit quality assessment and fundamental analysis, some signatories are creating proprietary ESG analytics and frameworks to score munis. These scores may have varying weights, depending on the type of issue and sector, and are used to guide portfolio construction and bond selection (for instance, between alternatives with the same credit quality).
- Negative screening is limited – for example it may be applied when there are governance issues or to exclude traditional 'sin sectors' such as tobacco, gambling or ammunitions, although these represent a small share of outstanding bonds. Positive screening is more common, especially among impact investors.
- Some signatories report engaging directly with issuers to get additional information for their due-diligence analysis, to assess the viability of plans and strategies, and to monitor areas of concern.
- There is incipient evidence of efforts to align investment selection and strategies with the UN Sustainable Development Goals.

14 See S&P (May 2020) Move over Millenials: ESG Investing Is a Multigenerational Conversation.

15 This is partly through the PRI's ESG in credit risk and ratings initiative and also due to regulatory changes: see ESMA (2020) Guidelines on disclosure requirements applicable to credit ratings.

16 See Bloomberg (May 2021) BABs Revival Boosts Overseas Participation; Politico (April 2021) Supporters hope for Build America Bonds revival in infrastructure plan.

BREAKING DOWN E, S AND G FACTORS

KEY MESSAGES

- Environmental: The frequency of severe climate events has been increasing, with ramifications for agricultural productivity, land valuations, and public spending.
- Social: Relevant factors can include demographics, community equity and the population cohort served by a funded project.
- Governance: The essential nature of public services means governance is relevant to many types of risk; cybersecurity has emerged as a new investor concern as it could lead to financial and reputational losses.

Discussions with the SSDAC highlighted that muni bond investors remain focused on downside risks, similar to all fixed income investors. To that end, governance has always been closely scrutinised and remains particularly relevant. However, the emphasis on environmental and social risk factors is increasing.

Muni issuers' revenue streams are often concentrated geographically and economically. This can intensify the local effect of any one environmental or social factor, especially in the US, which has a very diverse physical and social morphology. In fact, although the debate around climate change and social issues tends to focus on variations between countries, differences within countries apply too.

For state and local governments, ESG risks may encompass the whole local population, rather than just a narrower group of customers and employees, as in the case of corporate issuers. This local dependency means that ESG factors could affect a muni issuer's capacity to service its debt, for example if the taxable base is affected or public spending increases. That said, state and local governments may have greater leverage to respond to these risks through policy intervention. Therefore, the quality of governance can be even more relevant to the materiality of environmental and social risks, as it can affect how these risks are managed or mitigated.

The remainder of this chapter focuses on risks within each ESG category. It is important to remember that ESG factors can also be drivers of positive change, for example if a community benefits from clean energy, resilient infrastructure or initiatives aimed at conservation, education or healthcare. Furthermore, the same risk could fall under more than one of the three ESG categories (for instance, cybersecurity could be labelled as a social as well as a governance factor).

The sections below contain six real-world examples that highlight how ESG factors can affect specific issuers, including related credit rating agency opinions. The categorisation of each event as E, S or G was done by the PRI and all relevant sources are in footnotes.

ENVIRONMENTAL FACTORS

Market participants and regulators have increasingly focused on climate change risks in recent years, particularly risks linked to physical exposure or related to the transition required to mitigate physical risks. Both of these risk types may also materialise in parallel, compounding the challenge.[17] Municipalities offer and manage a broad range of services – such as sanitary sewage, waste collection, water supply and land use planning – which are inherently linked to biodiversity risks.

PHYSICAL CLIMATE RISK

Physical climate risk can affect state and local governments on multiple fronts (see Figure 7). In turn, the consequences of climate change may affect issuers' ability to generate revenues if, for example, property and land valuations decline and businesses relocate. Issuers may also need to increase expenditures to cover repairs, infrastructure adaptation, compensation, subsidies or higher costs of services.

17 See Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the US Commodity Futures Trading Commission (2020) Managing climate risk in the US financial system.

Figure 7: Effects of physical risks and financial implications for muni bond issuers

PHYSICAL RISKS

- Droughts
- Flooding
- Freeze
- Severe storm
- Tropical cyclone
- Wildfire
- Winter storm

EFFECTS

- Living and working conditions
- Natural capital and food systems
- Physical assets

POSSIBLE CONSEQUENCES

- Job losses
- Community displacement
- Public disorder
- Diseases
- Lower production
- Food insecurity
- Damages to buildings
- Higher insurance premia/ insurability
- Power cuts/
- Transport disruption

FINANCIAL IMPLICATIONS FOR MUNI BOND ISSUERS

LOWER REVENUES

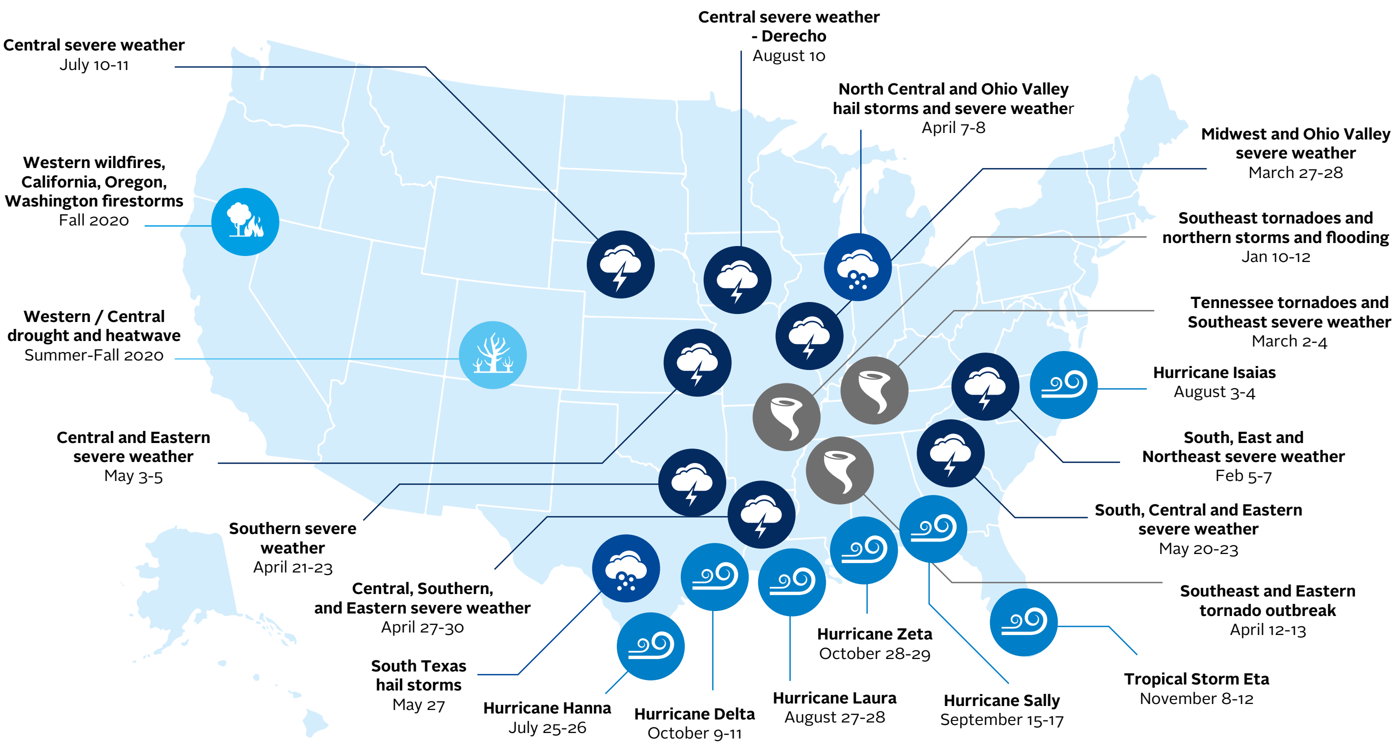
- Reduced taxable base
- Inability of projects to generate cashflow as planned

HIGHER EXPENDITURES

- Repairs
- Compensation
- Subsidies
- Policing costs

Weather-related events are becoming more frequent and expensive: the US has sustained 291 weather and climate disasters since 1980, with total costs exceeding US$1.9trn (inflation-adjusted).[18] And the frequency of these extreme weather events is increasing: a 30-year average of 7.1 events per year soared to 16.2 events per year during 2016-2020, hitting 22 in 2020 alone, a new record (see Figure 8). All 50 states had at least one billion-dollar disaster over the last 30 years, with Texas the most hit by far.

Figure 8: US Billion-dollar weather and climate disasters (2020).* Source NOAA



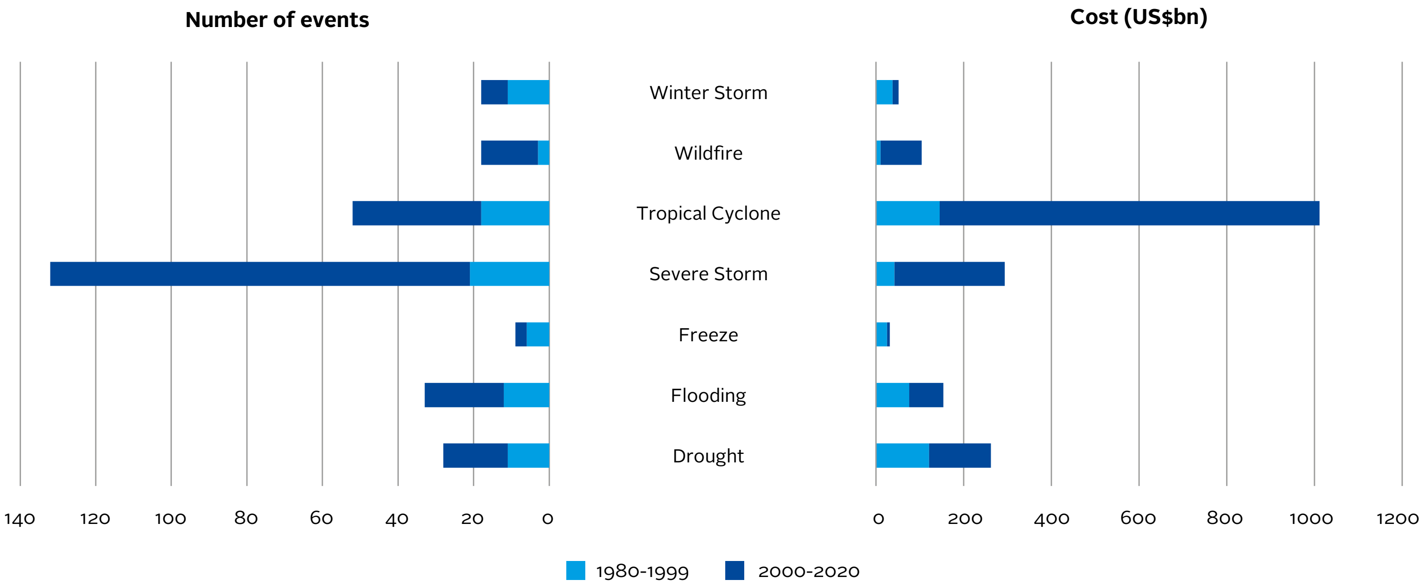
*Note: the chart refers to 2020 alone.

The ramifications of climate change risks are also complex: the direct effects can be local, but they can have knock-on impacts across states, cities and sectors where socioeconomic systems are connected. For example, changes in weather patterns associated with higher temperatures and droughts or extreme precipitation can have a significant impact on livestock or on crop yields for corn, wheat, soybeans, and cotton. While this could directly affect the Midwest, it could also have repercussions for food prices nationwide and in export markets.

18 For an event to be included for the purposes of determining both the number and cost of events, the CPI-adjusted damages or costs (rather than the actual figure) must be at least US$1bn. See US National Oceanic and Atmospheric Administration (NOAA).

Extreme weather events create disruption, increased costs, asset depreciation and can be deadly. For example, flooding during Super Storm Sandy caused prices to fall by 5%-7% for minimally inundated properties and by 8%-13% for properties with average inundation; non-flooded properties included in new floodplain maps experienced an 18% drop in prices.[19] The largest costs stem from tropical cyclones, followed by severe storms and drought (see Figure 9).

Figure 9: US billion-dollar natural disasters by type (CPI-adjusted).* Sources: PRI based on NOAA data



*For an event to be included for the purposes of determining both the number and cost of events, the CPI-adjusted damages or costs (rather than the actual figure) must be at least US$1bn.

Despite the increased severity of these events, they have had a limited effect on issuers' credit ratings, as noted in a recent S&P Global Ratings report. For the period of 2017-2018, the CRA identified ESG factors as drivers for only 34% of 3,315 US public finance rating actions: within that subgroup, governance was the most dominant factor affecting credit ratings (67%), followed by social (26%) with environmental trailing at a mere 5%.[20]

Mitigating factors include:

- the issuer's preparedness to address physical climate risk
- the strength of the issuer's financial position
- the resilience of its infrastructure
- increased production and economic activity associated with rebuilding
- the level of state or federal aid, for example through the Federal Emergency Management Agency (FEMA)[21]
- the degree of insurance policy coverage

19 See Matthew Gibson, Jamie T. Mullins and Alison Hill (2019) Climate risk and beliefs: Evidence from New York floodplains.
20 See S&P Global Ratings (March 2019) When US Public Finance Ratings Change, ESG factors Are Often The Reason.
21 See FEMA Fact Sheet: FEMA's Public Assistance Process; FEMA 2018-2022 Strategic Plan.

For the case studies in this section, PRI assigned a category as follows:

Environmental *Social* *Governance*

ISSUER:
PARADISE, CALIFORNIA[22]

Event

The risk of wildfires has grown in California, amid drier and warmer weather in fire season and more people living in or near forested areas.

In late 2018 the Camp Fire struck Butte County, California, killing 85 people and destroying 19,000 buildings. The most damaging and deadly fire on record in the state devastated the town of Paradise and 90% of the 27,000 residents left, at least temporarily.

Credit implication

Paradise was one of three obligors in a pool for a series of bonds issued as part of the California Statewide Communities Development Authority's Pension Obligation Bond Program, which allows local governments to finance unfunded pension liabilities. Moody's downgraded the relevant securities, the 2007 Series A-2 Bonds, from B1 to Caa3 in January 2019.

The credit ratings agency said that the damage to Paradise would prevent it from paying debt service on its share of the bonds in the short term. At the time of the downgrade, its share of the debt service outstanding was 41%.

However, the bonds have since been upgraded to Ba2. Moody's said that a US$270m settlement Paradise received from utility PG&E for the latter's role in the fire boosts its ability to service debt while maintaining operations and investing in capital requirements.

ISSUERS:
BRAZOS ELECTRIC POWER COOPERATIVE, COSERV ELECTRIC[23]

Event

A winter storm in February 2021 had disastrous consequences in Texas, in large part because of its effect on the power supply. The state's grid is mostly separate from the rest of the US, leaving it vulnerable when generators fail. Electricity firms were forced to purchase power at the maximum rate allowed under regulations, US$9,000 per megawatt hour versus the average 2020 price of US$22. Natural gas fuel prices jumped too. Almost five million customers went without power and 700 people died, according to a Buzzfeed News analysis of excess deaths.

Credit implication

Companies faced large bills from the Electric Reliability Council of Texas (ERCOT), which operates the grid that encompasses most of the state. One company, Brazos Electric Power Cooperative (BEPC), filed for bankruptcy citing debt owed to ERCOT.

BEPC's troubles had repercussions for CoServ Electric, otherwise known as the Denton County Electric Cooperative. CoServ is the largest member of BEPC's distribution cooperative, taking a third of its electric sales, and it is obliged to buy from BEPC. In March, Fitch downgraded CoServ from AA- to A, based in part on the expectation that the cooperatives will be forced to bear BEPC's costs as determined by the bankruptcy court. However, the utilities may benefit from moves by state legislators, including allowing the issuance of bonds backed by customers' bills.

