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March 8, 2022

## Municipal Securities Rulemaking Board (“MSRB”)

Re: Response to MSRB Notice 2021-17 Request for Information

This letter serves as the New Jersey Infrastructure Bank’s (“I-Bank”) response to the Municipal Securities Rulemaking Board (“MSRB”) Notice 2021-17, published December 8, 2021, which requested comments to specific questions for municipal issuers and municipal market participants. The I-Bank provides its responses as a municipal issuer as follows:

### (A) Municipal Issuers

- (1) Are you currently providing ESG-Related Disclosures or ESG-related information beyond the legally required disclosures in your offering documents, continuing disclosures, or other investor communications? If so, please consider providing examples. If not, please consider describing how you address ESG-Related Disclosures in your offering documents, continuing disclosures, or other investor communications. In your view, should municipal issuers include a separate section in their official statements and other offering documents expressly devoted to ESG-Related Disclosures?

The I-Bank issues ESG-Labeled Bonds. Specifically, the I-Bank typically issues Green Bonds twice a year as part of its Water Bank program ascribing to guidance from the International Capital Market Association. The Introduction of Official Statements connected with any Green Bond issuance clearly state that the bond proceeds are being used to fund the improvement of the quality of wastewater treatment systems and drinking water supply systems throughout New Jersey. Additionally, an appendix to the Official Statement includes a list of borrowers and full descriptions of the projects funded. All projects are construction complete to mitigate any uncertainty of future use. Finally, the I-Bank publishes Green Bond Reports which are posted on its website detailing the use of bond proceeds towards green projects.

Suggestion: Municipal issuers could include a separate section in their Official Statement and other offering documents expressly devoted to ESG-Related Disclosures. Guidance from MSRB for content would be helpful to establish guidelines about what should be reported.

- (2) Do you believe the information included in ESG-Related Disclosures should be standardized? If so, how? If not, why not? In your view, is there a consensus on what information and which metrics are important? If so, can you provide insight as to what consensus you believe does or could exist? If not, what barriers do you believe exist in reaching a consensus? What topic areas do you believe are relevant and should be included in ESG-Related Disclosures?

Yes, information included in the ESG-Related Disclosures should be standardized and include metrics for distinct types of assets (e.g., Alternative energy, Transportation projects that reduce the carbon footprint, environmental impact, etc.). Underlying asset categories, and possibly subcategories based on the level of ESG impact, should be included in any ESG-Related Disclosure.

- (3) Have you issued ESG-Labeled Bonds? If so, please consider providing an example and describing what criteria were used to make the ESG designation. Did you utilize an independent party to validate or otherwise attest to the use of the ESG designation? Please consider explaining why or why not.

Yes, the I-Bank has issued Green Bonds (see answer to question 1). The I-Bank has not used an independent party in the past to validate or attest to the Green Bonds designation because the underlying assets supporting the repayment of the I-Bank bonds are environmental infrastructure projects. The bonds clearly could be classified as Green Bonds.

- (4) If you issued ESG-Labeled Bonds, did you commit to providing any ongoing or continuing disclosure related to the ESG designation? If so, was that disclosure commitment incorporated into the continuing disclosure agreement or similar contractual obligation related to the Securities Exchange Act Rule 15c2-12 (collectively, the “CDA”)? If so, please consider providing an example of the CDA. If the disclosure commitment was not incorporated into the CDA, how is information made available to an investor on an ongoing basis and at what frequency?

Yes. The information is made available on an annual basis as an attachment on the I-Bank’s Financial Plan submitted to the NJ Legislature and published each May, and it is also posted on BondLink and the I-Bank’s website.

- (5) Are you providing information to the credit rating agencies regarding ESG-related risk factors and ESG-related practices? If so, what type? In your view, how does this information generally compare to the information provided in your offering documents and continuing disclosures? Are the credit rating agencies requesting any new types of ESG-related information? Has the credit rating process changed in any significant ways in relation to ESG-related information?

As a conduit issuer with a large revolving debt reserve program that supports the I-Bank’s environmental bond issues, the I-Bank provides information to the Rating Agencies that is specific to the State Revolving (“SRF”) Fund program. The I-Bank does present that it is issuing green bonds to the credit agencies with descriptions of each project being financed. To date however, the credit agencies have not requested ESG-related risk factors when they rate our pooled bond issues, nor have they asked for information beyond what we present.

#### **(E) All Municipal Market Participants**

- (1) Are there any ESG-related factors that could pose a systemic risk to the municipal securities market? If so, how might the MSRB approach such systemic risks from a regulatory perspective? Are there non-regulatory approaches the MSRB could take that would advance issuer protection, investor protection, and the overall fairness and efficiency of the market?

