

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM
Meeting Date: October 17, 2018**

Resolution of the California Pollution Control Financing Authority to Sign the Green Bond Pledge

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Summary. Staff recommends that the Authority sign the Green Bond Pledge and direct the Executive Director to engage stakeholders in the development of a green bonds strategy that maximizes the Authority’s ability to offer financing in support of waste and recycling projects, environmental cleanup, infrastructure, and other capital projects that meets the challenges of climate change and transforms California into a more competitive, resilient and healthy economy for all residents in the State.

Background. The Green Bond Pledge (Pledge) is a joint initiative developed and designed by international climate finance and environmental groups including the California Treasurer's Office, California Governor's Office, Climate Bonds Initiative, Mission 2020, CDP, Ceres, Citizens Climate Lobby, Global Optimism, National Resources Defense Council, and The Climate Group.

The Green Bond Pledge is a simple declaration with broad and far-reaching impact. It is founded in the acknowledgment that climate change is real, and that intentional investments in infrastructure and capital projects that address environmental impact and climate risk is a globally accepted and preferred strategy to mitigate the impacts of climate change on our communities. To this end, green bonds have been recognized as assurance of the beneficial environmental and climate outcomes of infrastructure projects and related investments. A green bond designation signals that these imperatives have been deliberately incorporated into the planning and deployment of projects funded through this market mechanism.

The green bond market started in 2007 with initial bonds from the European Investment Bank and the World Bank. The global market has grown steadily since then, with over \$160 billion in green bonds issued in 2017, doubling the amount issued during the prior year.

As the global market has matured, two frameworks have emerged to define and measure the environmental, social and governance (ESG) benefits of projects to qualify for green bonds: the Green Bond Principles (GBPs) promoted through the International Capital Market Association, and the Climate Bond Standard (CBS) promoted by the Climate Bond Initiative. In addition to articulating the ESG benefits of the project within accepted parameters, these frameworks require periodic disclosure reporting and transparency, to provide investor and public confidence that the use of proceeds is for “truly” green projects and producing the anticipated outcomes or benefits.

In 2017 California and New York each issued over \$4 billion to finance green projects for mass transit, green schools, clean water, land preservation and green housing; companies as diverse as Apple, Kaiser Permanente and Southern Power Company have issued green bonds. The U.S.

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market is growing in size and breadth, although still a fraction of the global market comparatively. While California energy and environmental policy robustly embraces the same air quality and environmental priorities shared by green bond investors globally, and has adopted sophisticated regulatory requirements and incentives for public projects to address environmental impact and climate risk, the green bond market in California and elsewhere in the U.S. has been slower to take root as compared to the global market.

The Treasurer's January 2017 report *Growing the U.S. Green Bond Market Volume 1: The Barriers and Challenges* documented what John Chiang learned during a 5-city "listening tour" visiting investors and underwriters about the policy, market and legal impediments responsible for the slower growth of this specialty market in the U.S. Together with the Milken Institute, the Treasurer hosted a Financial Innovations Lab® in February 2018 convening 40 subject matter experts to propose solutions to the impediments documented in Volume 1, resulting in the August 2018 publication of the *Growing the U.S. Green Bond Market Volume 2: Actionable Strategies and Solutions*.

Simultaneously, in preparation for the Global Climate Action Summit 2018, the joint initiative proposed the Green Bond Pledge to galvanize systemic commitment to climate resilience through a call for action that *all bonds* that finance long-term infrastructure and capital projects explicitly address environmental impact and climate risk. Those signing the green bond pledge agree that climate change poses an existential threat and that the rapid growth of a green bonds market will not only meet the unique challenges the world faces, but will do so while making communities more economically competitive, prosperous, and productive. The Green Bond Pledge for issuers reads in its entirety:

The Green Bond Pledge

We agree that all infrastructure and capital projects will need to be climate resilient and, where relevant, support the reduction of greenhouse gas emissions.

We welcome the role that green bonds can play in helping to achieve the financing of that infrastructure.

As a signatory to this pledge, we support the rapid growth of a green bonds market, consistent with global best practices, that can meet the financing needs we face, and will issue, whenever applicable, bonds for infrastructure as green bonds.

We pledge to support this goal by establishing a green bonds strategy that will finance infrastructure and capital projects that meet the challenges of climate change while transforming our community into a competitive, prosperous and productive economy.

Treasurer Chiang signed the Green Bond Pledge on August 7, 2018, making California the first state to do so.

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CPCFA staff recommends that the Authority follow the Treasurer's leadership and sign the Green Bond Pledge. Since 1973, the California Pollution Control Financing Authority has issued over \$15.6 billion in tax-exempt and taxable purposes for environmental waste management, recycling and water furnishing projects, most of which meet the project definitions eligible for green bond financings based on the use and management of proceeds. The Authority's portfolio can and should contribute to the growth of formally designated green and climate bond investments in California, and strengthen California's economic and social resilience to climate change.

To carry out the Pledge, staff further recommends that the Authority direct the Executive Director to return to the Board within six months with a strategic plan for incentivizing the designation of CPCFA's usual issuances as green bonds, and assisting the State with carrying out the actions identified in Volume 2 of the Treasurer's report and other actionable strategies to accelerate the green bond market in California.

Recommendation. Staff recommends adoption of a Resolution No. 18-01-006 authorizing the Executive Director to sign the Green Bond Pledge on behalf of the Authority, and directing the Executive Director to present a strategic plan within six months that serves the Authority's commitment under the Pledge.

**RESOLUTION OF THE CALIFORNIA POLLUTION CONTROL FINANCING
AUTHORITY TO SIGN THE GREEN BOND PLEDGE**

October 17, 2018

WHEREAS, the California Pollution Control Financing Authority (“Authority”) was created under the provisions of Section 44500 of the Health and Safety Code to provide industry within the state with an alternative method of financing for facilities providing pollution control, clean water, and alternative and renewable energy sources; and

WHEREAS, Section 44522(c) of the Health and Safety Code provides that the Authority is authorized to “do all things generally necessary or convenient to carry out its powers”; and

WHEREAS, Section 44519 of the Health and Safety Code provides that the Authority may employ an executive director as is necessary to enable it to properly perform the duties imposed upon it, and that the Authority may, by resolution, delegate to its executive director any powers and duties that it may need proper; and

WHEREAS, Section 44534(a) of the Health and Safety Code provides further that “the authority may delegate to its executive director or any other official of the authority to grant initial approval for financing to a participating party”; and

WHEREAS, international climate finance and environmental groups including the California Treasurer's Office, California Governor's Office, Climate Bonds Initiative, Mission 2020, CDP, Ceres, Citizens Climate Lobby, Global Optimism, National Resources Defense Council, and The Climate Group all agree that all infrastructure and capital projects need to become climate resilient and, where relevant, support the reduction of greenhouse gas emissions, and therefore drafted the Green Bond Pledge; and

WHEREAS, the California State Treasurer signed the Green Bond Pledge on August 7, 2018 making California the first state in the nation to do so; and

WHEREAS, the Authority can and should promote the designation of its project financings as green bonds or climate bonds, and can play a strategic role in increasing green bond issuances in the State.

NOW, THEREFORE, BE IT RESOLVED by the Authority as follows:

Section 1. The Executive Director is given specific authorization by this Resolution to sign the Green Bond Pledge on behalf of the Authority.

Section 2. The Executive Director shall return to the Authority within six months with a strategic plan that serves the Authority’s commitment under the Green Bond Pledge.

Section 3. This Resolution shall take effect immediately upon its adoption.