22 See Aon Weather, Climate and Catastrophe Insight – 2020 Annual Report; California Department of Forestry and Fire Protection; population data from Data Commons; Moody's (January 2019) Moody's downgrades California Statewide Communities Development Authority Taxable POBs 2007 A-2 (CABs) to Caa3 from B1 and assigned a stable outlook; Moody's (March 2021) California Statewide Communities Dev. Auth. Update to credit analysis following upgrade of 2007 A-2 POBs to Ba2 from Caa2; Vox (October 2019) The survivors.

23 See Bloomberg (May 2021) Texas Bill Would Spread Blackout Costs Over Decades; BuzzFeed News (May 2021) The Texas Winter Storm And Power Outages Killed Hundreds More People Than The State Says; Fitch Ratings (March 2021) Fitch Downgrades CoServ Electric, TX's First Mort Notes to 'A' from 'AA-'; Rating Watch Maintained; Reuters (May 2021) Brazos seeks approval of $350 million bankruptcy loan; The Texas Tribune (March 2021) Texas lawmakers want to prevent another power crisis. But the legislation doesn't go far enough to do that, critics say; The Texas Tribune (May 2021) Texas lawmakers propose electricity market bailout after winter storm; The Texas Tribute (June 2021) Texas power generation companies will have to better prepare for extreme weather under bills Gov. Greg Abbott signed into law.

The resilience of muni bonds to natural disaster may not continue, however:

- Climate change risks are expected to increase over time. Science-based models indicate that further global warming will continue to increase the severity and frequency of acute climate events and intensify climate hazards.[24]
- Disaster aid through FEMA could become more limited going forward, either because the frequency and magnitude of events increases or because FEMA reduces support to incentivise local governments to be less complacent and adapt to climate change faster.[25]
- Finally, risk recognition ahead of the manifestation of physical events could bring forward changes in asset valuations, insurance coverage and capital allocation. For example, although evidence is still mixed, some studies point to price drops for coastal properties. This could be due either to exposure to sea level rise or to the perception that this risk may materialise.[26]

TRANSITION RISK

Transition risks arise from measures taken to mitigate the impact of climate change or from policy responses to climate change. A recent study outlining five different technological pathways to achieve the target of net-zero emissions by 2050, in line with the renewed commitment by the US to the Paris Agreement, highlighted profound changes to local landscapes, industries and communities in the next few years.[27]

Many of these changes will require upfront investment, with the same study estimating at least US$2.5trn of additional capital spending towards energy supply, industry, building and vehicles by 2030. As the ultimate guardians of land-use planning and public investment, as well as the first responder to climate-related events, local governments, counties and municipalities are responsible for the planning and implementation of adaptation practices.[28]

Changes to policy and spending priorities will have repercussions for sectoral economic activities and for state and local governments' budgets, especially for those reliant on economic activities that are vulnerable to transition risks, such as in the utility sector.

ISSUER:
GALLIA COUNTY, OHIO [29]

Event

The biggest taxpayers in Gallia County, located in south-east Ohio, are coal-fired power plants, accounting for more than one-third of the county's property tax base in tax year 2019. Gallia's median household income is 71% of the national average and the employment rate is 53%, versus 63% nationwide. Doubts over the future of coal in the US raise questions about how communities reliant on the coal industry will adapt.

Credit implication

The transition to a low carbon economy may ultimately affect Gallia's credit quality. Coal plant closures could have a detrimental impact on the county's finances through loss of tax revenues as well as loss of local employment, and S&P has said that this could lead to lower credit ratings. The ratings agency has pointed out that the county is home to a heavy concentration of the natural resources and mining industries.

24 See McKinsey Global Institute (2020) Climate risk and response: Physical hazards and socioeconomic impacts.

25 See Bloomberg (May 2021) Why Local Governments Don't Pay for Expensive Disaster Insurance.

26 See Markus Baldauf, Lorenzo Garlappi and Constantine Yannelis (2020) Does Climate Change Affect Real Estate Prices? Only If You Believe In It: Houses that are projected to be under water in climate change "believer" neighbourhoods sell for less than those in "denier" neighbourhoods; projected climate changes could change real estate prices decades before the predicted damages are expected to happen, but the analysis is agnostic about whether believers are overreacting or deniers are underreacting. See Asaf Bernstein, Matthew T. Gustafson and Ryan Lewis (2019) Disaster on the horizon: The price effect of sea level rise: Homes exposed to sea level rise sell for about 7% less. See Justin Murfin and Matthew Spiegel (2020) Is the Risk of Sea Level Rise Capitalized in Residential Real Estate?: There are limited effects on prices of coastal home sales based on their inundation thresholds under projections of sea level rise.

27 See Eric Larson, Chris Greig, Jesse Jenkins, Erin Mayfield, Andrew Pascale, Chuan Zhang, Joshua Drossman, Robert Williams, Steve Pacala, Robert Socolow, Ejeong Baik, Rich Birdsey, Rick Duke, Ryan Jones, Ben Haley, Emily Leslie, Keith Paustian and Amy Swan (2020) Net-Zero America: Potential Pathways, Infrastructure, and Impacts, interim report.

28 See Global Center on Adaptation State and Trends in Adaptation Report 2020.

29 See Official Statement Relating to the Original Issuance of COUNTY OF GALLIA, OHIO $7,800,000 County Jail Improvement Bonds, Series 2020A (General Obligation) (Limited Tax) (November 2020); S&P Global Ratings (March 2021) Gallia County, Ohio; General Obligation; The Columbus Dispatch (January 2021) Power plant communities look toward a future beyond coal; US Census Bureau data.

Ultimately, differing regulations across states and local governments, as well as the degree of federal funding for technical support and guidance, will affect the relevance of transition risks for muni investors. The choices public policymakers face could shape, or be influenced by, local production, prices and demand preference and will depend on technology options and costs.

Policymakers' responses will also depend on the challenges for specific locations, industries and communities; population density; public acceptance; and potential co-benefits of remedial action (for example, the positive impact on health as air pollutants are reduced). These factors illustrate the intertwining of environmental factors with social issues and governance.

SOCIAL FACTORS

Muni issuers fund a wide range of essential services with inherent social implications, such as education, healthcare and water supply for local communities. The composition and the characteristics of the local population can impact the level of spending required for these services and the revenues available to repay debt, whether through general taxes or project-specific income.

Many material social factors are similar to the ones that sovereign bondholders consider, such as demographic trends, if they apply to the whole population of a state, city or local government.[30] In contrast, if the issuer is, for example, a hospital or museum, then the social factors apply to a narrower portion of the population. In these instances, social factors are more similar to those considered by corporate bondholders when focusing, for example, on retail customers or company employee metrics.

Below are examples of useful social indicators:

DEMOGRAPHIC CHARACTERISTICS

Population trends, such those relating to wealth, income and age, affect muni issuers' current and future budgets.

With respect to revenues:

- The higher the proportion of the population in employment, the higher the income tax revenue for issuers that collect this tax.
- A wealthier population generates more tax revenues through income tax or indirect taxes, such as sales or property taxes.[31]

With respect to costs:

- A higher proportion of retired public workers is likely to increase pension expenditures. Across state and local governments, defined benefit schemes remain preponderant (in 2018, 94% of state and local employees had access to such a plan); the ratio of active workers to current retirees varies greatly across states and many plans are underfunded.[32]
- Spending on welfare and health is likely to depend on demographics and the population income. The most recent data, from 2017, shows 35% of public welfare expenditure and 89% of health and hospital spending was funded at the state and local government level, rather than the federal level.[33]

From a pure ESG integration perspective, social risks can vary depending on the social and economic features of different communities. However, an outcome-based or thematic approach may seek to address problems, rather than measuring only the risk premium associated with a muni bond investment.

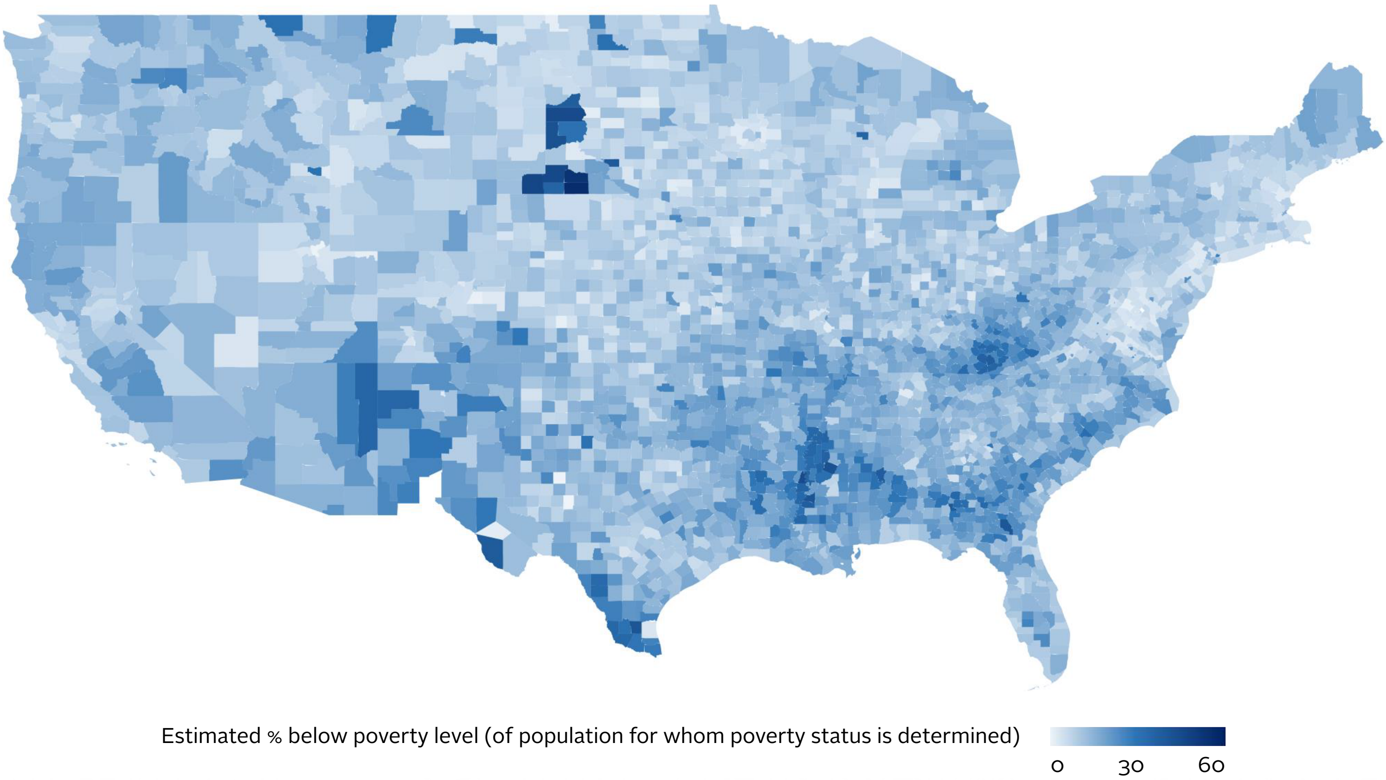
30 See PRI (2019) A practical guide to ESG integration in sovereign debt.

31 Taxes make up a significant proportion of state and local government revenue. See the Urban Institute, State and Local Revenues.

32 See the Urban Institute, State and Local Government Pensions.

33 See the Urban Institute, Health and Hospital Expenditures; the Urban Institute, Public Welfare Expenditures.

Figure 10: Poverty rate by county. Source: US Census Bureau, 2015-2019 American Community Survey 5-Year Estimates



SOCIAL JUSTICE AND EQUALITY

- Declining trust in governing institutions among groups can pose a risk to credit, for example if it contributes to social unrest that can damage an issuer's financial position.[34]
- At the same time, poor oversight by state and local governments of issues affecting minority and disadvantaged cohorts can prevent an equitable provision of services and perhaps hinder local economic growth.[35]

ISSUER:
MINNEAPOLIS, MINNESOTA[36]

Event

After George Floyd was killed by a police officer on 25 May 2020 in Minneapolis, Minnesota, the city became the site of unrest, with protests against racial inequality and calls for police reform. More than 1,500 businesses were damaged or destroyed in the wider urban area in the weeks following the death. Debate in the wake of the incident raised questions about police funding.

Credit implication

S&P changed the outlook from stable to negative for the city's general obligation debt in September 2020, attributed in part to the fallout from Floyd's death. The ratings agency pointed to potential costs related to reform of policing, potential liabilities from lawsuits related to his death, and increased worker compensation claims related to the unrest. It also said that it could revisit its assessment of the city's governance risk "if its approach to police reform perpetuates conditions that could lead to greater social unrest".

In March, Minneapolis agreed to pay a US$27m settlement to Floyd's family, some of which came from its general fund. Beyond this immediate cost, questions remain over how cities like Minneapolis reform and fund policing services and deal with discontent. In 2021, the city's police budget fell by US$28m, or 15%, compared with a general budget cut of 7% across city departments. While this appears to be a significant slash to policing services, additional funds are available to the police chief, with city council approval, and resources have also been re-allocated to alternatives to policing.

EMPLOYEE ISSUES

- A working environment where employees perform well (with low turnover, good training, health benefits and safe working conditions) may benefit an issuer's financial performance and its reputation.
- Public sector bodies tend to have a more unionised workforce, meaning employees have more leverage to negotiate and address grievances with employers. Employees also have a greater ability to disrupt the issuer's activities and financials in the event of a dispute.[37]

ISSUER:
UNIVERSITY OF SOUTHERN CALIFORNIA[38]

Event

The University of Southern California, based in Los Angeles and the largest private university in California, has agreed to pay more than US$1bn to women treated by its former gynecologist in relation to sexual harassment and abuse claims. Some US$852m of this was announced in March 2021, in what news organisation NPR called "the biggest sex abuse pay-out in higher education history."

Credit implication

Moody's changed USC's outlook from stable to negative in March 2021 as a result of financial exposure to the legal issues. It also said this could lead to reputational harm, which could perhaps reduce student demand or philanthropic support. However, the ratings agency said in March that this demand and support had remained robust so far.

34 See Moody's (October 2020) Cities shift funds as focus on policing grows; credit impact hinges on costs, social risks.

35 See Moody's (June 2020) Social unrest and underlying inequality pose fiscal and governance credit risks.

36 See AP (March 2021) Floyd family agrees to $27M settlement amidst ex-cop's trial; Bloomberg (December 2020) After Pledges to Disband the Police, Minneapolis Makes Compromise Budget Cuts; Bloomberg (May 2021) Minneapolis One Year Later; Bloomberg (January 2021) Cities Say They Want to Defund the Police. Their Budgets Say Otherwise; CNN Business (May 2021) One year after George Floyd's murder, Minneapolis' businesses are still reeling; S&P Global Ratings (September 2020) Minneapolis GO Debt Outlook Revised To Negative On Elevated Credit Deterioration Risk From Concurrent Challenges.

37 See Bureau of Labor Statistics (2021) Union Members; Bureau of Labor Statistics (2021) Major Work Stoppages in 2020.

38 See Moody's (March 2021) Rating Action: Moody's revises University of Southern California's (CA) outlook to negative; assigns Aa1 to revenue bonds; Moody's (March 2021) Credit Opinion: University of Southern California, CA; NPR (March 2021) USC Agrees To $852 Million Settlement To End Sex Abuse Litigation; NPR (October 2018) USC Reaches $215 Million Settlement Over Gynecologist Abuse Allegations.

GOVERNANCE FACTORS

State and local governments' responsibilities touch on many aspects of risks associated with governance. For instance, managing local resources and service provisions (operations and maintenance, the handling of competitive procurements); finance (raising revenues, including through taxation, managing expenditures and accessing grants, credit and private funding); and planning (prioritising investments, devising strategies through forecasts, monitoring and evaluation processes).

ISSUER:
SAN FRANCISCO COMMUNITY COLLEGE DISTRICT[39]

Event

San Francisco Community College District serves the county from which it takes its name and covers the City College of San Francisco.

In September 2020, the Accrediting Commission for Community and Junior Colleges (ACCJC) said the college was subject to "enhanced monitoring" as a result of weak financial performance. There have been concerns about the district's deficit and its fiscal audit for 2019-20 recorded "material weakness" in financial conditions.

In addition, the district has endured high management turnover, with multiple chancellors or interim chancellors since 2012.