Sea level rise is one potential ESG-related risk factor that could pose a systemic risk to the municipal securities market for coastal communities and communities on related tributaries. MSRB regulations could require periodic disclosures from a municipal bond issuer (e.g. every five years) while bonds are outstanding regarding the percentage of ad valorem properties or properties that are associated with

bond revenues which are under water at high tide during that period (pursuant to the then current NOAA maps) and the corresponding impact to the issuer's tax revenues.

- (2) There are a number of organizations establishing voluntary standards for the issuance of ESG-Labeled Bonds, such as the ICMA and CBI. Does the availability of these voluntary, market-based standards provide adequate guidance for issuers and transparency for investors in the municipal securities market? If not, what additional guidance or transparency do you believe are warranted with respect to ESG-Labeled Bonds?

On the 20 Green Bonds it has issued to date, the I-Bank voluntarily complies with the ICMA Green Bond Principles. Reporting should be standardized with specific metrics to increase clarity for those asset classes where ESG labeling could be questioned. This requirement is less important for those asset categories in which ESG measurements are clear. Whether the availability of voluntary, market-based standards provide adequate guidance and transparency depends on the type of asset. A suggested approach could be to establish categories within which guidance can be developed depending on how strong the project fits into ESG related activities. Regardless of the development of concrete standards, due to the nature of the variety of types of assets that could be considered ESG, there will be a need to include voluntary disclosures to capture the breadth and types of projects.

- (3) There are a number of industry-led initiatives underway intended to improve the quality of ESG-related information available in the municipal securities market. Does the availability of these voluntary, market-based initiatives enhance the ability of investors and other market participants to make informed decisions in the municipal securities market?

Accurate information is always useful information. However, definitions and categories of what is being reported should be standardized to enable investors to make direct comparisons between the data.

- (4) There are numerous vendors providing ESG data for the municipal securities market. Does unequal access to ESG data result in disparate impacts to investors and other market participants? Does competing ESG data create investor confusion? How could the MSRB use the EMMA website to reduce information asymmetry or investor confusion?

There should be equity regarding availability of information, but not aggregation. Having such raw information publicly available equally to all market participants will ensure the free market functions properly. How companies may decide to analyze, aggregate, and present such data is a market value product.

- (5) Does the availability of ESG-related information (or lack thereof) in other financial markets directly or indirectly influence the functioning of the municipal market? If so, how? For example, when evaluating competing investment opportunities, do taxable ESG investors expect the same timeliness and quality of ESG-related information for a municipal issuer as for a corporate issuer? And how might classes of investors (e.g., foreign versus domestic; retail versus institutional; tax-exempt versus taxable) regarding ESG-related information affect pricing, underwriting, trading, and other market activities?

N/A.

The I-Bank only issues municipal bonds which are, almost exclusively, tax-exempt. As an issuer of tax-exempt municipal securities our experience and knowledge with corporate or taxable investors is not deep enough to comment competently.

- (6) The MSRB has recently incorporated an ESG indicator from an independent data vendor, HIS Markit, into the New Issue Calendar shown on the EMMA website. This ESG indicator denotes when an issuer has self-labeled a bond issue as green, social, or sustainable, or if the issuer includes an independent ESG certification as part of the offering document. Does making the ESG indicator available on the EMMA website enhance market transparency regarding ESG-Labeled Bonds? Specifically, is it valuable to investors, municipal issuers, or other market participants?

Yes, we believe an ESG indicator is valuable to municipal issuers as it can assist in drawing non-traditional investors to this bond sector. Allowing issuers to denote ESG and identify the method used to procure the ESG indication (e.g. voluntary standards, third party validation agent) minimizes the tracking costs for the MSRB and places the responsibility fairly on the issuer. Having a denotation is a good start. One suggestion to create a more flexible tool for investors would be to create a search tool on EMMA or standardized reporting for these issues to enable investors to better compare investment opportunities in this sector.

- (7) What improvements could the MSRB make to the EMMA website regarding ESG-Related Documents, ESG-Labeled Bonds, and other ESG-related information? Which improvements to the EMMA website would most enhance access for investors and other market participants to ESG-related information? Which improvements to the EMMA website would most enhance the fairness and efficiency of the municipal market?

A search filter directing investors to ESG Bonds on the EMMA website would enhance access to information and efficiency.

- (8) Is there any additional information that you would like to share with the MSRB regarding any other ESG-related activities or trends in the municipal securities market?

No, thank you.