

Community Finance Brief

To Make Sustainability Bonds Sustainable



MATT POSNER | COURT STREET GROUP LLC

Researchers are scrambling to find a way to combat an invasion of tree-killing larvae that is expanding into many parts of the northern Midwest. First noted in a St. Paul, Minnesota neighborhood in 2009, the Emerald Ash Borer (EAB), has now been counted in 40 counties across the state of Minnesota and every county in the Twin Cities metropolitan area. Warming winters are largely attributed to the worms growth into the state that after a period of 3- to 5-years, essentially suffocate a tree to death. A Twin Cities tree removal company in 2022 called that summer the "uphill side of a death curve" and Saint Paul then estimated that about 20% of the city's green space would be lost if action was not taken.

In response to the problem, the city of Saint Paul essentially added a response to the EAB problem to its climate action plan and it was decided that the trees needed to be removed from public spaces and replaced. In a recent conversation with **Sarah Brown**, the city's Treasurer, we learned a bit more about the process. This included participation in a *Public Finance Initiative* cohort to ensure the city's plan was equitable, sustainable and transparent - a great opportunity but one that raises questions about the replicability of these efforts.

A SUSTAINABILITY BOND

The city put together a plan to remove 13,000 ash trees across St. Paul and, in line with the communities racial equity goals, intended to prioritize hiring residents from low-income and Black, Indigenous and People Color (BIPOC) communities to do so. The city hired an independent auditor of sorts, *Kestrel Verifiers*, to write up an assessment of the bonding program that would pay for the work in order to label its activities as "sustainable." The report offers a good review of what the tree-removal program is and touches on the impact nature of the plan:

Quick Takes

The total volume of U.S. sustainable bonds issued in 2023 rose 3% from the previous years and stands at nearly double the market penetration of 2020
- [S&P Global](#)

There were \$8 billion in labeled 'sustainable' bonds issued in 2023, a jump of 32% from the previous year whereas 'social' bonds dropped 22% as the blue area of impact continues to struggled compared to its green cousins
- [S&P Global](#)

While Earth Day was first started in Wisconsin, its neighbor of Minnesota also has a long history of environmental activism
- [Minnesota Post](#)

Climate change is one of the principal reasons cited for the growth of a tree-killing worm that threatens 40 counties in Minnesota and about 20% of the green space in St. Paul.
- [MPR News](#)

The Port Authority of St. Paul issued sustainability bonds in 2022 to address the infestation

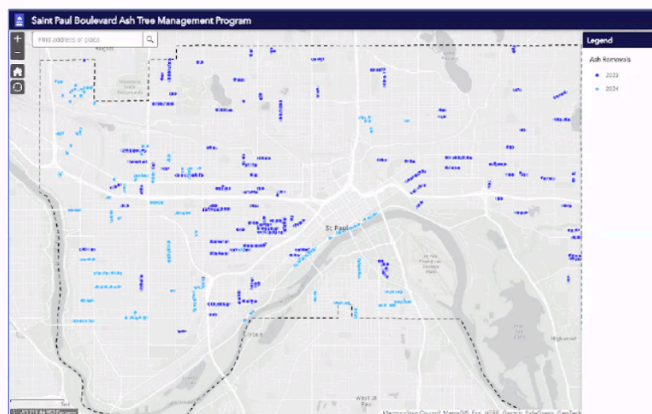
EAB TREE REMOVALS

**GOAL OF PORT AUTHORITY FUNDING:
COMPLETE ASH REMOVALS BY END OF 2024**

2022: 2,942 ROW & 289 PARK ASH REMOVED

2023: 3,119 ROW & 641 PARK ASH REMOVED

2024: 1,031 ROW & 702 PARK ASH PLANNED
TO BE REMOVED



[Interactive map](#)