California's Fiscal Crisis and Management Assistance Team (FCMAT) warned in April 2021 that the college "must act quickly if it wants to continue operating independently in the California community college system". The following month, staff accepted pay cuts, although this was not thought to have resolved the entity's financial problems.

Credit implication

In November 2020, Fitch Ratings said that continued dependency on deficit spending or loss of accreditation could bring about negative rating action or a downgrade for the district. It warned that losing accreditation could lead to closure of the district.

The list of governance indicators is long and many feature regularly in traditional muni credit analysis. Some are more backward-looking and track records and good practice. Others are more forward looking and aim at assessing issuer risk awareness and mitigation plans, if any. Importantly, they can be a mix of qualitative and quantitative indicators.

Identifying measures to assess governance risks varies depending on the sector in which a muni issuer operates and on whether the governing body is appointed (as with corporates) or elected (as in democratic countries). However, some of the World Bank worldwide governance indicators provide a good starting point (see Figure 11).

Figure 11: Selected governance aspects assessed by muni bond investors

GOVERNANCE DIMENSION	GOVERNANCE AREA TO ASSESS
Voice and accountability	Accountability of officials and communication[40]
	Reliability of budget and accounts (completeness, timeliness, credibility, audit)
	Sophistication of management and formalisation of management practices
	Level of oversight by other governing bodies
	Controversies surrounding management, including ethical concerns
	Transparency in public procurements
Government effectiveness	Quality of infrastructure (roads, ports, airports, railways)
	Preparedness to deal with emergencies
	Cybersecurity policies
	Exposure to significant political in-fighting or impasse
	Management of pension and retiree healthcare liabilities

Of the items listed above, cybersecurity is perceived by investors as a growing risk to muni issuers, as it could lead to financial and reputational losses in the absence of adequate firewalls and skills to prevent potential attacks.[41]

39 See Letter from ACCJC (September 2020); California Community Colleges; Letter from FCMAT (April 2021); Fitch Ratings (November 2020) Fitch Rates San Francisco Community College District, CA's 2020 GO Bonds 'A+'; Outlook Stable; San Francisco Chronicle (April 2021) State's fiscal crisis team sounds alarm on the ability of CCSF to stay afloat; San Francisco Chronicle (May 2021) City College of San Francisco instructors accept pay cuts to save classes, jobs; San Francisco Community College District Financial Statements.

40 See Breckinridge Capital Advisors The COVID-19 crisis and its impact on social issues for corporations and U.S. cities, which argues that "a crisis requires coordinated and steady communications from officials to inform community residents about the best ways to respond."

41 The cybersecurity threat has been noted by market participants. See Aberdeen Standard Investments (2020) More than a buzzword: ESG in municipal bonds; Lord Abbett (2019) ESG and Municipal Bonds: Taking the Local View.

DATA CONSIDERATIONS

KEY MESSAGES

- Market participants face many challenges when trying to use data to assess ESG factors, particularly for environmental issues, where disclosure and dissemination of information is inadequate.
- Investors would like issuers to disclose ESG data and strategy more appropriately, be open to engagement and disseminate information more effectively.
- Associations of muni issuers should encourage their members to disclose more relevant information for ESG analysis.

When assessing ESG factors, portfolio managers and research analysts use a variety of sources, including:

- issuer financial statements
- offering documents
- credit rating agency reports
- the Electronic Municipal Market Access website (EMMA), including issuer disclosure related to financial audits
- data on the local economy[42]

EXAMPLE OF GOOD DISCLOSURE PRACTICE

The official statement for a City and County of San Francisco bond issue included in the risk factors section a detailed discussion of climate risks, for example risk of sea level rise and flooding damage, showing how some issuers are making progress on disclosure.

Additional information sources that can be particularly useful for ESG information include the US Census Bureau and the College Navigator website. An issuer's website may include useful information on ESG policies and practices. More resources are listed in the Appendix. These can be complemented by media reports.

Challenges to data collection remain, however, and some are more acute than others depending on the ESG category (see Figure 12 and Figure 13).

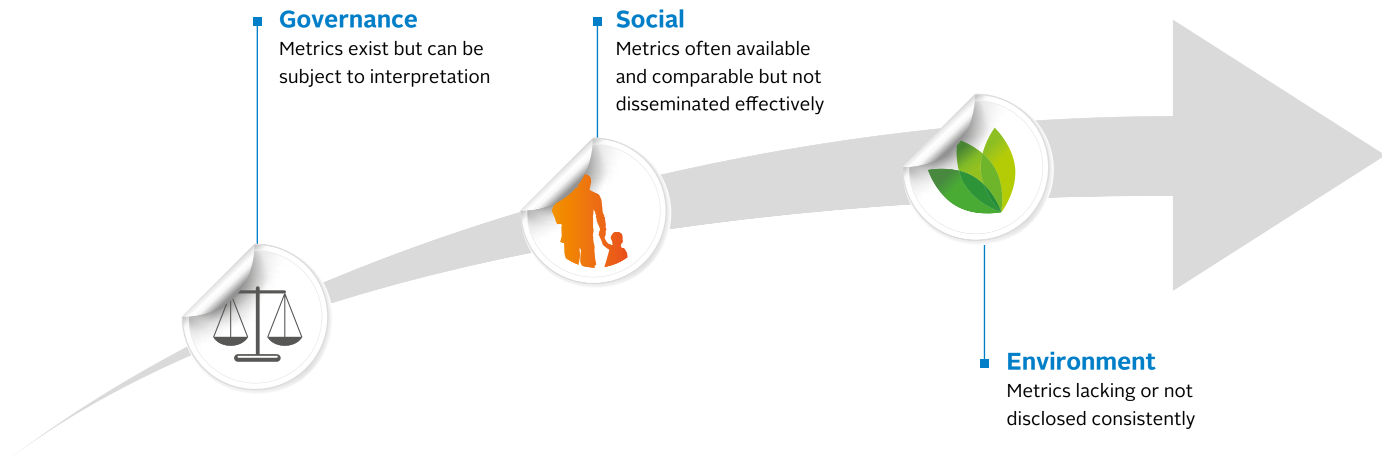
Figure 12: ESG data challenges when assessing muni bonds

CONSISTENCY	Despite progress by some, issuers do not disclose data consistently. At times, the information is either too granular or not sufficiently so. Few voluntarily provide ESG information beyond what is mandated.
DISSEMINATION	ESG information coming from both issuers and other sources is not disseminated effectively. For example, in the case of EMMA, the data is displayed issuer by issuer, making comparisons time consuming.
VARIETY	The different sectors in the muni market make it more difficult to focus on universal ESG metrics that are relevant for all muni issuers.
GEOGRAPHICAL BOUNDARIES	Datasets may not be presented in geographical boundaries that coincide with those of issuers.
RESOURCES	Smaller muni issuers may find it harder to devote resources towards adequate disclosure.[43]
THIRD-PARTY INFORMATION PROVIDERS	The coverage and the offering of new products by ESG data and service providers is broadening to the muni market but can be expensive at present.

42 See MSRB SEC Rule 15c2-12: Continuing Disclosure.

43 See the Government Finance Officers Association (GFOA) Best Practices ESG Disclosure.

Figure 13: Magnitude of data challenges by ESG category



Access to better data to enhance ESG incorporation ranks high on investors' priority list. Ideally, market participants could access a centralised comprehensive hub providing free or cheap ESG data for munis, similar to the World Bank ESG data portal for sovereign data. However, at present there is no broad issuer buy-in to sharing ESG data and insufficient disclosure of such data in a user-friendly way. Furthermore, it would be a challenge to find a hosting organisation for such a large endeavour.

In the short term, a good starting point would be increased use of the Carbon Disclosure Project (CDP), which operates a global portal with city data (see box), or the LEED for Cities and Communities[44], which requires disclosure of social, economic and environmental performance indicators for certification purposes. Investors and issuers could also explore new alternative sources of information such as satellite data, which can help show the effect of, for example, wildfires and other natural disasters on local economies.[45]

INVESTORS PUSH FOR MUNI DISCLOSURE

CDP is a global non-profit that manages the world's environmental disclosure system for sub-national governments and companies. Over 10,000 organisations around the world disclosed data through CDP in 2020. This includes more than 100 states and regions and 812 cities, of which 169 cities were in the US, although hundreds more cities were asked to disclose that year.[46]

Cities, counties, states, provinces, public enterprises, and other sub-national issuers disclose to CDP via an annually completed questionnaire. The city questionnaire is different from the corporate questionnaire and includes questions with socio-economic considerations. Questions include specific emissions metrics and targets, risk management strategy, governance practices, and how marginalised communities are impacted in the face of an increasingly volatile climate. Cities also disclose sustainable infrastructure projects that are seeking financing, including the stage of project development and total cost.

This year, CDP is piloting a programme enabling investors to directly request that issuers respond to CDP's sub-national questionnaire. This opportunity for increased investor engagement is critical, given the need for more standardised and centralised data disclosure by muni issuers, particularly cities facing a range of issues, including racial justice, social equity, and affordable housing.

44 LEED stands for Leadership in Energy and Environmental Design and is a widely used green certification in the real estate sector.

45 See S&P Global Rating (January 2020) Space, The Next Frontier: Spatial Finance And Environmental Sustainability.

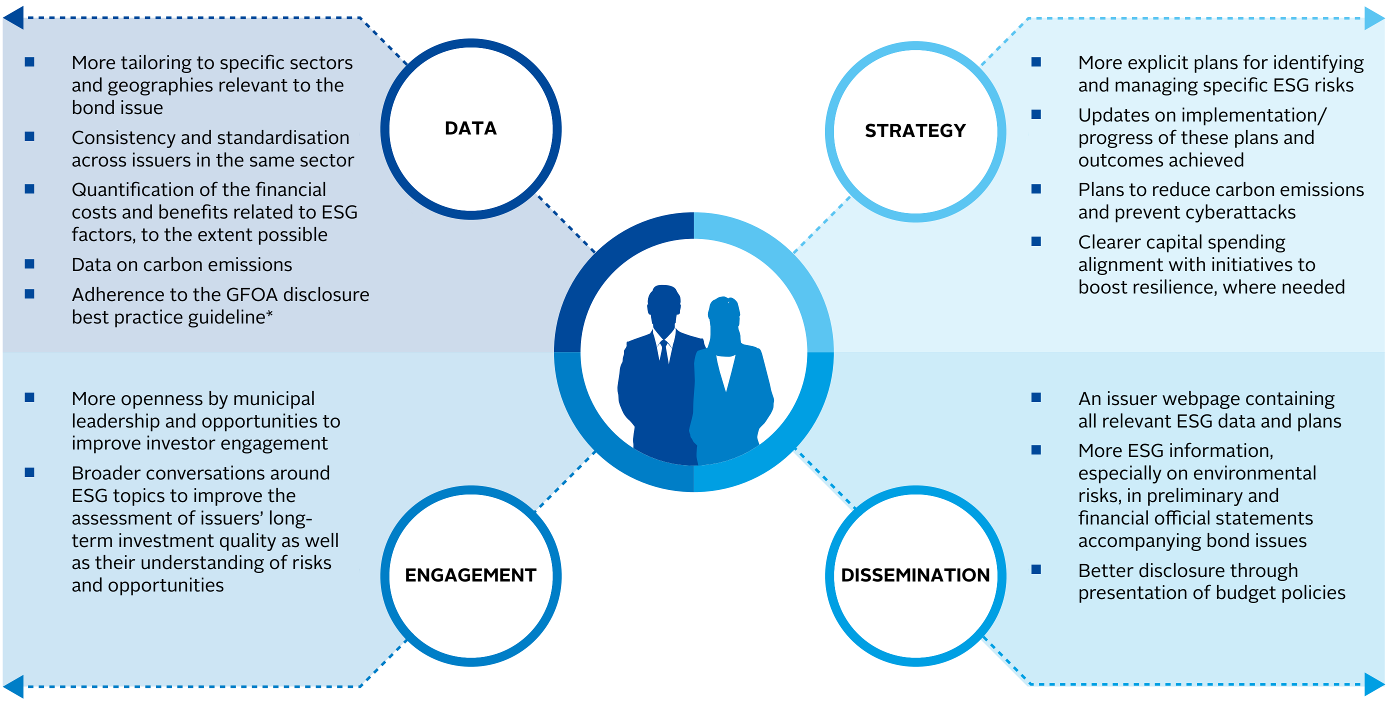
46 CDP's corporate questionnaires are aligned with the Task Force on Climate-related Financial Disclosures. For the 2020 key findings, see Cities on the Route to 2030.

Importantly, state and local government associations, such as the National Association of Counties, the National League of Cities, the Conference of Mayors or the Government Finance Officers Association (GFOA), should encourage their members to disclose more information that is useful for investment decisions.

And, in turn, wider availability of data could prompt more investors to adopt ESG incorporation approaches.

Figure 14 contains a more detailed list of investor asks for issuers, based on discussions with the SSDAC.

Figure 14: What investors would like from issuers



* See GFOA Best Practices ESG Disclosure and (June 2020) ESG Considerations for Governmental Issuers.

It is important to note that, similar to companies, muni issuers have to disclose material information so that investors can make informed assessments.

Under US Securities and Exchange Commission (SEC) rules, materiality is broad and encompasses non-numerical information.[47]

47 See SEC Rule 15c2-12: Continuing Disclosure; SEC Staff Accounting Bulletin: No. 99 - Materiality.

BENEFITS OF IMPROVED DISCOSURE FOR ISSUERS

Issuers may currently view data reporting and the need to discuss it with investors as a burden, but they should recognise the multiple benefits that the process can bring, including:[48]

- Identifying support and financing opportunities to advance issuers' broader sustainability objectives. In particular, disclosure projects may encourage issuers to network and explore best practices.
- Tapping into increasing demand for thematic investments with positive real-world outcomes.
- Appreciating that transparency can provide a more accurate profile of the issuer, thus avoiding investors relying on assumptions, especially when it comes to assessing mitigating factors or future plans that are difficult to understand without the issuer's input.
- Improving their own understanding and management of ESG risks, particularly if new technology and data is employed.
- Broadening ESG consideration to their own assets/ pension investments.[49]

Smaller issuers can find reporting even more challenging because they have limited resources. However, they may not need to duplicate disclosure that is available at the sector level or published by larger administrations.

48 See GFOA Ibid.

49 For example, a group of 16 US State Treasurers managing more than US$1.2trn sent a statement to investment firms, companies, consultants and fellow state treasurers on the urgency of dealing with climate change to improve the assessment of the health of their pension funds. See Responsible Investor (May 2021) US State Treasurers to press investors and consultants on climate risk.

NEXT STEPS

This report is the first that the PRI has published to enhance ESG consideration in the muni market.

The PRI hopes that, together with future work on screening and thematic approaches and investor engagement, the report will encourage investors, underwriters and muni issuers themselves to better incorporate ESG factors in this market segment.

Investors should review the ESG factors and the data sources in this report to evaluate new qualitative or quantitative information to incorporate into their risk assessments. It is also important that they consider how they can contribute to sustainability goals through strategic asset allocation, especially related to key sectors that muni bonds fund, such as education, health, transport and infrastructure.

Issuers should make information accessible and improve disclosure via existing platforms. They should view data dissemination as a way to raise transparency and good governance standards, thus enhancing their risk profile.

If anything, the drivers behind ESG transparency are rapidly increasing:

- Climate change features among the top four priorities of the current US administration, alongside the COVID-19 pandemic, the related economic downturn and racial justice.[50]
- Regulatory bodies are focusing more on ESG factors to enhance disclosure or better assess implications for the financial system.[51]
- Foreign investor purchases of muni bonds may increase further if federal policy encourages greater taxable issuance through a new Build America Bonds programme.[52] This increase may come with requests for more ESG clarifications from investors located in jurisdictions where ESG regulation or responsible investment practices are more advanced.

In the months ahead, the PRI intends to:

- Gather case studies illustrating best practices among muni investors.
- Broaden the investor dialogue with issuers, credit rating agencies and ESG information providers, along the lines of a similar PRI programme in the corporate market.
- Explore the extent to which the findings in this report apply to countries outside the US.

