COMMITTEE UPDATE

Debt Committee Update

BY EMILY SWENSON BROCK

GFOA's Debt Committee has been hard at work crafting best practices for GFOA members who are contemplating making ESG disclosures. Many investors want more information on the potential impact of their investments, and many investors have identified municipal bonds as a way of making "impact investments." Because bond ratings and investor demand have a significant bearing on the pricing of municipal bonds, it is generally in the best interest of an issuer to disclose material information directly to the investment community through primary offering documents.

ESG refers to three key factors that affect a municipal issuer's credit profile, including 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, and the public markets are interested. Government entities play an important role in this overall assessment by providing specifics about their ESG challenges and action plans, and in doing so, increasing transparency to the entire municipal market.

Why ESG Is Important

The increasing number of extreme weather events in recent years has raised public awareness about climate change. Investors and rating analysts are not just looking for risks; they also want information about issuers' plans to address the risks. Any information an issuer has regarding estimates of the potential economic impact on its revenue structure or other identifiable and quantifiable risks may also be helpful to investors and rating analysts.

GFOA recommends that municipal issuers evaluate the development and disclosure of information about the primary environmental, social, and governance 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.

Identifying environmental risks

The first step in developing disclosure information for the E of ESG is to identify the primary environmental risks that apply to your government or its bonds. Disclosure information for E-environmental will take time to assemble and prepare. For this reason, even if issuers are not planning a bond issuance in the short term, issuers should consider compiling relevant information, when practicable, in anticipation of a future bond issuance.

This process should include specific item actions including:

- **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 creditworthiness of your bonds, rather than attempting to identify every risk that could occur in your jurisdiction. Less likely risks and risks with less impact on the issuer can be addressed later.
- **Consult peers' bond offering documents for environmental disclosure that may also be relevant to your government.** Environmental and climate risks are often regional. Issuers in that are in close proximity may already be disclosing environmental risks, and you can use this information as a guide to identifying and informing your environmental risk disclosure.
- **Quantify the risks.** If your government has identified environmental risks, can they be quantified? Is there information available regarding the impact of these risks on your pledged revenue stream, finances, economy, or other measures that may be used to inform investors? 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.

Once environmental risk factors have been identified, an issuer should consider how these risks, if actualized, could affect its operations and financial position. In other words, issuers should determine the risk and its nexus to credit. Issuers should also consider the potential effects for each credit or enterprise because the potential impact may be quite different depending on the nature of each credit or enterprise.

Once risk factors have been identified, an issuer should consider how these risks, if actualized, could affect its operations and financial position.

A final part of the ESG process is to summarize the information for an investor to gain a general understanding of your response efforts. Most importantly, addressing environmental disclosure is a matter that should be discussed with your bond counsel, disclosure counsel, and municipal advisor.

What's next for the Debt Committee?

As ESG is an ever-evolving topic, Debt Committee members have identified some key clarifications for GFOA members regarding the "greening" of municipal bonds. Beyond disclosing key ESG risk factors, the Debt Committee is drafting a best practice intended to inform governments that are interested in issuing bonds designated for specific purposes (for example, "green" bonds or "social" bonds). Keep an eye out in Spring 2022 for more news and resources from GFOA's Debt Committee.

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Treasury and Investment Management Committee Update

BY GENEVIEVE CARTER

GFOA's Treasury and Investment Management Committee focuses its work on all treasury operations, including receivables, payables, cash flow, and investing functions.

In 2021, the committee published additional resources to help members better execute the tenets of our best practices related to fraud prevention in the treasury office and to procuring merchant services, and a lengthy resource on implementing payment card services for receivables.

This last resource, Accepting Payment Cards and Selection of Payment Card Service Providers, details the components that governments need to be aware of when implementing a payment card program. It includes a robust discussion on both physical infrastructure and software needs, and the charges and fees associated with accepting payment cards. Additional considerations on emerging technologies and budgeting for the costs of a payment program are also detailed in the resource. In addition, this document will be useful for governments that have already established a payment card program as they look at payment card service upgrades and providers, as part of overall banking services or separately.

In 2022, the committee will maintain its focus on key receivables and payables functions, including resources related to electronic functions in these areas. The committee's work plan will also focus on providing resources related to public funds investing. This will be in addition to GFOA's many existing best practices related to investing, including Creating an Investment Program for Public Funds, Diversifying the Investment Portfolio, Investment Policy, Selection and Review of Investment Advisers, and Selection and Review of Broker-Dealers.

It is imperative for a government to have an investment policy that sets the parameters for its investment strategies and restrictions. Reviewing state laws to determine what investments are permissible, as well as gauging your risk tolerance and diversification needs, will help establish boundaries and understanding of the investment program for staff, elected officials, and outside professionals.

In 2022, the committee will develop resources on the most frequently used investment products in the public sector. This effort will provide governments with an easy-to-access reference document to help them develop and review their investment strategies and policies for both liquidity and core funds investing.

Given the ever-changing investment environment—including interest rate movements, potential updates to Security and Exchange Commission money market mutual fund rules, and the introduction of new products such as cryptocurrency—governments should understand the key attributes of these investments to help guide staff and elected officials' work on an investment program. In addition to the committee's work here, GFOA will continue to hold webinars and training opportunities about market trends and outlooks, and other public funds investment fundamentals throughout the year. Further, GFOA's Federal Liaison Center will keep members abreast of federal regulatory and legislative changes affecting these products; look for this information in GFOA's weekly newsletter and on the Washington, D.C. resources web page (**gfoa.org/flc**).

As part of the committee's suite of investment best practices, advisories, and resources, we've added a best practice on Using Cash Flow Forecasts for Treasury and Operations Liquidity. This document highlights the importance of developing a cash flow forecast to enhance the government's investment program by identifying liquidity needs, and then being able to capture other funds in a longer-term core investment portfolio. With many governments receiving an influx of new federal funds, previous cash flow forecasts may be different than they were a year ago. As part of your overall treasury department policies, GFOA also recommends having a conversation about reviewing your cash flow forecast and determining how often it should be revised.

All treasury and investing best practices can be found in the materials library on GFOA's website (**gfoa.org/materials**), and all upcoming treasury and investment webinars can be found on GFOA's events calendar (**gfoa.org/events**).

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