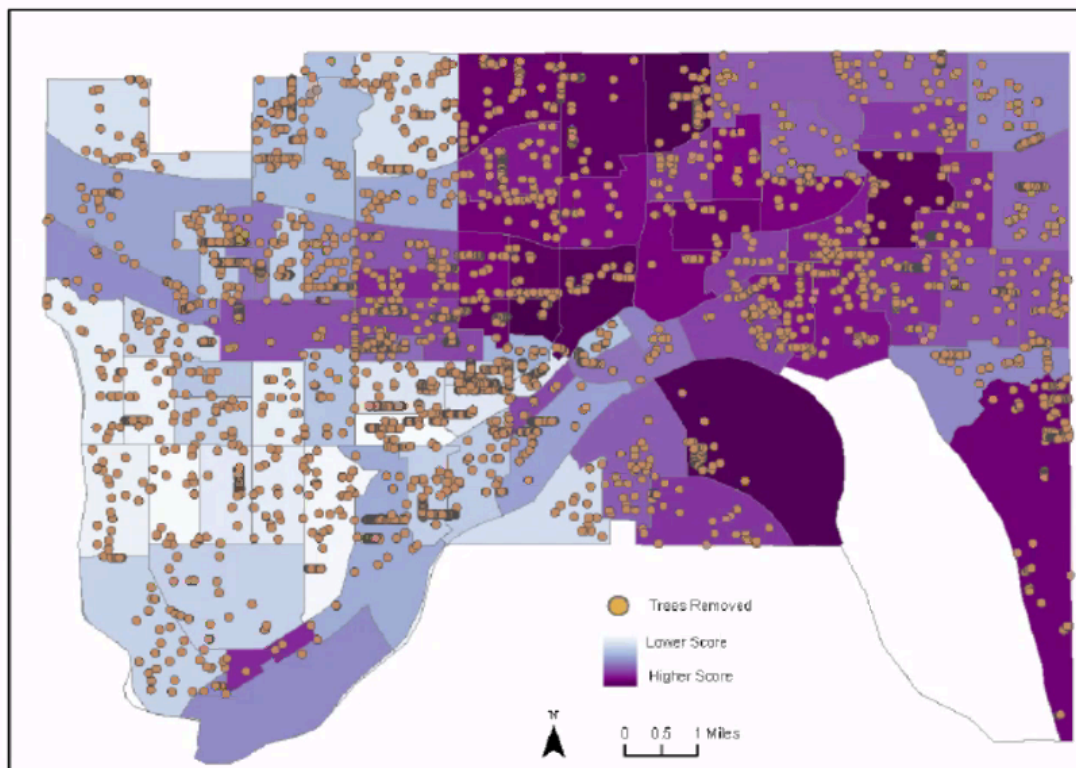
- **Project necessity:** critical to city's overall economic health (property values), its resilience (less trees means more prone to flooding) and public health (air quality, urban heat islands);
- **Focus on equity:** the project is distributed in an equitable fashion as the focus is on neighborhoods with low tree canopy cover, which tend to be low-income or BIPOC communities and a portion of the program will be used to establish living wage jobs for tree planting with a prioritization of hiring residents from low-income/BIPOC backgrounds; and
- **Alignment with sustainability guidelines** to make for a label, which enhances public transparency and, in theory, lessens cost of capital:
 - **Equitable Access to Ecosystem Services:** The project helps maintain green spaces, providing ecological benefits to all residents.
 - **Equitable Access to Jobs & Employment:** The living wage tree replanting program creates employment opportunities for underserved communities.
 - **Environmentally Sustainable Management of Natural Resources:** Removing infested trees and replanting prevents further environmental damage and promotes a healthy urban forest.
 - **Response to Human Impact on Ecosystems:** The project addresses the negative impact of the invasive Emerald Ash Borer beetle on the city's ecosystem.

The bonds were issued in March of 2022, and a sustainability report for 2023 reported that 4,610 trees were removed in 2022 and 5,084 were projected to be removed in 2023 with 28 EAB workers on the job.

GREEN, INSIDE AND OUT

The buzz about green, or impact in general continues generally to be the same as it pertains to U.S. sub-sovereign fixed-income: steady growth but no market advantage. As to growth, municipal impact bond issuance totaled \$42.3 billion in 2023, or about 11% (see figure, **page 4**) of the entire market compared to \$26 billion in 2020, per S&P Global.