50 See Bloomberg (January 2021) Biden Plans 10 Days of Action on Four 'Overlapping' Crises.

51 See Footnotes 1 and 2 in the Executive Summary again.

52 See Brookings Institute (2020) Why the surge in taxable municipal bonds?.

APPENDIX

USEFUL ESG RESOURCES	
Bureau of Economic Analysis	Economic data at state and local levels
Bureau of Labor Statistics	Employment data
CDP	Corporate and governmental body ESG data
Climate Central	Sea level rise programme provides data on coastal threats in the US and globally, e.g. the vulnerability of affordable housing in the US to sea level rise and coastal flooding
Energy Information Administration	Energy data and analysis
Flood Factor	Property flood risk across the US
National Center for Education Statistics	Educational institutions data
NOAA (National Oceanic and Atmospheric Administration)	Weather and climate data
SeaLevelRise.org	Sea level rise data, by state
US Census Bureau	Population data
US EPA (Environmental Protection Agency) Watershed Index Online (WSIO)	Watershed data
US Forest Service	US forests and grasslands data
WRI (World Resources Institute) Aqueduct	Maps of water-related risks
Zillow Housing Data	House price data

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

PRI Principles for Responsible Investment

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

UN environment programme | finance initiative

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

United Nations Global Compact

"ESG" Best Practice - "E" Environmental

ESG refers to three key factors that affect a government's credit profile, including an exposure to climate risk and other Environmental factors ("E"), long-term Social factors ("S"), and Governance issues ("G"). ESG factors represent areas affecting the long-term sustainability of a community. Both investors and rating analysts have increasingly utilized outside resources to assess ESG risks for municipal issuers. Governments play an important role in that overall assessment by providing specifics about their ESG challenges and action plans and in doing so, increasing transparency to the entire municipal market. ESG disclosure provides governments the opportunity to tell their story of what they are facing and how they are addressing the issues, a point of view that is valuable to the broader municipal market.

Municipal bonds serve as a vehicle for "impact investments" and many investors want more information on the impact their investments can have. Since bond ratings and investor demand have a significant bearing on the pricing of municipal bonds, it is generally in the best interest of a government to provide this disclosure directly to the investment community through primary offering documents. The increased focus and awareness from investors can also be the catalyst for encouraging more governments to increase on-going efforts to identify and address environmental risks and enhance their readiness and resiliency.

Issuers of governmental securities should be aware that there could be credit rating differentiation depending on their approach to addressing ESG factors. Without clear ESG information—either through a rating agency report or disclosures—potential buyers of municipal bonds are likely to conduct their own ESG analysis, which may not include all relevant information or context that a government can provide especially regarding steps taken to mitigate these risks. These factors should serve as motivation for governments issuing municipal bonds that are still questioning if ESG should be considered for their disclosure practices, to invest the time to explore the subject, consider its application, and communicate their efforts to address challenges, specifically with regard to climate change and other environmental risks of the ever-changing world. The importance and content of ESG disclosure will vary depending on the geographic location and unique demographics of each government. In cases where a government does not have any E-environmental concerns or risks, the government should consider discussing that position in their disclosure documents.

Start with the E—Environmental

Developing a best practice for all ESG factors at once is impractical, so this recommended practice focuses on the E-environmental factor. Guidance regarding the S-social factor G-governance are not addressed in this recommended practice. However, governments should note that most broad subjects under the G-governance umbrella are routinely included in rating agency considerations and offering documents. For example, information regarding governance framework (elected bodies), governmental decision-making (votes), transparency (public records laws), financial management policies and practices (MD&A and pension disclosures/funding) is generally included in offering documents used in the municipal market. However, the strategies outlined below to develop environmental disclosure can be generally applied to the other factors—S and G—as well.

The Government Finance Officers Association ("GFOA") recommends that governments evaluate the development and disclosure of information regarding the primary environmental risks applicable to municipal issuers and their bonds in their preliminary and final official statements used in connection with bond sales and in other voluntary disclosure. Governments should also disclose plans developed, strategies deployed, actions taken, and infrastructure built to address the environmental risks, which will vary depending on the geographical location of the issuer.

Specific examples of environmental factors that an issuer should consider discussing (which will vary depending on the geographical location of the government) include:

- Inland flooding, tornadoes, drought, snow and ice storms and other extreme weather events
- Climate change affecting agriculture, infrastructure, major industries and tax base
- Frequency and intensity of wildfires
- Frequency and strength of hurricanes and flooding
- Sea level rise in coastal communities
- Water supply, both and quality and quantity
- Diversity of power generation sources and transition plans by providers

The increase in the number of extreme weather events in recent years has raised public awareness about climate change. Investors and rating analysts are not just looking to see if risks are present, but also want information regarding what plans a government has to address these risks. Most environmental risks are generally self-evident based on where an issuer of governmental securities is located, although for conduit issuers, the risks depend on both the borrower and issuer. Any information a government has regarding estimates of the potential economic impact on its tax base or other identifiable and quantifiable risks may also be helpful to investors and rating analysts. Also, investors and analysts are keenly interested in information on how issuers are addressing or planning to address climate change and other risks identified.

Identifying Environmental Risks

The first step in developing disclosure information for E-environmental is to identify the primary environmental risks applicable to your government or its bonds. Please note that disclosure information for E-environmental will take time to assemble and prepare. For that reason, even if governments are not planning a bond issuance in the short term, governments should consider compiling relevant information when practicable in anticipation of a future bond issuance. Most importantly, addressing environmental disclosure is a matter that should be discussed with your bond counsel, disclosure counsel, and municipal advisor.

- Issuers should start by identifying leaders in their government that have expertise in the area of climate or environmental risk. This could be an official in the public works department, the emergency manager who is charged with preparing for or responding to natural disasters, or a resiliency or sustainability officer.

- Identify the primary environmental or climate risks for your area. Start by addressing likely risks, and risks with the potential for the most material impact on your government or the credit worthiness of your bonds rather than attempting to identify every risk that could occur in your jurisdiction. Later, less likely risks, and risks with less impact on the government can be addressed.
- Consult bond offering documents of peers and neighboring governments for environmental disclosure that may also be relevant to your jurisdiction. Environmental and climate risks are often regional. Governments in close proximity may already be disclosing environmental risks which may be used as a guide to identify and inform your environmental risk disclosure. This is especially true for smaller jurisdictions that have constrained resources. Smaller governments may find it more efficient and cost effective to make use of planning and disclosure materials of larger governments within the same region.
- If your jurisdiction has identified environmental risks, can they be quantified? Is there information available regarding the impact of these risks on your tax base, pledged revenue stream, finances, economy or other measures that may be used to inform investors? There are service providers in the environmental risk identification space that can provide data that may be helpful in quantifying the potential impact of climate risks. If quantitative information is provided, any forward looking data or projections should be accompanied by the appropriate cautionary language because natural disasters are, by their nature, inherently unpredictable events.
- If no expertise exists at the local level, governments should take a broad survey of issuers making environmental disclosures. Additionally, all states have a hazard mitigation plan that may help identify risks. The US Global Change Research Program, operated by 13 federal agencies produces the National Climate Assessment and the National Risk Index that can be helpful for identifying primary risks in your area.
- As noted above, there are many consultants, experts and businesses that specialize in identifying and evaluating environmental risks, but they are not required for developing adequate disclosure of environmental risks. These service providers may be useful in connection with preparing for climate change and environmental risks, but their value to your government should be independent of helping develop disclosure.

Environmental Risks and the Nexus to Credits

- Once environmental risk factors have been identified, a government should consider how these risks, if actualized, could impact its operations and financial position. Governments should also consider the potential impacts for each credit or enterprise because the potential impact may be quite different depending on the nature of each credit or enterprise. Disclosure should be tailored to be helpful and informative to the municipal market.
- If the government itself, the revenues that secure the credit, or the infrastructure being funded with bond proceeds, could be materially impacted by an environmental disaster, extreme weather event or climate change, it is recommended that these risk factors be disclosed in relevant offering documents used in connection with bond sales.

Additionally, any data that is available to quantify the potential adverse impact of the identified risks being actualized should be disclosed. Quantitative data regarding the potential impacts should be accompanied by appropriate cautionary language.

- Providing available information regarding risks and mitigation or adaptation efforts is considered good investor relations as rating agencies, analysts, and investors are increasingly looking for and assessing this information in making credit and investment decisions. Consider identifying emergency mitigation and response strategies perhaps already in place using data regularly collected (examples located in Resource Document: Identify Resiliency and Emergency Response Strategies).

Disclosure Considerations

Governments that have identified E-environmental risk factors for disclosure are encouraged to identify both the analysis of environmental factors, such as climate risk, and the policies adopted to address those risk factors. Governments that are contemplating preparation of primary market or voluntary financial information should discuss the issue with their bond counsel, disclosure counsel, and municipal advisor.

General template for your Primary Market disclosure

A good starting point for the primary market disclosure is addressing what your governmental knows and is currently experiencing, and what steps it has taken to address these factors and risks. Examples of policies adopted could include local ordinances, climate action plans, greenhouse gas reduction strategies, and other policy documents. Analysis of climate risks include studies conducted by state, regional or local governments discussing risks and mitigation strategies of climate events that my impact your entity.

Below is a checklist of Disclosure Considerations to assist in preparing Primary Market Disclosure related to E-environmental risks:

- Identify primary risks
    - Discussion of environmental risks identified in State, regional or local government studies or analyses undertaken, if any, outlining primary risk factors.
    - Quantify, if possible, or provide examples of recent experiences with primary risks identified, including natural disasters or other extreme weather events.
    - Discussion of how these studies or analyses are tracked and updated over time.
    - Describe processes and systems in place for responding to and mitigating your identified risks, including the level of government and/or departments responsible for those processes and systems.
- Identify policy actions taken
    - Discussion of State, regional and local government policies adopted addressing environmental factors impacting your Government.
    - Quantify climate policy goals established impacting your Government and progress towards meeting those goals, including implementation efforts.
    - Discussion of how these policies and goals are tracking and updated over time.

- Summarize information for an investor to gain a general understanding of your response efforts. Only link to reports available for more detailed information, if needed, to convey relevant and meaningful information for disclosure purposes. In many cases, it is more meaningful to summarize salient points from voluminous reports rather than simply linking to or referencing detailed assessments or technical materials.
- Include appropriate disclaimers or cautionary language to properly frame the discussion of environmental risks, which are inherently unpredictable with projected impacts that are equally unpredictable and, at times, unknowable. As noted by the Securities and Exchange Commission, good faith attempts to provide appropriately framed forward-looking information were not expected to be second guessed by the SEC. Disclaimers should also be considered for any links to websites that are not under the direct control of your government.
- Ensure that the disclosure is reviewed with each bond offering to keep the information up to date and disclose any new events that have occurred as well as the response and impacts.

General Considerations for Additional Voluntary Disclosure

- Governments may also choose to provide periodic voluntary environmental information of identified E-environmental risk factors and policies adopted to address those risk factors to investors. It is important to note that governments should contemporaneously disseminate any voluntary financial information to the market as a whole. Governments should also be aware that while communicating this information increases transparency of the government to investors, any information determined to be "communicating to the market" could be subject to regulatory scrutiny.
- GFOA is the lead organization for an industry-wide workgroup addressing concerns on municipal disclosure that have been raised by investors, analysts, and the Securities Exchange Commission. In August 2020, this Disclosure Industry Workgroup release a paper entitled "General Continuing Disclosure Considerations for Municipal Securities Issuers" that, while focused on COVID-19 matters, addressed the need for relevant timely disclosure including voluntary disclosures. Although the paper was developed in order to address COVID-19 pandemic related disclosures, the principles developed can be easily applied to environmental voluntary disclosures.

References:

- GFOA Best Practice: Maintaining an Investor Relations Program
- GFOA Best Practice: Primary Market Disclosure
- Disclosure Industry Workgroup: General Continuing Disclosure Considerations for Municipal Securities Issuers
- SEC Statement: General Continuing Disclosure Considerations for Municipal Securities Issuers

- **Board approval date:** Monday, March 8, 2021

Government Finance Officers Association
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“ESG” Best Practice S – Social

GFOA has developed a suite of best practices addressing each element of ESG. This best practice focuses on the “S” – Social factors of ESG and makes recommendations to governments on how best to identify social factors impacting their jurisdiction and determine whether those factors impact credit quality. GFOA’s best practice for developing ESG Disclosure focused on the “E”— Environmental risks provides a framework for considering whether to provide disclosure information that can also be used to evaluate disclosure for the “S”— Social factors. One important distinction between “E” risks and “S” factors is the lack of consensus within the municipal finance space about what factors would fall under the “S” umbrella that may constitute important information related to credit analysis, which could leave the issuer in the position of having to decide what social factors, if any, may have a meaningful and relevant connection to its credit quality or the willingness or ability to repay its bonds. Determining which “S” factors to include in its offering documents or voluntary disclosures can be challenging but this best practice provides guidance on how to identify information, which should be provided in connection with the offer and sale of bonds or any voluntary disclosures related to an issuer’s identified “S” factors.

GFOA recommends that issuers identify social factors that may have a material impact on its credit quality or the payment of its bonds, if any, and disclose information related to these social factors. Issuers should also explain how these social factors, if any, may affect the credit quality of its bonds and what policies or programs it has to address these social factors.

There are many factors that could be considered under the broad category of “S” — Social that may impact your community now or in the future. As noted above, credit analysts, investors, and rating agencies have not coalesced around what factors in the “S” category will be important to their credit analysis, investment decisions, or credit ratings. Therefore, it is important for issuers to consider the social factors that are challenging their community and decide if any have a connection to repayment of their bonds or could negatively impact operations or financial position over the term of its debt. If an issuer determines that these factors do have a nexus to debt repayment or could have a material adverse impact on operations or finances, it should provide information about these factors in its offering documents and any voluntary disclosures to the marketplace.

Specific examples of social factors that an issuer may want to consider include:

- Availability and affordability of housing for vulnerable populations
- Demographic changes and population trends affecting demand for services or tax base
- Income levels, wealth, and income disparities
- Affordability of government services, tax rates, or eroding tax base
- Labor relations challenges, union contracts (and any long-term fixed costs—OPEB and pensions)
- Availability, access, and quality of community health services
- Quality of public education and vocational training; educational attainment

- Labor force, employment/unemployment, and job opportunities
- Internet access and affordability

Like other elements of ESG, social factors have always had some impact on communities, and governments have responded by creating programs and policies to address the impacts on its citizens and community. The recent interest in ESG affords an opportunity for governments to highlight and clearly communicate to the municipal market which social factors it considers important to its ongoing vitality and identify and explain what programs and policies have been created or enacted to address the social factors determined by the issuer to be important. The process described in developing environmental disclosure can generally be applied to considering disclosure of social factors. Issuers can review the GFOA best practice on "E" Environmental Risks for information on the process for developing disclosure. However, below are some additional elements for consideration when evaluating disclosure of social factors.

Identifying Social Factors

First, consider what information is already included in offering documents through the "S" factor lens. Although it is not likely categorized or labeled as a social factor, your government may have been disclosing information that is now considered "social"' under the ESG umbrella. For example, many governments provide information related to changes in population, personal income, employment/unemployment, or other demographic trends in the official statement. Identify this type of information already being provided and consider if there is any additional information or explanation that could provide context for how "S" factors are being addressed, particularly if trends are negative.

When considering "S" factors, consider trends reflected in data or metrics that may have a long-term impact on credit quality. For example, civil unrest related to specific events is likely temporary and may not have a permanent or material impact on a government's long-term finances or operations. Accordingly, information relative to a specific and temporary event may not be material for purposes of disclosure. However, new programs or policies enacted in response to such events may provide the investment community with insight regarding the likely impacts of such events over the longer term. Therefore, it is important to assess the duration of the impact of an "S" factor, i.e., whether it is temporary or permanent. Governments should consider the duration and permanency of the social factor. Look for trends that pose a challenge to population growth, property values, educational attainment, employment opportunities, or other factors that may impact the long-term growth and prosperity of your community and may provide the revenue source for debt service repayment.

