

City of Portland, Oregon



Green Bond Framework

September 30, 2016

Bureau of Revenue and Financial Services, Debt Management Division

Introduction

State and local governments, including the City of Portland, issue long-term bonds to finance capital improvements. Investors purchase the City's bonds, providing the City with funds to build infrastructure. The City, in turn, makes payments of interest and principal to investors over time. The concept of "green bonds" is based upon two critical premises: 1) the City issues bonds to invest in infrastructure that provides an environmental benefit, and 2) investors have an interest in supporting green infrastructure investment. While the green bond market for US municipalities is developing, issuance nationwide has been increasing since 2013. However, evidence of beneficial pricing (i.e. lower costs of borrowing) is as yet unproven. The direct financial cost of issuing green bonds is nearly zero; however additional indirect administrative or issuance costs may be incurred.

The City supports issuance of green bonds for credible projects, and believes that the best long-term use of the green bond tool is to identify highly reliable green projects and match bond issuance to highly motivated green investors. The City is mindful that there is no universal definition of a "green" project, and investor expectations regarding financing terms and conditions are not universally defined.

This Green Bond Framework is intended to guide the City's decisions related to eligible projects and green bond implementation. Topics addressed by the Framework include determination of project eligibility, the use of internal versus third-party certification of green bond benefits, issuance considerations, strategies for issuance and continuing compliance with securities regulations, expectations regarding ongoing reporting of environmental outcomes, and administration of the Framework.

Green bond designation is an "add-on" to an existing debt issuance. Until a meaningful pricing benefit can be proven, the City does not expect to bond-finance long-term projects with green bonds if those projects would not otherwise have been bond-financed. As such, issuance of green bonds must conform to all City policies including the Comprehensive Financial Management Policies and specifically the City's Debt Management Policy (FIN-2.12). In conformance with City policy, and consistent with all City borrowings, green bond issuance will be managed by the City's Bureau of Revenue Financial Services, via the Debt Management Division.

Project Eligibility

Over the past four years, the City has invested in over \$750 million in capital improvements. A major proportion of that infrastructure would generally be considered "green." For example, the City has invested over \$1.4 billion in the Combined Sewer Overflow project, which reduced contaminated outfall into the City's waterways during periods of high rainfall. As part of normal City policy, nearly all major capital projects include project elements (solar, energy efficiency initiatives, etc.) that would be generally considered green.

As part of this Framework, the City aims to establish more refined examples of projects that will meet our internal eligibility requirements for green bond issuance.

Additionally, and in conformance with the City's Debt Management Policy, eligible projects must be clearly identified in a Council-approved Capital Improvement Plan and/or budget. Identification in the CIP/budget does not need to specifically identify green bond designation.

Projects funded by green bonds must have clearly reportable outcomes. The bureau proposing the green bond-eligible project must identify the outcome reporting data, identify how that information will be collected and reported, and identify how the outcome reporting demonstrates a high standard of environmental improvement.

Once a project is identified for consideration for green bond funding, Debt Management will determine whether the project can fit within market preferences and constraints, and is a good candidate for identification as a green bond.

Certification

The City initially expects to "self-certify" the environmental benefit outcomes of its green bond investments. Feedback to the City from green bond market participants strongly suggests that credibility is critical to achieving optimal green bond market reception (and pricing). Many green bond issuers have sought credibility by acquiring an independent certification that the projects being financed do produce an environmental benefit. Receiving independent certification requires additional expense. The City strives to keep the all-in costs of bond issuance as low as possible, but will pursue third-party certification if the Debt Manager believes certification is cost-effective and to the City's benefit. Initially, the City expects to rely on self-certification and will continue to evaluate the benefits of requesting third-party certification.

The City believes that by creating a strong Framework to guide green bond issuance, it may be possible to receive "blanket" green bond certification as a one-time expense, rather than incurring that costs for each individual green bond issuance.

Issuance and Compliance

From a bond issuance perspective, green bonds are very similar to a traditional municipal bond issue. Consistent with State of Oregon law and City policy, all long-term financings – including green bonds – must be authorized by the City Council. Decisions regarding method of sale (competitive vs negotiated), payment and maturity dates, security considerations and issuance timing will be essentially no different than decisions made for non-green bond issues.

As noted previously, green bond issues have not shown a demonstrable pricing differential from traditional municipal bonds. However, there are potential additional direct costs

(certification, additional legal considerations) and indirect costs (bond marketing, outcome reporting) that may be required in order to issue green bonds in a cost-effective manner. As such, the City – via the Debt Management office – will carefully consider whether these incremental cost increases support issuance of green bonds. Furthermore, in order to offset these potential cost increases, the City will strive long-term to issue green bonds in a manner that targets specific green bond investors and increases the potential for beneficial pricing (i.e. lower bond yields).

In order to facilitate the best potential pricing outcomes, it may be beneficial to structure bond repayment schedules in ways that differ from historical City norms. For example, the City may choose to identify term bonds in one or more year to produce larger maturity block sizes and accommodate green bond investor interest. If the City is issuing bonds for a project that is only partially eligible for green bond consideration, the City may issue in separate simultaneous series, but structure the issues in a collective manner to produce the desired repayment structure (as is often done with blended taxable and tax-exempt series). Optimal structuring recommendations will be made by the Debt Manager and the Debt Manager will be responsible for making final decisions regarding final structuring at the time of bond pricing, consistent with the City's Debt Management Policy.

In conformance with general City practices, proceeds from green bonds will be maintained in a separate account (or sub-fund?) and will not be commingled with non-green bond proceeds. This will provide assurance to green bond investors that green bond proceeds will only be spent on green-eligible projects. All tax-exempt green bond proceeds will be spent and monitored in compliance with the City's Tax Compliance Procedures.

Reporting

The City does not expect to include significant additional disclosure in the Official Disclosure or Continuing Disclosure documents for green bond issues. For Official Disclosure, the City may include more detailed project info, to provide beneficial "quick find" info on the greenness of the projects being financed, at the Debt Manager's discretion.

The City expects to track and report project outcomes, but will not make a formal commitment in any official bond disclosure. Tracking of outcomes will be performed by the Bureau responsible for implementation and management of the green bond-financed project with assistance from BPS. Investors interested in project outcome information will be directed to the responsible bureau.

Administration of Framework

Per the Debt Management Policy, the Debt Manager will retain decision-making authority regarding green bond issuance. It is important to note that even if a project meets Framework requirements, there may be compelling reasons to issue bonds without green designation. Debt Management will also retain responsibility to remain informed about developments in the

green bond market, and will periodically review this Framework for potential adjustments. No later than 24 months after approval of this Framework, Debt Management will report to City Council on results of green bond Framework, including assembling feedback from infrastructure bureaus on the impact to the CIP process, if any. Debt Management will also report on the outcomes of any green bond issuance, and will make recommendations regarding any modifications to this Framework.

Thank you to the entities who have provided input into development of this Framework:

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- EcoTrust
- Climate Trust
- Trillium Investors

City Participants:

- Jackie Dingfelder, Mayor's Office
- Michael Armstrong, Bureau of Planning & Sustainability
- Central Budget Office
- Water Bureau
- Bureau of Environmental Services
- Parks Bureau
- Office of Management and Finance - Facilities
- Portland Bureau of Transportation