2023 Tree Removal Sites & Social Equity Analysis by Census Tracts in the City of St. Paul



As for lowering the cost of capital, in most cases the answer is no. It simply has not panned out and for St. Paul's transaction in 2022, it came slightly above the triple-A benchmark for its competitive offering and, to be quite frank - the deal did just fine regardless of the label.

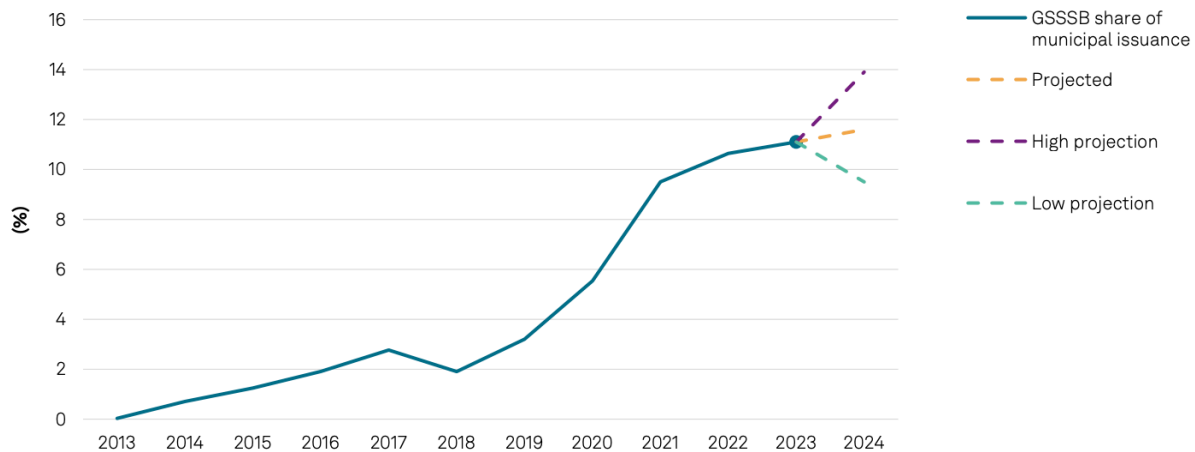
And we would argue that it isn't the point at this juncture. The level of information that is provided on how exactly proceeds are being used is the point. The continued level of information and the way in which they engaged in geo-spatial technology to help the public understand what was transpiring - that is the value as the municipal bond market is an extension of the public purse and policy.

If we accept this, then the question needs to be turned back to the government finance officer and ask about the resources that went into the bond deal to see if it was worth it.

THE REAL COST OF IMPACT

"The market has not proven that it will pay the extra amount for impact," said Sarah Brown, the city's Treasurer, in a conversation last month. "It is a lot of work, it is a lot of staff time, especially for the voluntary, continuing disclosure. We didn't do any extra work with investors outside the [PFI] program but I'm not convinced at this point that it would move the needed.

Growth in GSSSBs' proportion of U.S. municipal bond issuance slowing to about 12% in 2024



GSSSB--Green, social, sustainability, and sustainability-linked bond. Source: S&P Global Ratings. Copyright © 2024 by Standard and Poor's Financial Services LLC. All rights reserved.

So I do wonder why we should do this if we aren't going to be paid for it. But, it is work that we believe in and work we will continue to do because it's the right thing to do."

PFI is a reference to the *Public Finance Initiative* of which the city was a part of a cohort. A non-profit that is philanthropically funded to explore racial equity in the municipal bond market, St. Paul applied to participate during the time this bond deal was being put together. The recipient of a PFI grant to support with geospatial review of the project, they realized just how centered the problem of EAB was in lower-income areas (see figure, **page 3**), and even as the work was already intended to be done in this parts of the city, it was able to translate that work into an impact 'box' for a bond.

The PFI work also helped issuers engage with other market participants such as rating agencies and investors to help them think about how to market their offerings with a mind on bigger picture issues such as equity and the broader impact of environmental stewardship.