Social Factors and Nexus to Credit

After you have identified the "S" factors that are important to your community, consider if there is a nexus to the repayment of your bonds or underlying credit quality of your government and its bonds. This can be particularly challenging with "S" factors because in most instances their connection to credit is indirect or only becomes apparent over the long term. Also "S" factors can be complex, politically charged, amplified by the news media, and sensitive to address. If it is determined that an identified "S" factor may have an impact on the repayment of your bonds, then it is important to determine if the potential impact could be materially adverse. If both a nexus to credit and materiality are established, then the "S" factor should be disclosed and when possible, quantify the impact. For example, instead of identifying all social factors that may have some minor effect, it is more informative to discuss factors that could have a material impact on the issuer's ability to repay its debt.

Disclosure of "S" factors is most informative to investors and the marketplace when it contains identification and discussion of the factor and an explanation of how the associated trends may impact finances, operations, or bond repayment overtime. For example, if the income level of your residents has been steadily decreasing over a period of years, explain how a continuation of the trend would impact personal spending habits, the jurisdiction's economy and tax base; and ultimately, potential challenges to repaying debt. It would also be important to include any strategies the government has deployed to mitigate or combat potential negative consequences related to "S" factors. Connecting the dots between the identified "S" factor and credit quality is particularly important as long-term financial impacts related to "S" factors may not be readily apparent.

Disclosure Considerations

Primary market, annual continuing, or voluntary disclosures related to ESG factors should be carefully considered by issuers and discussed with their bond counsel, disclosure counsel, and municipal advisor. The suite of GFOA best practices provides a framework for addressing disclosure and meeting market expectations. In those cases where issuers determine that information related to ESG factors is meaningful, relevant and material to its credit quality, then disclosures on ESG factors should be made. Many issuers maintain investor websites and investor relations programs designed specifically for analysts and investors to enhance the transparency and marketability of their bonds. If the issuer believes there is value in providing additional information in this manner, then it should consider providing it voluntarily.

Resources and Other Related GFOA best practices

- ESG Disclosure - Environmental
- Understanding Your Continuing Disclosure Responsibilities
- Primary Market Disclosure

- **Board approval date:** Friday, October 1, 2021

Government Finance Officers Association
203 N. LaSalle Street
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Chicago, IL 60601-1210

"ESG" Best Practice - "G" Governance

G – Governance

GFOA has developed a suite of best practices addressing each element of ESG. This best practice focuses on the "G" – Governance factors of ESG and makes recommendations to issuers on how best to identify governance factors relevant to their government, its bonds, and credit quality that it should consider providing in its offering documents. GFOA's best practice for disclosing the "E" – Environmental risks provides a framework for developing and providing information related to the "E" of ESG that may be useful to issuers in identifying "G" factors, which should be discussed in its offering documents.

GFOA recommends that issuers identify governance factors that are meaningful and relevant to its credit quality, financial or budget management practices, or the payment of its bonds and provide information related to these governance factors in its preliminary and final official statements. Issuers should also explain how these governance factors may affect its financial performance and position, credit quality, or payment of its bonds – i.e. provide an assessment of the nexus to credit.

Most subjects included under the "G" umbrella are already routinely included in offering documents. Additionally, credit analysts and the rating agencies have long considered governance factors in their credit analysis because they help sustain credit quality, particularly through economic cycles and the fiscal consequences of unforeseen events. While the "E" and "S" factors likely require additional attention by issuers, considering the "G" factors should be much simpler and generally consist of reviewing information already being routinely provided in your bond offering documents or otherwise available to the municipal marketplace.

Governance factors have always been a part of government management, operations, and finances. Governance includes governmental decision-making, policies, legal requirements, organizational structure, and financial and budget management practices. None of these factors are new and are generally already embedded in established rating agency criteria used in their credit analysis. Because of this, many issuers are familiar with and aware of how these factors are evaluated by rating agencies and credit markets. Additionally, information on organizational structure, management, decision-making, policies, and budget and financial management and reporting is already available from issuers and communicated in some way. However, the focus on ESG provides an opportunity for issuers to think about "G" factors in light of ESG and verify that important information of this nature is available and clearly communicated. Specific examples of Governance factors that are relevant to credit analysis that an issuer should consider discussing in its preliminary and final official statements used for bond sales include:

- Organizational structure – describe whether the governing body is elected or appointed and how it is created (e.g., by home rule, statute, or constitution)
- Legal authority to issue debt – describe legal authority, any limitations, and process for approving debt issuance

- Policy transparency – does your government have budget, debt, and financial management policies? Are they effective and followed to promote prudent financial management practices? How do they enhance your credit quality and bond security?
- Management and policy framework – board oversight, structure, internal controls
- Financial reporting – do you have accurate and reliable systems for financial reporting and preparing financial statements? How is the budget monitored during the fiscal year? When is the information produced and is it used to manage your government's finances?
- Federal and State framework – how does your entity fit into the federal/state policy and legal framework?
- Risk culture and risk mitigation – does your entity have a cybersecurity plan?
- Budget controls, revenue forecasting, fiscal integrity of the longer term
- Relationship to federal and state funding streams
- Deferred maintenance or the Infrastructure Investment Gap
- Smart growth/land-use planning – long-term economic sustainability
- Pension and OPEB liabilities, funded status, annual contributions, and prioritization

Identifying and Discussing Governance Factors

For most issuers, the first step in assessing "G" disclosure is to consider what information is already included in its offering documents. Of the three ESG factors, governance is the most likely already described in various sections of its offering documents and tightly linked to the finance function of the government. Issuers should take the opportunity to verify that key elements of its good governance policies and practices are described in its official statements.

Good governance practices are fundamental and routine for governments because they are public bodies not private corporations. For example, most governments are governed by elected bodies whose meetings, agendas, and decisions are open to the public. Also transparency of decision-making and fiscal reporting, a cornerstone of good governance, are standard practices and legally required in most governments. Budget, debt, and financial management policies and practices and financial reporting, including audited financial statements, are again standard for governments. These policies, practices, and legal requirements simply need to be described so that issuers are given credit for their strong governance and management.

After you have identified the "G" factors that are important to your community, consider if there is a nexus to the repayment of your bonds or underlying credit quality of your government and its bonds.

Governance factors and their assessments will continue to evolve so thoughtfulness around their disclosure should be refreshed from time to time to account for changing circumstances. For example, the COVID-19 pandemic and the federal response presented grant financial tracking never before seen in almost entirely every government across the United States. Deployment of those funds required good governance, policy decision-making, and tracking and audit capacities in new and different ways.

Disclosure Considerations

Primary market, annual continuing, or voluntary disclosures related to ESG factors should be carefully considered by issuers and discussed with their bond counsel, disclosure counsel, and municipal advisor. The suite of GFOA best practices provides a framework for addressing disclosure and meeting market expectations. In those cases where issuers determine that information related to ESG factors is meaningful, relevant and material to its credit quality, then disclosures on ESG factors should be made. Many issuers maintain investor websites and investor relations programs designed specifically for analysts and investors to enhance the transparency and marketability of their bonds. If the issuer believes there is value in providing additional information in this manner, then it should consider providing it voluntarily.

Resources and Other Related GFOA best practices

- ESG Disclosure - Environmental
- Understanding Your Continuing Disclosure Responsibilities
- Primary Market Disclosure

- **Board approval date:** Friday, October 1, 2021

Government Finance Officers Association
203 N. LaSalle Street
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CITY OF AURORA
Council Agenda Commentary

Item Title: Aurora Police Department's Crisis Response Team – Trisha Balani Gold Award Proposal	
Item Initiator: Terri Velasquez, Finance Director	
Staff Source/Legal Source: John Schneebeck, Manager of Business Services/Hanosky Hernandez, Senior Assistant City Attorney	
Outside Speaker: Trisha Balani	
Council Goal: 2012: 6.2--Maintain superior financial reporting, financial controls, appropriate reserves, budgeting financial management and transparency	

COUNCIL MEETING DATES:

Study Session: n/a

Regular Meeting: n/a

ITEM DETAILS:

- Agenda long title
- Waiver of reconsideration requested, and if so, why
- Sponsor name
- Staff source name and title / Legal source name and title
- Outside speaker name and organization
- Estimated Presentation/discussion time

Aurora Police Department's Crisis Response Team – Trisha Balani Gold Award Proposal
John Schneebeck, Manager of Business Services/Hans Hendandez Perez, Senior Assistant City Attorney
Estimated Presentation Time: 10 minutes

ACTIONS(S) PROPOSED ***(Check all appropriate actions)***

☐ Approve Item and Move Forward to Study Session

☐ Approve Item as proposed at Study Session

☐ Approve Item and Move Forward to Regular Meeting

☐ Approve Item as proposed at Regular Meeting

☒ Information Only

☐ Approve Item with Waiver of Reconsideration
Reason for waiver is described in the Item Details field.

PREVIOUS ACTIONS OR REVIEWS:

Policy Committee Name: N/A

Policy Committee Date: n/a

Action Taken/Follow-up: ***(Check all that apply)***

☐ Recommends Approval ☐ Does Not Recommend Approval

☐ Forwarded Without Recommendation ☐ Recommendation Report Attached

☐ Minutes Attached ☐ Minutes Not Available

HISTORY ***(Dates reviewed by City council, Policy Committees, Boards and Commissions, or Staff. Summarize pertinent comments. ATTACH MINUTES OF COUNCIL MEETINGS, POLICY COMMITTEES AND BOARDS AND COMMISSIONS.)***

n/a

ITEM SUMMARY ***(Brief description of item, discussion, key points, recommendations, etc.)***

The main goal of Trisha Balani's Gold Award proposal will be to work with APD and the city of Aurora to expand the Crisis Response Team (CRT) by hiring at least two additional clinicians (mental health professionals) to be employed and funded by the city.

QUESTIONS FOR COUNCIL

n/a information only.

LEGAL COMMENTS

The city charter requires that the city manager shall keep the council advised of the financial condition, future needs of the city, and the overall general condition of the city, and shall make such recommendations to the council for adoption as deemed necessary or expedient. This item is informational only. (*See*, Aurora City Charter Art. 7-4 (f)). (Hernandez).

PUBLIC FINANCIAL IMPACT

☒ YES ☐ NO

If yes, explain:

Ongoing costs: $106,978
- Clinician Salary (including benefits): $101,978
- Annual Training: $5,000

One-time costs: $7,800
- Includes: Police Radio, bulletproof vest, laptop, and desk phone

PRIVATE FISCAL IMPACT

☒ Not Applicable ☐ Significant ☐ Nominal

If Significant or Nominal, explain: n/a

Your Name: Trisha Balani

NOTE: BEFORE COMPLETING THIS FORM, CHECK WITH YOUR COUNCIL TO DETERMINE IF THEY REQUIRE GOLD AWARD TRAINING AND/OR ONLY ACCEPT APPLICATIONS ONLINE. IF YOUR APPLICATION MUST BE SUBMITTED ONLINE, PLEASE GO TO: HTTPS://GOGOLD.GIRLSCOUTS.ORG.

Prior to starting your project, submit this proposal to:

Council Name: Colorado

Street Address: 400 South Broadway

City: Denver **State:** CO **Zip Code:** 80209-0407

Email: mygoldaward@gscolorado.org **Phone:** (303)607-4892

NOTE: BE SURE TO SUBMIT YOUR PROPOSAL BY THE DATE ESTABLISHED BY YOUR COUNCIL

Your Name: Trisha Balani **Country:** United States

Street Address: 21217 E Pennwood Dr

City: Centennial **State:** CO **Zip Code:** 80015

Email: tgbalani@gmail.com **Phone:** (720)725-4471

Age: 16 **Grad Year:** 2023 **School:** Eaglecrest High School

Troop/Group Number: 60077 **Troop/Group Volunteer:** Karyn Songer

Troop/Group Volunteer's Phone: (303)618-1618 **Email:** karyn.songer@gmail.com

Girl Scout Gold Award Project Advisor: Sergeant Jake Bunch

Project Advisor's organization: Aurora Police Department- Crisis Response Team

Project Advisor's Phone: (303)739-6115 **Email:** abunch@auroragov.org girl scouts

Girl Scout Gold Award | Project Proposal

Your Name: Trisha Balani

Prerequisites: You must have either completed A) the Girl Scout Silver Award and one Senior or Ambassador Journey, or B) two Journeys. Please list the prerequisites you completed below and obtain your troop/group volunteer's signature.

Senior/Ambassador Journey	Date Completed	Troop/Group Leader Approval Date
1. Girl Topia (English)	7/2021	Karyn Songer 9/30/2021

Girl Scout Silver Award Completion Date	4/1/2019
Council Where You Earned The Award	Colorado
Troop/Group Leader Approval Date	Karyn Songer 9/30/2021

Your Team: List the names of individuals and organizations you plan to work with on your Gold Award project. This is a preliminary list that may grow over the course of your project.

Individual (if applicable)	Organization	How my team will help
Courtney Tassin	Aurora Police Department-Mobile Response Team	Information and guidance
Cynthia Cooper	Eaglecrest High School	Support
Allison Hiltz	City of Aurora	Connect me with the city government

Proposed Project Description

Gold Award Title: Improving Police Mental Health Response

Proposed Start Date: 11/1/2021 **Proposed Completion Date:** 12/1/2022

Your Name: Trisha Balani

The theme(s) my Gold Award will address is/are:

☑ Education

☑ Public Safety

☑ Disability Issues

My Gold Award aims to address this issue:

Police are expected to be an all-in-one profession, but they do not receive adequate training to gain the skills they need for every situation they may encounter. There is an extreme lack of police training on mental health, and they are oftentimes unable to properly handle 9-1-1 calls that involve a mentally ill or neurodivergent person. Because of this, many calls with a mental health aspect can take a wrong turn, like the case of Elijah McClain, a 23-year-old with autism who died at the hands of Aurora Police Department. Or, Alex Domina, a Loveland, CO teen who faced lethal injury by the police when he was having a mental health crisis. All scenarios of this nature have more complicated aspects, but a lesson learned from both McClain and Domina is that we **need** better mental health response.

The reason I selected my issue are:

Elijah McClain

Alex Domina

Having mental health resources will help mend police-community relations.

Suicides and other mental health crises within my school and community

Root Cause

The root cause of my issue is:

Police often do not have adequate training to respond to mental health situations, and there is a general lack of resources allocated to mental health professionals who can assist in responding to mental health calls.

To address this, many police departments across the nation have developed specialized departments, including Aurora Police Department. APD's Crisis and Mobile Response teams are specifically designed to respond to calls of this nature. However, these programs are extremely small and underfunded-- The CRT only has five clinicians on staff.

Your Name: Trisha Balani

I will address the root cause by:

I will address my root cause by increasing the resources given to Aurora Police Department's mental health response teams. I will also increase awareness on the effectiveness of programs like the MRT and CRT in order to increase public support for creating more specialized mental health response programs, like APD's, in Colorado.

Target Audience

The target audience(s) for my Gold Award project is/are:

Aurora Police Department

The city of Aurora

Police departments in Colorado

My community of Aurora, CO and Centennial, CO

The skills, knowledge, and/or attitudes my target audience will gain are:

Additional resources for two extremely beneficial APD programs, the Crisis and Mobile Response Teams

The benefits of reallocating resources within the police, rather than creating entirely new systems.

The benefits of allocating appropriate and adequate resources to mental health response teams.

The population in my community will begin to understand that the police are not always an enemy.

I will know that my audience has gained the desired skills/knowledge because:

Since I have multiple target audiences, they will gain the skills and knowledge in different ways. It will be clear if the City of Aurora gained the desired knowledge if they agree to fund or partially fund APD's MRT and CRT by incorporating them into the city's budget. Additionally, to ensure that police departments in Colorado and the people in my community have gained the knowledge, I will conduct surveys based on the ideas I want to communicate and analyze the results.

Proposed Impact-National and/or Global Link

My Gold Awards's national and/or global link is:

Mental health is an issue all over the world, and due to the long-lasting stigma surrounding mental health, learning how to respond to mental health situations is still in its experimental phase. As shown by many previous cases all over the U.S., first-response to mental health situations still needs to be addressed.

Police are expected to know how to do everything, with very minimal training. People are not only experiencing mental health crises at increased rates, but they are often afraid to ask for help. Even increasing exposure to the resources available to mentally ill people will alleviate some responsibility for police to respond. Numbers for mental illness have been rising for the past few decades, and more prevalence of police brutality has also revealed the police system's lackluster mental health response. This happens all over the nation, and of course, all over the world. Pushing the message that it is okay to ask for help is a way to reach people all over the world, but actually **improving** the systems put into place to serve these people can only be done in small steps. For my Gold Award, that starts at home: Colorado.

