OHIO AIR QUALITY DEVELOPMENT AUTHORITY

The *OHIO AIR QUALITY DEVELOPMENT AUTHORITY* will hold an Educational Session for its Members on Tuesday, May 25, 2021 at 10:00 am via video conference.

Please RSVP to info@aqda.state.oh.us by 5:00pm on May 24, 2021 and a link will be provided for listening to the session.

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CLEAN AIR & CLEAN ENERGY ARE GOOD BUSINESS

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

TUESDAY, MAY 25, 2021

AGENDA

The training session will be conducted in accordance with open meeting laws within the State of Ohio. During the current state of emergency and to protect employees, partners and the public, the Authority is offering video conference access and a call line as an option to listen to the session remotely. To help ensure capacity on this conference line, please RSVP to info@aqda.state.oh.us with your interest to participate.

1. Welcome	Executive Director, Christina O'Keeffe
2. Educational Session	
3. Final Remarks	Executive Director, Christina O'Keeffe

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

The Authority held an Educational Session for members on Tuesday, May 25, 2021 via Microsoft Teams video conference. The session began at 10:02 am.

These are the notes from that session.

In attendance were:

James Simon, Chairman
Michael Keenan, Vice Chairman
Ted Celeste, Member
Mike Curtin, Member
Cara Dingus Brook, Member
Laura Factor, Member
Gene Phillips, Member

Christina O'Keeffe, Executive Director
Brooke Grant, Manager of Planning & Programs
Sandra Langston, Administrative Manager
Dawn Pertner, Fiscal Officer
Gabe Lorenz, Customer Service Coordinator
Thad Boggs, General Counsel
Matt Schnackenberg, PFM Financial Advisors LLC
Monica Reid, Kestrel Verifiers
Melissa Winkler, Kestrel Verifiers

1. Welcome

Director O'Keeffe began the session by thanking everyone for participating and asked Sandra Langston to call the roll.

Chairman Simon – (joined the session after roll call)
Vice Chairman Keenan – Present
Member Celeste – Present
Member Curtin – Present
Member Dingus Brook – Present
Member Factor – Present
Member Phillips – Present

Director O'Keeffe asked General Counsel, Thad Boggs, to confirm the rules and provide his opinion for the educational session. General Counsel confirmed that it was a public and open special meeting with minutes recorded, and that the public notice for the educational session indicated its purpose as an educational session only. He stated that any action that would be taken on the items of discussion should be deferred until a meeting which will include notice that board action will be taken. He confirmed that this meeting was in compliance with legislation extending authorization for virtual meetings.

Director O'Keeffe introduced the Educational Session topics, which included a discussion on Sustainable/ESG investing and Green Bonds, introducing Kestrel Verifiers, an update on implementation of the Solar Generation Fund, a presentation on transitioning from usage of LIBOR in Authority bond documents, and an overview of OAQDA's air quality exemption certificate and process.

2. Educational Session

Update on Sustainable/ESG Investing, Green Bonds

Director O'Keeffe introduced Matt Schnackenberg of PFM to provide information on sustainable and ESG investing and noted that the timing may be opportunistic for OAQDA's positioning to serve a role in Ohio for these types of bonds in the capital markets.

Mr. Schnackenberg stated that he would give a high-level overview of Environmental, Social, and Governance (ESG) Bonds. He stated that the environmental aspect includes a company plans regarding its environmental impact and carbon footprint, the social aspect includes the company's values towards its employees and customers along with their community impact, and the governance aspect includes a company's principles in leadership and management. He then discussed the growing importance of ESG Bonds, noting that a growing number of investors have specifically allotted funds for bonds meeting the ESG criteria. He stated that BlackRock, a very large bond investor, stated in their 2020 Letter to Clients, that sustainability is their new standard for investment. He further stated that rating agencies for bonds are now including sections on ESG in their rating letters.

Mr. Schnackenberg then discussed the rising issuance of ESG Bonds, which doubled from 2019 to 2020 in the United States. ESG factors are taking on more importance at an increasing pace, driven in part by higher costs and frequency of the impacts from climate change and severe weather events along with social inequalities highlighted by the pandemic. He discussed the difference between Green Bonds and Social Bonds. Green Bonds are for projects with environmental benefits such as energy efficiency, clean transportation, and green buildings, and Social Bonds are for projects aimed to address a specific social issue and/or seek positive social outcomes such as affordable basic infrastructure, access to essential services, or affordable housing. Sustainable Bonds are bonds that meet the criteria for both Green Bonds and Social Bonds.

Since last year, the Members have been pursuing Green Bonds and Mr. Schnackenberg highlighted these reasons, such as diversifying and expanding the pool of investors for Ohio projects and the value of marketing and recognition. OAQDA is well-positioned for the opportunity based on the alignment of the criteria of Green Bonds with the Authority's program guidelines and statue. He also noted there have been pricing benefits to borrowers, especially for taxable bonds.