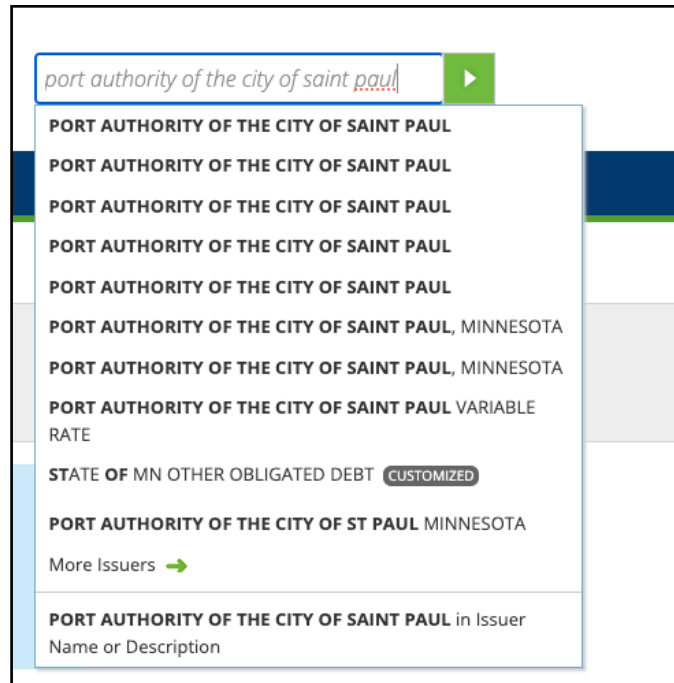
"What parts of the city did we miss," Brown asked in reference to next steps. "Where did we drop the ball? How can we do it better next time? The second iteration will be looking at private properties and help residents there. What does all this mean from an urban heat island perspective, storm water management and erosion? That is where the science and the data could be better connected if we had the resources."

SUSTAINABILITY AT SCALE SHOULD HAPPEN BUT WON'T IN CURRENT CONTEXT

The City of Saint Paul's experience with its 2022 Sustainability Bond issuance for the EAB project highlights both the potential and challenges of environmentally and socially conscious municipal finance. While the bonds appear to be achieving the goals of equity and transparency through their own efforts and those of the PFI grant, the question remains: how sustainable is this approach without dedicated resources?

Here's the crux of the issue:

- **Resource Dependence:** The PFI grant provided crucial support for the EAB project's success. Without similar grants for future initiatives, replicating this level of depth and detail might be difficult.



Potential Solutions:

- **Publicly Available**

Databases: Increased accessibility of relevant data (e.g., geo-spatial information) can empower communities and streamline future projects, which leads us to the next point.

- **University**

Collaboration: Partnerships with local universities could leverage academic expertise for data analysis and impact assessment. We've seen local universities partner with local governments to expand on an issue as these tend to be relevant multidisciplinary efforts. Adding an academic touch can support on the ancillary technology issues associated with impact but also on local marketing of efforts.

- **Local Impact Marketing:** Highlighting the project's local benefits like reduced heat islands and improved storm water management could resonate with local investors. The visible shadow of Neighborly was recently visible in Chicago.

- **Tree-Tagging Technology:** Tracking newly planted trees with tags could enhance transparency and community engagement.

One of two, or both to happen:

- **Market Recognition:** Ideally, the municipal bond market would eventually reward sustainability efforts with lower costs of capital. Investors who call for impact should be willing to pay for it.
- **Pressure for Data:** Public or market- demand for transparency should drive the creation of a centralized public database for bond monitoring and evaluation. Or the self-regulator could explore creating a self-sustaining system of impact assessments within the market, similar to how it pays for the EMMA system. That said, it may not be the best executor of a technology-focused platform (see screenshot, **above**).

That said, a group like PFI is funded by multiple major philanthropies, partnered the market's overwhelming leader in advisory services, PFM, and the largest member association of cities in the National League of Cities, could sensibly be the center of an open-sourced platform.