Proposed Impact-Measurable Goals

Measurement of my project's success:

What my audience will learn/gain	**How** I will measure impact	**When** I will measure impact
APD will gain at least two city-funded clinicians for the MRT/ CRT.	I will measure this by the number of APD MRT/CRT clinicians the City of Aurora decides to fund.	My goal date for this is August 2022.
CO Police Depts. will learn the benefits of having teams dedicated to mental health response.	Presentations and Survey	Summer 2021
The people in Aurora, CO will learn about the mental health resources available to them via APD.	Survey	Summer 2021

My Gold Award project goals are:

1) Aurora Police Department's MRT and CRT are currently grant-funded, and the resources given to these programs simply are not enough. These grants will run out within the next year, and while, according to my mentor, Jake Bunch, it is unlikely that their funding will be taken away entirely, these programs still need more resources. The main goal of my Gold Award will be to work with APD and the city of Aurora to expand the CRT and MRT by hiring at least two additional clinicians (mental health professionals) to be employed and funded by the city. **(August 2021)**

2) The second aspect of my project will be to present to other police departments around the state who would benefit from response teams similar to APD's. I will use APD's current MRT/ CRT statistics and stories to demonstrate the necessity of mental health resources to other departments. **(June/July 2021)**

3) Finally, I would like to raise awareness within my own community of the mental health resources available to them through APD. I will do this by using outlets such as social media, my school newspaper, local news, and a pamphlet available on public bulletins around my community and school. **(June/July 2021)**

Proposed Impact-Sustainability

My Gold Award will be sustained beyond my involvement by:

If/ When the City of Aurora agrees to give partial funding to the APD CRT/MRT programs, it will become built into the city's budget. Because of the success of these two teams thus far, it is doubtful that they will be taken away. However, obtaining city funding will be far more sustainable than the grants that the programs are currently dependent on.

The information pamphlet I will create will also help to continue to raise awareness and garner support for adequate police mental health response resources, even outside the timeline of my Gold Award.

Create Your Plan

I will put my plan into action by:

Date	Activity	Teammate(s) Needed	Resources Needed	Hours of Work
9/1/2021	Outreach- meeting/ emailing team members, city officials, city/state government officials, etc	Me	Professionalism	20.00
6/1/2022	Presenting to CO police depts.	Jake Bunch, Courtney Tassin, Cynthia Cooper	Transportation, approval from police departments	15.00
6/1/2022	Creating information materials (pamphlet, news story, etc.)	Courtney Tassin, Cynthia Cooper, Jake Bunch	LucidPress, CRT/ MRT statistics and information	10.00
8/1/2022	Working with the city of	Alison Hiltz,	Time, Professionalism,	40.00

	Aurora to add city-funded clinicians to MRT/CRT	Jake Bunch	Effective communication, Policy knowledge	

Total Hours: 85.00

Estimate your project expenses and how you plan to meet those costs (e.g., donations, cookie proceeds, money-earning project):

Item	Source of Funding	Amount
Radio and vest for a single CRT clinician	City of Aurora	$6750.00
Estimated Annual Salary for a CRT clinician	City of Aurora	$71094.00

Total Expenses: $77844.00

The strengths, talents and skills I currently have and will put into action are:

- ☑ Project Management
- ☑ Courage
- ☑ Implementation
- ☑ Presentation Skills
- ☑ Problem Solving
- ☑ Risk Taking
- ☑ Confidence
- ☑ Community Building
- ☑ Organization
- ☑ Collaboration

Your Name: Trisha Balani

The skills I plan to develop as I work towards earning my Gold Award are:

Lobbying

Involvement in public policy

Leadership

Communication

Time Management

Tell the World!

I will let others know about my Gold Award (the impact of my project, what the Gold Award is, and what I learned in earning it) by promoting via :

Note: This is NOT about your Gold Award's sustainability.

- [x] Articles
- [x] Social Media
- [x] Presentations

Project Advisor Name: Sergeant Jake Bunch

Date of Validation: 9/30/2021

Date of Proposal Submission: 9/30/2021

Doing More for CRT to Improve Police Mental Health Response

Trisha Balani
11th Grade, Eaglecrest High School

INTRODUCTIONS

Me & My Project

My Team

What Do I Need from YOU?

Girl Scout Gold Award

Sergeant Jake Bunch and Courtney Tassin

City funded CRT clinicians (matching what program already has

- Potentially additional clinicians and/or better resources

HOW MUCH IS IT GOING TO COST?

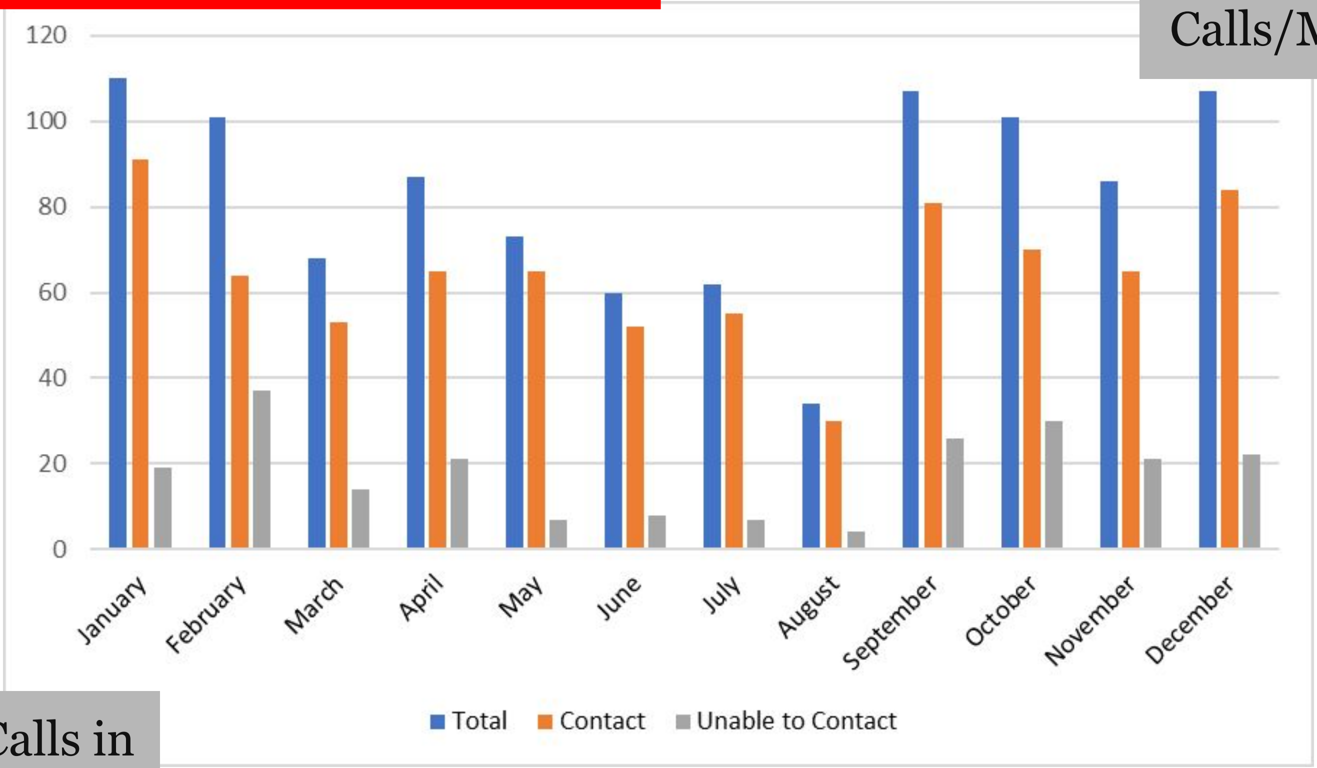
	Clinician (Proposed Individual Salary including benefits)	Radio, body armor, laptop and desk phone	Vehicles
Individual Unit Cost	$101,978	$7,800	$50,000
× 2	$203,956	$15,600	$100,000
× 4	$407,912	$31,200	$200,000

WHY SHOULD CRT BE CITY FUNDED?

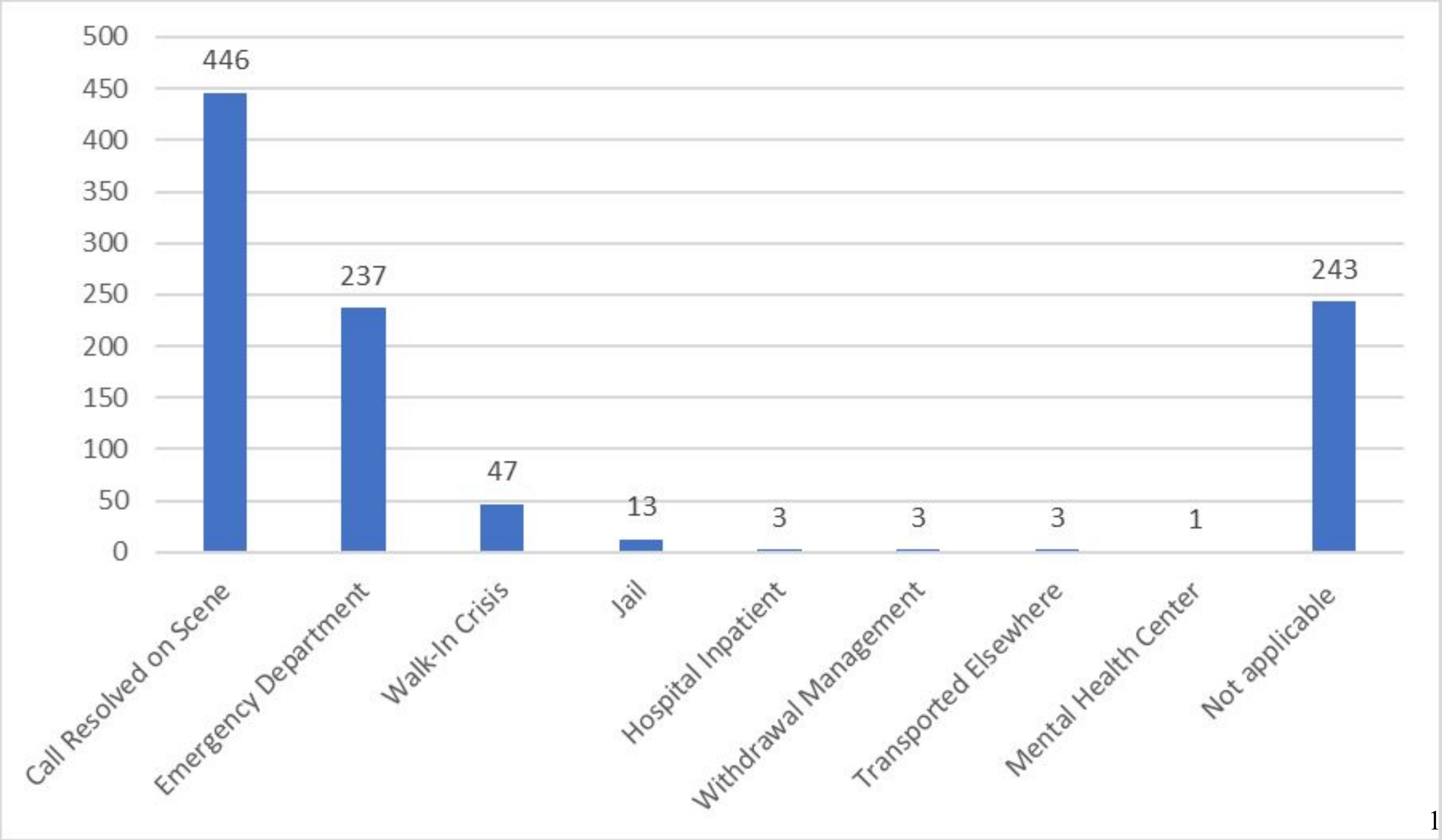
- Grant funding is not as sustainable
  - Something CRT has to re-apply for
- We want to keep CRT around!
  - Let’s look at the numbers

CRT Calls by Month in 2021

Average Calls/Month ~81



996 Total Calls in 2021


500
450
400
350
300
250
200
150
100
50
0
446
237
47
13
3
3
3
1
243
Call Resolved on Scene
Emergency Department
Walk-In Crisis
Jail
Hospital Inpatient
Withdrawal Management
Transported Elsewhere
Mental Health Center
Not applicable

	Saves	Cost Per	Cost Savings
Jail Saves	51	$91.08	$4645.08
ED Saves	171	$3,700	$632,700
Relieve PD	253.2	$27.49	$6960.46
Total			**$637,345.08**

Thank You for Your Time!

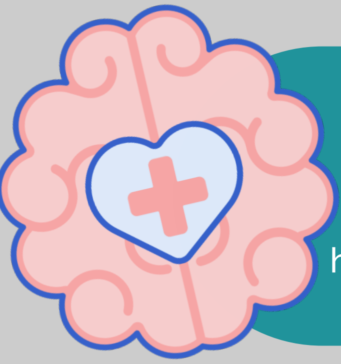
Any questions?

?

Why Incorporate CRT Clinicians into the City's Budget?

Often, the goal of funding a program through grants is to prove that it can be **successful** and **sustainable**. APD's Crisis Response Team has proven that over the past few years through their consistent efforts to **mitigate crises**, provide the **appropriate level of care**, perform suicide/**risk assessments**, and provide and connect people to local **resources**.

In the long run, **CRT saves money**. In 2021, CRT avoided sending 51 people to jail and 171 people to the emergency department. This amounted to a total savings of about $637,000 -- well over the costs to fund four CRT clinicians.



Not only does CRT prevent jail and ED visits, but it also alleviates patrol resources. The majority of the time, police are the first first-responders called during an emergency, which can overwhelm the system. Having a specialized program like CRT gives the community a direct point of access to mental health help during a crisis. And, it provides a place for 911 dispatchers to divert calls away from patrol.

Increasing the number of clinicians on staff means an increased likelihood that a clinician will be able to attend every CRT call. Despite their limited staff and resources, CRT has been able to make a huge impact on the community. Just imagine what they could do if provided the funding to support additional resources!

CITY OF AURORA
Council Agenda Commentary

Item Title: A Resolution of the City Council of the City of Aurora, Colorado, appointing Directors to the Hilltop at DIA Metropolitan District Nos. 1-3 Board of Directors	
Item Initiator: Cesarina Dancy, Senior Development Project Manager, Office of Development Assistance	
Staff Source/Legal Source: Cesarina Dancy, Senior Development Project Manager, Office of Development Assistance/ Brian Rulla, Assistant Attorney II	
Outside Speaker:	
Council Goal: 2012: 6.0--Provide a well-managed and financially strong City	

COUNCIL MEETING DATES:

Study Session: 3/7/2022

Regular Meeting: 3/14/2022

ITEM DETAILS:

- A Resolution of the City Council of the City of Aurora, Colorado, appointing Directors to the Hilltop at DIA Metropolitan District Nos. 1-3 Board of Directors
- Cesarina Dancy, Senior Development Project Manager, Office of Development Assistance/ Brian Rulla, Assistant Attorney II
- Estimated Presentation/discussion time: 5/5

ACTIONS(S) PROPOSED ***(Check all appropriate actions)***

☒ Approve Item and Move Forward to Study Session

☐ Approve Item as proposed at Study Session

☐ Approve Item and Move Forward to Regular Meeting

☐ Approve Item as proposed at Regular Meeting

☐ Information Only

☐ Approve Item with Waiver of Reconsideration
Reason for waiver is described in the Item Details field.

PREVIOUS ACTIONS OR REVIEWS:

Policy Committee Name: Management & Finance

Policy Committee Date: 2/22/2022

Action Taken/Follow-up: ***(Check all that apply)***

☐ Recommends Approval

☐ Does Not Recommend Approval

☐ Forwarded Without Recommendation

☐ Recommendation Report Attached

☐ Minutes Attached

☐ Minutes Not Available

HISTORY ***(Dates reviewed by City council, Policy Committees, Boards and Commissions, or Staff. Summarize pertinent comments. ATTACH MINUTES OF COUNCIL MEETINGS, POLICY COMMITTEES AND BOARDS AND COMMISSIONS.)***

The Hilltop at DIA Metropolitan District Nos. 1-3 were formed in 2017. The Districts are located at the SEC of 64th Avenue and Picadilly Road. Currently there are no residents within the District.

