

**Presentation to the MN House
Capital Investment Committee
March 24, 2022**

Natalie Cohen
National Municipal Research
ncohen@nationalmunicipal.com
<https://thepublicpurse.com>
[https://www.linkedin.com/in/nataliecohen/
@munianalyst](https://www.linkedin.com/in/nataliecohen/@munianalyst)



“Everyone’s Different and Everyone’s the Same”

Managing the Global Impacts of Climate Change

- We are experiencing increasingly frequent extreme climate events such as flood, fire, tornado, tsunami, earthquake and rising sea levels.
- Scientists generally agree that carbon emissions are warming the earth and play a causal effect on these extreme climate events.
- World leaders met in Paris in 2015 and 191 countries plus the EU approved the Paris Agreement to slow this global warming. More information [here](#).
- In 2021, following COP26 (Conference of the Parties), Moody's CEO [wrote](#) "Ready or not? Sector Performance in a Zero-Carbon World, 'Few issues are poised to multiply risk or opportunity – more dramatically in capital markets than climate change.'"
- Central bankers (including the US Federal Reserve) now link extreme climate events to financial instability.
- The current SEC chair, is eager to see climate-related disclosures and announced a [proposed rule](#) requiring such disclosures.

Climate Change and the Municipal Capital Market

- Capital spending by municipalities should emerge from overall risk and economic development planning.
- Investing in climate change adaptation and mitigation protects our communities and increases their value for current and prospective residents and businesses.
- Many states and municipalities have developed “Climate Action Plans”. Information about states that have plans may be found [here](#). Minnesota’s plan may be found [here](#). The US EPA has information about Climate Adaptation [here](#).
- It is a good time to use bonds to strengthen and modernize infrastructure to withstand extreme climate events.
 - There is growing demand from investors for “green” bonds and ESG disclosure (environment, social, governance).
 - We know that interest rates will be rising
 - The Infrastructure Improvement and Jobs Act will be distributing money to states to invest in state and local infrastructure improvements

A Few Important Distinctions

- There is a distinction between labelling bonds as “green” (or “social”) and what state and local governments are doing to strengthen their infrastructure, protect people and property from the effects of climate change.
- There is a proliferation of companies that measure, document and monitor the “green-ness” of a bond. Some governments self-designate. It is early in the evolution of standards.
- The Government Finance Officers’ Association recently approved a best practice on designating bonds. A link to this document is [here](#) as well as a [link](#) to the topic of ESG at GFOA.
- While the SEC has no direct authority to require state and local government disclosures, credit rating agencies and investors want greater disclosure in offering documents. The MSRB (Municipal Securities Rulemaking Board) issued a [request](#) for comment in December 2021. (Many good footnotes in this RFC!)

A Few More Thoughts

- In affiliation with the United Nations Environment Programme, there have been a series of [reports](#) on “Principles for Responsible Investment” including one on the US Municipal Bond Market. Top municipal analysts and portfolio managers from sixteen institutions (such as Nuveen, PIMCO, Wells Capital Management, Goldman Sachs, and others) collaborated on this [paper](#). I also highlight this group’s report on [Credit Risk and Ratings](#).
- Public pension plans: Control over public pension plan investment allocations is controversial. Numerous states have laws and regulation against divestment, particularly fossil fuels, while others encourage “greening” investment portfolios. The recent war in Ukraine plus inflation in gasoline prices have complicated this discussion. (See blog post in [ThePublicPurse](#) on this topic.)
- The Heartland Institute has been keeping track of “anti-climate change” activities [here](#).

Thank you and feel free to reach out

Natalie Cohen

National Municipal Research

ncohen@nationalmunicipal.com

<https://thepublicpurse.com>

<https://www.linkedin.com/in/nataliecohen/>

@munianalyst