Director O'Keeffe then provided an overview of the OAQDA plan for Green Bonds. The process was initiated in June 2020 as OAQDA engaged with PFM to develop the initial Green Bond Framework. She noted that Green Bonds provides an ability for OAQDA to share the story of the projects it already finances in a broader way through the capital market. Equally important, it can also attract wealth for Ohio projects, which is becoming mainstream and continuing to grow. The goal for OAQDA is to position itself and Ohio in the right place to take advantage of this funding as the focus on these types of projects grows. The Green Bond Framework was designed to align with both OAQDA's Program Guidelines as well as the principles and requirements of the International Capital Market Association (ICMA). OAQDA issued a Request For Proposal (RFP) last fall for the selection of a third party to review and provide a second-party opinion. This process is viewed as a best practice. She stated that Kestrel Verifiers has been identified as a recommended candidate for consideration to serve this role. As OAQDA retains a third party to serve the role, they will continue to refine the Green Bond Framework for prospective projects. She noted that OAQDA has been softly marketing this opportunity with some projects, but has not yet made a public announcement.

Introduction of Kestrel Verifiers

Director O'Keeffe introduced Monica Reid, founder and CEO of Kestrel Verifiers, and her colleague Melissa Winkler. Ms. Reid thanked the Authority for the opportunity to present at this meeting. She stated that Kestrel is a practitioner in Green Bonds, and that she founded the company in 2000 as Kestrel Consulting. Initially they focused on environmental consulting for state and local governments but have grown and evolved over the past 20 years to become an Approved Climate Bond Initiative Verifiers in 2018. They work with corporate, municipal, and international markets and specialize in municipal bonds. She stated that they are an alumnus of the Goldman Sachs 10,000 Small Businesses program.

Ms. Reid provided an overview of Green Bonds, noting that they are regular bonds with a specific label used for projects and programs with an environmental or climate benefit. She stated that it is best practice to use an independent verifier to give an opinion about the environmental benefits of projects and programs being financed. She discussed the accepted international standards for bonds. Green Bonds, Social Bonds, and Sustainability Bonds are administered under the standards of the ICMA, written with broad criteria for all sorts of projects worldwide. Green Bonds provide a beneficial environmental or climate impact, Social Bonds are used for projects with positive social outcomes, and Sustainability Bonds meet both principles. She noted that Social Bonds also have criteria for the beneficiaries of the social outcomes. She also discussed Certified Climate Bonds, which are green bonds under a different standard. These bonds are for projects that meet the Green Bond principles but also align with the Paris Accord goals and targets. She noted that some kinds of bonds like solar and winds are easy to align with the Certified Climate Bonds criteria.

Ms. Reid stated that Kestrel works to identify how projects may fit in the different categories, and that sometimes a project can be divided in separate issuances if the entire project does fit the criteria. Green Bonds are attracting new investors and are in high demand. In the reports that Kestrel does for each issuance, new investors are seen almost every time. She noted that it can be hard to specifically compare pricing benefits, but there is one example where the City of Boston issued a twin bond on the same day, with one bond having the Green Bond designation verified by Kestrel and another, financing similar activities, without the designation. The Green Bond designated issuance was priced three basis points higher. She further noted that a Social Bond was issued the same day without third-party verification, and that it did not see the pricing benefit.

Ms. Reid stated that one benefit of the Green Bond market is to showcase environmental leadership, and that issuing Green Bonds would showcase OAQDA's work in the environmental field. This can also improve transparency for investors, as it can more directly show the impact of the projects. She also noted that Green Bond-designated projects can also carry forward state objectives for public health, jobs, and business growth. She said that Kestrel wishes to help OAQDA become a best-in-class issuer that meets goals in transparency, alignment with adopted plans, reporting, and standards for external verification and review.

Ms. Reid concluded her presentation and responded to questions from the Members.

Mr. Curtin asked if there are incentives coming from Washington, D.C. on a public policy for state investment in Green Bonds. Ms. Reid stated that there is discussion of a national green bank, and that the State of Connecticut has a well-established Green Bank. Director O'Keeffe stated that this topic has recently come to the attention of OAQDA. Ms. Reid shared that the Connecticut Green Bank is one of twelve that has been establish by various states, which has the mission to leverage public and private money for support of energy efficiency and climate action alongside economic development. She further said that there is some movement toward establishing more national action at the federal level. She also noted that new standards taking place in Europe for financial disclosure in sustainable finance may influence U.S. regulation.