ITEM SUMMARY ***(Brief description of item, discussion, key points, recommendations, etc.)***

The Hilltop at DIA Metropolitan District Nos. 1-3 are requesting that City Council appoint new Board Members to the Board of Directors which is currently vacant. This is due to the resignation of all members of the Board in 2019 prior to appointing successors. As such, the District is petitioning Council to reconstitute the Board by appointing eligible electors to the Board.

QUESTIONS FOR COUNCIL

Does the Committee wish to move this item forward to Study Session?

LEGAL COMMENTS

The City Council, as governing body of the city, may appoint directors to a metropolitan district when there are no duly elected directors, and when the failure to appoint a new board may result in the interruption of services that are being provided by the district. (Colo. Rev. Stat. §32-1-905(2.5)). (Rulla)

PUBLIC FINANCIAL IMPACT

☐ YES ☒ NO

If yes, explain: N/A

PRIVATE FISCAL IMPACT

☐ Not Applicable ☐ Significant ☒ Nominal

If Significant or Nominal, explain: Appointment of the board will allow the District to continue to operate and perform its required functions.

February 11, 2022

VIA E-MAIL
cdancy@auroragov.org

City of Aurora
Office of Development Assistance
Attn: Cesarina Dancy
15151 E. Alameda Parkway, Suite 5200
Aurora, CO 80012

Re: City Appointment of Board Members to the Board of Directors for Hilltop at DIA Metropolitan District Nos. 1-3

Ms. Dancy:

Hilltop at DIA Metropolitan District Nos. 1-3 (the "Districts") are located within the City of Aurora (the "City") and were organized pursuant to a service plan approved by the City on July 24, 2017.

In 2019, all members of the Boards of Directors (the "Boards") of the Districts resigned before appointing successors. Title 32 provides a process for the reconstitution of boards in instances where there are no duly elected directors of a metropolitan district and the failure to appoint a new board results in the interruption of services being provided by the district.

C.R.S. § 32-1-905(2.5) permits the governing body of a municipality to appoint the board of directors from a pool of duly qualified, willing candidates. If no qualified, eligible electors have submitted a letter of interest to be considered to fill the vacancy within ten days after publication of a notice of vacancy pursuant Section 32-1-808(2)(a)(I), individuals may be qualified as eligible electors and appointed to a district's board of directors.

A notice of vacancy for the Districts' Boards was published in the *Aurora Sentinel* on February 10, 2022. It is anticipated that no otherwise qualified, eligible electors will file a letter of interest in serving on the Boards as there are no residents or otherwise qualified individuals. We are submitting this letter in anticipation that Matt Burbach, Brian Bulatovic, and Donald Rosier will be qualified as eligible electors of the Districts prior to the City's Management and Finance Committee hearing on February 22, 2022. These individuals are willing to serve and desire to be appointed to the Boards of the Districts. Furthermore, failure to appoint new directors will result in the continued interruption of services to be provided by the Districts.

I am writing to formally request that the City Council adopt a resolution appointing Matt Burbach, Brian Bulatovic, and Donald Rosier to the Districts' Boards. Enclosed with this letter is a proposed resolution for consideration.

Sincerely,

WHITE BEAR ANKELE TANAKA & WALDRON

Blair M. Dickhoner, Esq.
Shareholder

Enclosure

CC: Brian Rulla

CITY OF AURORA
Council Agenda Commentary

Item Title: A Resolution of the City Council of the City of Aurora, Colorado, appointing Directors to the Murphy Creek Metropolitan District No. 5 Board of Directors
Item Initiator: Cesarina Dancy, Senior Development Project Manager, Office of Development Assistance
Staff Source/Legal Source: Cesarina Dancy, Senior Development Project Manager, Office of Development Assistance/ Brian Rulla, Assistant Attorney II
Outside Speaker:
Council Goal: 2012: 6.0--Provide a well-managed and financially strong City

COUNCIL MEETING DATES:

Study Session: 3/7/2022

Regular Meeting: 3/14/2022

ITEM DETAILS:

- A Resolution of the City Council of the City of Aurora, Colorado, appointing Directors to the Murphy Creek Metropolitan District No. 5 Board of Directors
- Cesarina Dancy, Senior Development Project Manager, Office of Development Assistance/ Brian Rulla, Assistant Attorney II
- Estimated Presentation/discussion time: 5/5

ACTIONS(S) PROPOSED ***(Check all appropriate actions)***

☒ Approve Item and Move Forward to Study Session

☐ Approve Item as proposed at Study Session

☐ Approve Item and Move Forward to Regular Meeting

☐ Approve Item as proposed at Regular Meeting

☐ Information Only

☐ Approve Item with Waiver of Reconsideration
Reason for waiver is described in the Item Details field.

PREVIOUS ACTIONS OR REVIEWS:

Policy Committee Name: Management & Finance

Policy Committee Date: 2/22/2022

Action Taken/Follow-up: ***(Check all that apply)***

☐ Recommends Approval

☐ Does Not Recommend Approval

☐ Forwarded Without Recommendation

☐ Recommendation Report Attached

☐ Minutes Attached

☐ Minutes Not Available

HISTORY ***(Dates reviewed by City council, Policy Committees, Boards and Commissions, or Staff. Summarize pertinent comments. ATTACH MINUTES OF COUNCIL MEETINGS, POLICY COMMITTEES AND BOARDS AND COMMISSIONS.)***

Murphy Creek No. 5 Metropolitan District was formed in 2005. The District is located at the NWC of Harvest Road and E. Yale Avenue. Currently there are no residents within the District.

ITEM SUMMARY ***(Brief description of item, discussion, key points, recommendations, etc.)***

The Murphy Creek Metropolitan District No. 5 is requesting that City Council appoint new Board Members to the Board of Directors which is currently vacant. This is due to a clerical oversight with the qualification documents for the directors not being extended by the deadline set forth. As such, the District is petitioning Council to reconstitute the Board by appointing eligible electors to the Board.

QUESTIONS FOR COUNCIL

Does the Committee wish to move this item forward to Study Session?

LEGAL COMMENTS

The City Council, as governing body of the city, may appoint directors to a metropolitan district when there are no duly elected directors, and when the failure to appoint a new board may result in the interruption of services that are being provided by the district. (Colo. Rev. Stat. §32-1-905(2.5)). (Rulla)

PUBLIC FINANCIAL IMPACT

☐ YES ☒ NO

If yes, explain: N/A

PRIVATE FISCAL IMPACT

☐ Not Applicable ☐ Significant ☒ Nominal

If Significant or Nominal, explain: Appointment of the board will allow the District to continue to operate and perform its required functions.

William P. Ankele, Jr.
Jennifer Gruber Tanaka
Clint C. Waldron
Kristin Bowers Tompkins
Robert G. Rogers
Blair M. Dickhoner
George M. Rowley

WBA
WHITE BEAR ANKELE
TANAKA & WALDRON
ATTORNEYS AT LAW

Of Counsel:
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K. Sean Allen
Trisha K. Harris
Zachary P. White
Heather L. Hartung
Megan J. Murphy

Eve M. G. Velasco
Audrey G. Johnson
Carey S. Smith V
Erin K. Stutz
Jon L. Wagner
Nelson G. Dunford

February 7, 2022

Via E-Mail
cdancy@auroragov.org

City of Aurora
Office of Development Assistance
Attn: Cesarina Dancy
15151 E. Alameda Parkway, Suite 5200
Aurora, CO 80012

RE: City Appointment of Board Members to the Board of Directors for Murphy Creek Metropolitan Distirct No. 5

Dear Ms. Dancy:

It has recently come to our attention that the Board of Directors (the "Board") for the Murphy Creek Metropolitan District No. 5 (the "District") is vacant due to a clerical oversight with the qualification documents for the directors not being timely extended by the deadline set forth therein. Title 32 provides a process for the reconstitution of boards in these instances. Specifically, section 32-1-905(2.5), C.R.S., provides that "[i]f there are no duly elected directors and if the failure to appoint a new board will result in the interruption of services that are being provided by the district, then the [governing body of the municipality] which approved the organizational petition may appoint all directors from the pool of duly qualified, willing candidates."

As such, we are petitioning the City Council to reconstitute the Board by appointing the following qualified and willing eligible electors to the Board at the City Council's meeting on March 14, 2022: Harvey Alpert, Rodney Alpert, Brian Alpert, Michael Alpert and Tanya Alpert. Because there are no residents or other property owners within the District, there are no other qualified and/or willing eligible electors from which to reconstitute the Board. Further, the District is in the process of issuing bonded indebtedness in order to finance critical public improvements necessary for the development of properties within the District, and, therefore, failure to immediately reconstitute the Board would result not only in the interruption of services but would delay the issuance of bonds potentially resulting in higher interest rates due to rapidly changing market conditions. As required by section 32-1-905(2.5), C.R.S., within 6 months after the reconstitution of the Board, an election is required to re-elect the directors who are duly appointed by the City Council.

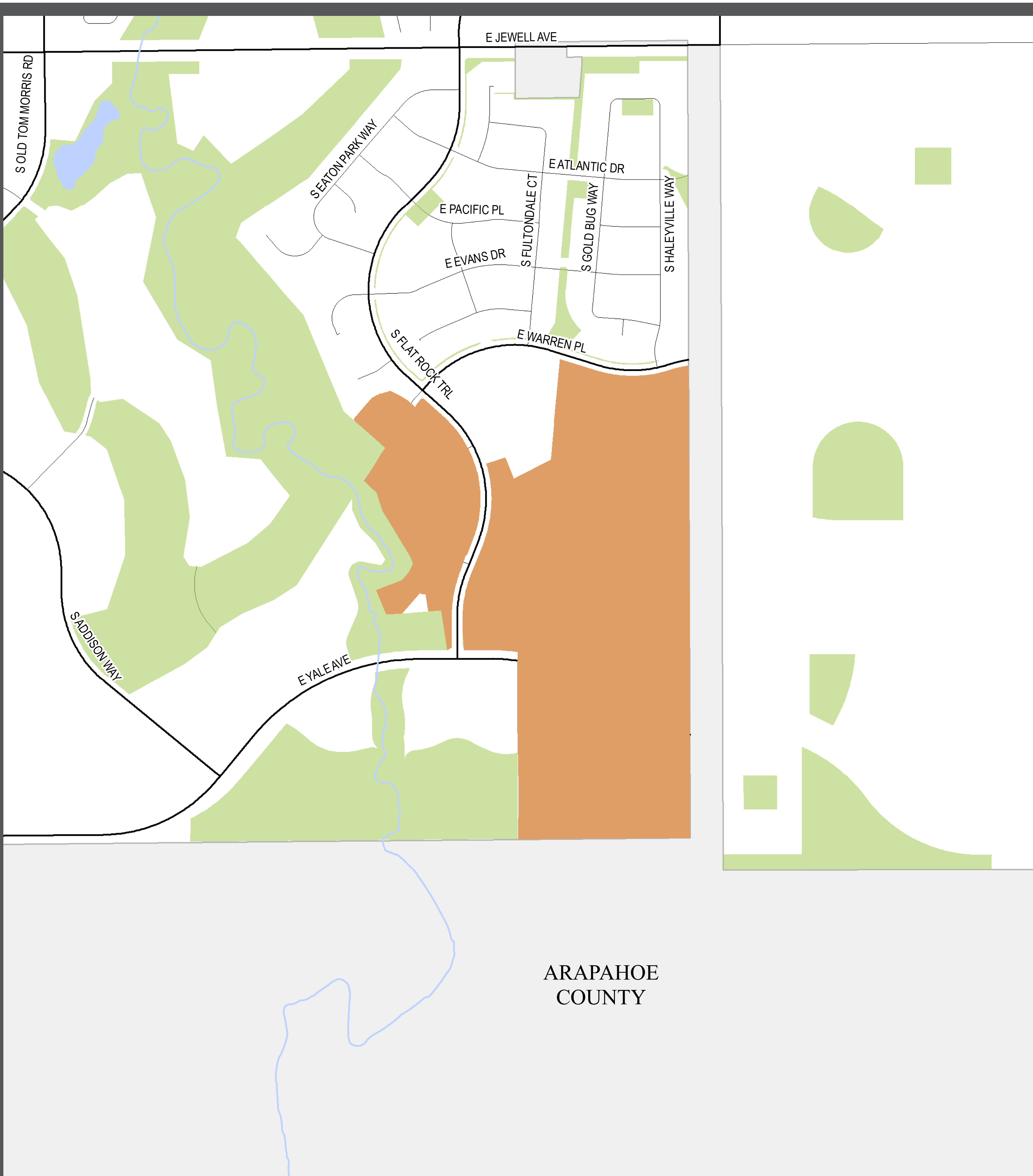
Enclosed with this letter is a proposed resolution for consideration. We appreciate your consideration and assistance. Please let us know if you have any issues or questions regarding this course of action.

Sincerely,

WHITE BEAR ANKELE TANAKA & WALDRON

Jennifer Gruber Tanaka, Esq.
Shareholder

Enclosure



Planning & Development Services

15151 E. Alameda Parkway
Aurora CO 80012 USA
AuroraGov.org
303.739.7250
GIS@auroragov.org

Miles 0 0.05 0.1

City of Aurora, Colorado

Murphy Creek Metropolitan District No. 5

February 10, 2022

AURORA

N W E S

Legend

- Initial Boundary
- Creeks
- Parks and Open Space
- Other Jurisdictions

CITY OF AURORA
Council Agenda Commentary

Item Title: City's Performance Management Program Development and Overview	
Item Initiator: Ryan Lantz, Director of Human Resources	
Staff Source/Legal Source: Ryan Lantz, Director of Human Resources, Brenda Langley, Training Coordinator	
Outside Speaker: N/A	
Council Goal: 2012: 6.0--Provide a well-managed and financially strong City	

COUNCIL MEETING DATES:

Study Session: N/A

Regular Meeting: N/A

ITEM DETAILS:

Agenda Title: Provide an overview of the development of the City's Performance Management Program
Waiver of reconsideration: N/A
Sponsor Name: Ryan Lantz, Director of Human Resources
Staff Source Name/Title: Brenda Langley, Training Coordinator
Outside Speaker: N/A
Estimated Presentation/Discussion Time: 10 minutes (presentation)/ 5 minute (discussion)

ACTIONS(S) PROPOSED ***(Check all appropriate actions)***

☐ Approve Item and Move Forward to Study Session

☐ Approve Item as proposed at Study Session

☐ Approve Item and Move Forward to Regular Meeting

☐ Approve Item as proposed at Regular Meeting

☒ Information Only

☐ Approve Item with Waiver of Reconsideration
Reason for waiver is described in the Item Details field.

PREVIOUS ACTIONS OR REVIEWS:

Policy Committee Name: Management & Finance

Policy Committee Date: 2/22/2022

Action Taken/Follow-up: ***(Check all that apply)***

☐ Recommends Approval ☐ Does Not Recommend Approval

☐ Forwarded Without Recommendation ☐ Recommendation Report Attached

☐ Minutes Attached ☐ Minutes Not Available

HISTORY ***(Dates reviewed by City council, Policy Committees, Boards and Commissions, or Staff. Summarize pertinent comments. ATTACH MINUTES OF COUNCIL MEETINGS, POLICY COMMITTEES AND BOARDS AND COMMISSIONS.)***

Requested by Councilmember Zvonek for presentation.

ITEM SUMMARY ***(Brief description of item, discussion, key points, recommendations, etc.)***

Beginning December of 2021, Human Resources began the development of a formal performance management program for the City of Aurora employees. HR will present an overview of the initial development of the city's program knowing that we're in the early stages. The overview will include the foundational principles and processes for the new performance management program, and include a timeline of anticipated completion and implementation.

QUESTIONS FOR COUNCIL

Informational only. Does council have any questions, comments or feedback?

LEGAL COMMENTS

The City Manager shall be responsible to the City Council for the proper administration of all affairs of the City placed in his charge and, upon the request of the City Council, make written or verbal reports to the City Council concerning the affairs of the City. This item is informational only. City Charter Art. 7-4 (e). (Hernandez)

PUBLIC FINANCIAL IMPACT

☐ YES ☒ NO

If yes, explain: N/A

PRIVATE FISCAL IMPACT

☒ Not Applicable ☐ Significant ☐ Nominal

If Significant or Nominal, explain: N/A

THE CORE 4!

Integrity • Customer Service
Respect • Professionalism

Introduction to

Performance Management Program

February 22, 2022

AURORA

Human Resources

Aurora Learn Team Members

- Alicia Romero, Training Coordinator
- Chad Angell, Volunteer Coordinator
- Brenda Langley, Training Coordinator
- Sarah Jacobsen, Training Assistant
- John Lee, LMS Administrator

Purpose and Intent
Performance Management Program

The purpose and goal of a comprehensive performance management system:

- To advance the city's ability to consistently manage job performance
- Facilitate meaningful communication
- Enhance employee engagement
- Increase organizational effectiveness

Performance management:

- Fosters meaningful and open communication between the employee and the supervisor regarding job performance towards accomplishing organizational goals.
- A year round process of assessing work accountabilities, setting objectives, monitoring performance, recognizing accomplishments, documenting areas for development and coaching employees to enhanced performance.

Purpose and Intent
Performance Management Program

Performance management:

- Managing performance effectively minimizes disciplinary actions, terminations
- Employee retention matters! Employee replacement cost is 50% of salary
- Our current semi-annual CORE 4 evaluations are not sufficient to manage performance effectively and retain employees

Working Mission Statement

Aligned with the city of Aurora’s strategic goals and core values, the Performance Management Program fosters a culture of continuous improvement in employee performance enhancing the city’s overall effectiveness to the community we serve.

Mission Objectives

- Performance Management is a year-round cycle identifying performance goals, accountabilities and skill gaps with the employee to achieve mutual goals.
- This process supports, measures, assesses and rewards employee performance through intentional planning, development, ongoing feedback and communication.
- The process focuses on healthy working relationships between supervisor and employee and implements an environment in which employees feel supported and valued for their hard work and contributions.
- Managing performance will retain our most valued asset, our employees.

Performance Management Cycle [Draft]

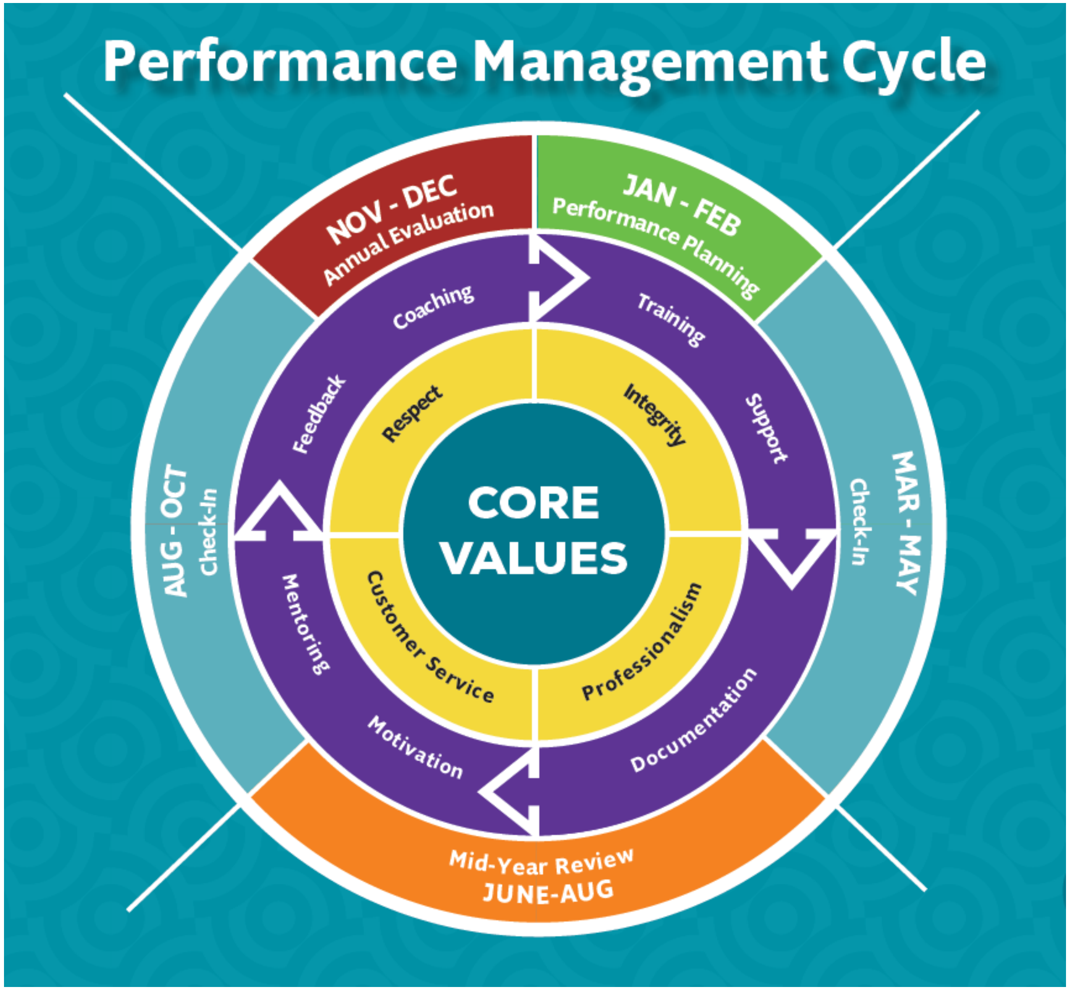
Performance Planning
(January-February)

Check-In #1
(March-May)

Mid-Year Review
(June-August)

Check-In #2
(August-October)

Annual Evaluation
(November-December)



Continuous Coaching, Development, Feedback

Continuous Coaching, Development, Feedback (Year-round)

Purpose: Foster a culture of continuous development and trust. Supervisor and employee engage in a routine ongoing practice of supervisor sharing observations of employee's performance and provide:

- Actionable feedback
- Coaching, mentoring, training
- Support, motivation aligned with core values
- Dialog around accountability, or performance correction as necessary.

The way we manage employee performance will affect ALL employees and supervisors.

Performance Management Project Plan

- Scope:
  - research, develop, review/feedback, approval & implementation performance management program
- Timeline:
  - Begin – December 2021
  - Complete program – September/October 2022
  - Implementation and Training – November 2022 to February 2023
  - In alignment and coordination with WorkDay Human Capital Management (HCM) implementation (go-live December 2022)
- Key Stakeholders:
  - Management Team
  - Department Liaisons
  - Supervisors
  - Legal

Supplemental Information

Planning Phase

Purpose: Plan employee's performance and develop action plan for upcoming year:

- Supervisor and employee establish roles, responsibilities and relationship.
- Review and update employee's job description.
- Collaboratively establish employee's performance and behavioral goals and skill gaps.
- Align employee goals to departmental goals, city goals and core values.
- Develop action plan:
  - Set clear expectations for each goal.
  - Determine timelines and necessary training or other resources.
- Identify performance measures:
  - Job responsibilities
  - Success factors
- Check for understanding and commitment.
- Resolve concerns, barriers.
- Document plan and agreements.

Check-in's (March–May and August - October)

Purpose: Supervisor and employee remain connected throughout the year-round process. Both actively engage in open, meaningful communication about performance goals and core values transforming on-going dialog into a *normal* part of workplace culture.

- Discuss results and deliverables year to date.
- Check on action plan progress and trajectory towards goals.
- Review and adjust performance measures as needed.
- Check for understanding and commitment.
- Resolve concerns, barriers.
- Document discussions and any plan changes.

Mid-Year Review

Purpose: Employee's performance is assessed mid-way through the performance period.

- Employee completes self-assessment.
- Supervisor completes official mid-year review.
- Employee and supervisor meet to discuss and finalize mid-year review.
- As necessary, supervisor and employee may revise action plan:
  - Review performance goals and revise if needed.
  - Reset expectations, timelines, training and resources
  - Revisit or reinforce performance measures.
- Check for understanding and commitment.
- Resolve concerns, barriers.
- Document discussion and any new agreements for remainder of year.

Annual Evaluation (November-December)

Purpose: Formally assess employee's performance throughout *entire* year. Supervisor assigns official performance rating. Finalized evaluation becomes part of employee file. Employee receives appropriate rewards based on final rating.

- Supervisor and employee prepare for annual evaluation.
  - Employee completes self-assessment.
  - Supervisor completes final evaluation.
- Employee and supervisor meet to discuss and finalize full year's performance.
- Supervisor communicates final rating and appropriate rewards or recognition.
- Examples of rewards (to be determined) could be financial and/or motivational rewards:
  - Pay or step increase
  - Promotion / transfer
  - Access to additional training, mentoring
  - New projects or assignment opportunities
  - Career planning within the department or city
  - Work-life balance, wellness rewards
  - CORE Values awards, Service awards, department-specific awards

CITY OF AURORA
Council Agenda Commentary

Item Title: 2022 Ballot Question to Retain Property Tax Over TABOR Limit	
Item Initiator: Terri Velasquez, Finance Director	
Staff Source/Legal Source: Terri Velasquez, Finance Director/Hanosky Hernandez, Senior Assistant City Attorney	
Outside Speaker: n/a	
Council Goal: 2012: 6.0--Provide a well-managed and financially strong City	

COUNCIL MEETING DATES:

Study Session: 3/7/2022

Regular Meeting: 3/14/2022

ITEM DETAILS:

- Agenda long title
- Waiver of reconsideration requested, and if so, why
- Sponsor name
- Staff source name and title / Legal source name and title
- Outside speaker name and organization
- Estimated Presentation/discussion time

Agenda title: 2022 Ballot Question to Retain Property Tax Over TABOR Limit

Staff Source/Legal Source: Terri Velasquez, Finance Director/Hans Hernandez Perez, Senior Assistant City Attorney

Estimated presentation time: 10 minutes

ACTIONS(S) PROPOSED ***(Check all appropriate actions)***

☒ Approve Item and Move Forward to Study Session

☐ Approve Item as proposed at Study Session

☐ Approve Item and Move Forward to Regular Meeting

☐ Approve Item as proposed at Regular Meeting

☐ Information Only

☐ Approve Item with Waiver of Reconsideration
Reason for waiver is described in the Item Details field.

PREVIOUS ACTIONS OR REVIEWS:

Policy Committee Name: Management & Finance

Policy Committee Date: 4/28/2020

Action Taken/Follow-up: ***(Check all that apply)***

☐ Recommends Approval

☐ Does Not Recommend Approval

☐ Forwarded Without Recommendation

☐ Recommendation Report Attached

☐ Minutes Attached

☐ Minutes Not Available

HISTORY ***(Dates reviewed by City council, Policy Committees, Boards and Commissions, or Staff. Summarize pertinent comments. ATTACH MINUTES OF COUNCIL MEETINGS, POLICY COMMITTEES AND BOARDS AND COMMISSIONS.)***

At the March 2, 2020 Study Session, the City Council directed staff to initiate a ballot question requesting the City be allowed to retain 2020 property taxes collections in excess of the TABOR cap. The ballot question was one of nine revenue enhancement options considered by the Council at the Study Session.

The Property Tax TABOR cap ballot question was presented to the Management and Finance Policy Committee on April 28, 2020 and to Study Session on May 18, 2020. The ballot question was not approved due to the financial impacts of the COVID-19 recession.

At the February 20, 2021 Winter Workshop, Council was presented the effect of TABOR on the city's property tax and Council was asked if a ballot question should be pursued to permanently exempt property tax from TABOR and to retain all revenues in excess of the TABOR cap. The ballot question was not approved to move forward given the ongoing uncertainty of the pandemic.

ITEM SUMMARY ***(Brief description of item, discussion, key points, recommendations, etc.)***

The Taxpayer's Bill of Rights (TABOR) requires the City return any property tax revenues in excess of a certain threshold—the 'cap.' Since 2020 property tax collections have come in significantly over the TABOR cap. As a result, the City will once again issue a partial refund of property taxes in 2022.

The current projection assumes collections will be approximately $3 million over the cap and will be refunded.

The City may ask residents to forgo the refund and retain the approximate $3 million. A formal vote is required. The City could use the one-time retention of revenues over the cap to fund one-time expenses.

The City can also ask voters to permanently remove the TABOR cap on property tax to retain all property tax revenue in the future. Voters removed the sales tax TABOR cap in 2000.

Staff is proposing a ballot question allowing the City to retain property tax revenues in excess of the TABOR limit and to permanently 'de-Bruce' and exempt property taxes from the TABOR limit.

Proposed draft ballot language is presented below:

WITHOUT INCREASING THE RATE OF ANY TAX OR IMPOSING ANY NEW TAX, SHALL SECTION 11-27(c) OF THE AURORA CHARTER BE AMENDED TO PROVIDE THAT THE CITY MAY COLLECT, KEEP AND SPEND, FOR MUNICIPAL SERVICES [FOR ALL OR ANY COMBINATION OF [PUBLIC SAFETY] [TRANSPORTATION] [PARKS AND OPEN SPACE], ALL REVENUES FROM PROPERTY TAXES [AT THE RATES CURRENTLY PERMITTED BY THE CHARTER OR AS MAY BE AUTHORIZED IN THE FUTURE BY THE ELECTORS OF THE CITY], SUCH AMENDMENT TO RESULT IN A VOTER-APPROVED REVENUE CHANGE AND AN EXCEPTION TO ANY OTHER REVENUE OR SPENDING LIMITS PROVIDED BY ARTICLE X, SECTION 20 OF THE COLORADO CONSTITUTION (“TABOR”), THE CHARTER OR ANY OTHER LAW?

Important dates
If the Committee wishes to advance this item to the full Council, the ballot question language must be considered at a Study Session no later than June 20, 2022; introduction at a formal Council meeting must come no later than July 11, 2022. The Council must approve adopting resolution placing the question on the ballot by July 25, 2025. In addition July 29, 2022 is the deadline for City Clerk to notify Counties of intent to participate/coordinate in General Election and August 30, 2022 is the deadline for City to return signed agreements to Counties.

QUESTIONS FOR COUNCIL

Does the committee approve the draft ballot question language and recommend advancing the item to Study Session?

LEGAL COMMENTS

Article X, Section 20(4)(a) of the Colorado Constitution (TABOR) requires that the City have voter approval in advance for any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase for a property class, or extension of an expiring tax, or a tax policy change directly causing a net tax revenue gain to the City including retaining revenues collected already collected in excess of the TABOR cap. Also, “[T]he right to levy a tax to raise revenue with which to conduct the affairs and business of the City is clearly within the constitutional grant of power to home rule cities, contained in Article XX, Sec. 6 of the Constitution of Colorado." *Berman v. City and County of Denver*, 400 P.2d at 436-37 (Colo. 1949).

Subject to the limitations in the state constitution, state statutes, and the city charter, the council shall have power to make and publish from time to time ordinances to provide for the safety; preserve the health; promote the prosperity; and improve the morals, order, comfort and convenience of the city and its residents. City Code Section 2-32. The City Council shall also have the power to pass resolution referring a tax increase or the retention of excess revenues, including de-Brucing revenues, to a vote of the register electors of the City in compliance with Article X Sec. 20 of the Constitution.

Although the ballot question is written for specific uses, it is not required to be such. Council may refer to the voters a ballot question requesting to retain excess revenues and de-Brucing the property taxes to be spent on general municipal government services at the discretion of the city council, and if approved, the revenues may be spent subject to council’s appropriation. (Hernandez)

PUBLIC FINANCIAL IMPACT

☒ YES ☐ NO

If yes, explain: The current projection assumes collections will be approximately $3 million over the TABOR cap and the excess collections will be refunded.

PRIVATE FISCAL IMPACT

☐ Not Applicable ☐ Significant ☒ Nominal

If Significant or Nominal, explain: Annually, this equates to about $3.62 per $100,000 of property value in Aurora.