Mr. Curtin asked if there was merit for discussing a regional approach to funding projects with regional impact for places like the Great Lakes and Appalachia with other states and federal agencies. Ms. Reid stated that she has admired environmental work coming out of Ohio for a long time, and that there are examples such as the Ohio River Basin Regional Water Quality Credit Trading Program that has received support from multiple states including Ohio, that could be examples for future leadership in finding ways to pull businesses, communities, and states together. Director O'Keeffe stated that she had the opportunity to brief the Governor's office on OAQDA's work. She noted that she asked Matt Schnackenberg of PFM to research this topic.

Mr. Phillips asked if there were any examples of bond-funded projects with public health outcome. Ms. Reid stated that they did a lot of work in financing healthcare facilities and had just done a project involving Sustainability Bonds for a university focused on their medical program. She stated that some outcomes could include how many people were served, how many new treatment facilities built, and how much intervention was done.

Mr. Keenan asked if Ms. Reid had experience in the QECB program and noted that Ohio and OAQDA did a lot of work in the past. He asked if there was any possibility for federal funding in a similar program. Ms. Reid said she had not been following legislative updates in that field. Mr. Keenan asked Director O'Keeffe if the tax benefits would be the same under Green Bond issuance. Director O'Keeffe stated that the Green Bond label would be implemented as part of the existing CAIP program, and that tax benefits would be the same. Mr. Keenan asked if there would be an advantage for looking into whether the benefits could be legislatively expanded. Director O'Keeffe asked if there were any examples of other models for incentivizing Green Bonds. Ms. Reid said there are a number of creative approaches that issuers are taking, such as Sustainability-Linked bonds where the coupon on the bond is tied to project performance and better performance resulted in lower payments. She also noted that with the new European Union regulations taking effect, coming into the market with a third-party verifier could open projects up to additional European investment. Director O'Keeffe further noted that Mr. Schnackenberg is OAQDA's expert on the tax credit bonds, and she had asked him to do research on QECB and Clean Renewable Energy Bonds (CREBs).

Ms. Brook said the White House is trying to figure out how to work with transitioning coal-impacted communities in the Appalachian region, and that there could be opportunity there. She also noted that JobsOhio is trying to figure out how to structure for equitable economic development, and that there could perhaps be opportunity for combined work in Social or Sustainable Bonds. Ms. Reid said that transitioning coal-impacted communities could be a very interesting field to work in, and that she has experience in the U.S. Forest Service in communities transitioning from the timber industry. She stated that there could be potential for Social or Sustainable Bonds in coal-impacted communities.

Director O'Keeffe thanked Ms. Reid and Ms. Winkler for joining the session, and stated that the next step would be to have a Resolution at an upcoming Board meeting to recognize Kestrel as the third-party verifier for OAQDA-issued Green Bonds.

Ms. Reid thanked OAQDA for the opportunity to join the Educational Session.

Update on Solar Generation Fund Implementation

Director O'Keeffe introduced this topic, which features the implementation of House Bill 128 that was passed at the end of March. The effective date is June 30, 2021, and the legislation contains $300,000 per year for OAQDA's resources. She stated that OAQDA is moving forward on hiring an additional 1.5 full time equivalent positions to help with the program. She introduced General Counsel Thad Boggs to provide an update, along with Brooke Grant and Dawn Pertner from the OAQDA team.

Mr. Boggs stated that the bill would be taking effect at the end of June 2021 and that there is no longer a nuclear component to the program. The bill waived the deadline for the qualifying solar resources and extend it to March 1, 2020. This enabled three additional applications to be eligible for the program. He further stated that the language about the program was updated to refer expressly to solar resources, rather than renewable generally. He said the bill provides express authority for OAQDA to open and administer the solar generation fund, and provides for OAQDA to use up to $300,000 from the fund for administrative costs retroactive to Fiscal Year 2020, continuing through Fiscal Year 2029, with Controlling Board approval. Director O'Keeffe thanked Deb Hackathorn, OAQDA's government affairs consultant, for her continued work on behalf of OAQDA to ensure that OAQDA's spending authority was included in the amendment.

Ms. Grant then presented on the program implementation details. A key next step for Authority Members is to consider the approval of the Hardin Solar Energy, Hardin Solar Energy II, and Vinton Solar Energy facilities at the June 8, 2021 meeting. She stated that OAQDA would work over the next several months following the June 30, 2021 effective date to ensure that any needed updates were made to the MOUs and reporting documents, along with any necessary changes in the Generation Attribute Tracking System (GATS) administered by PJM-EIS. She further stated that any activity needed to onboard the new facilities and introduce program changes to existing facilities would be taken. She noted that any necessary administrative rule changes that are needed would be made in Fall 2021.

Ms. Pertner then presented on the fiscal-related items of the program. She stated that 1.5 full time equivalent positions are included in the budgeted amount of H.B. 128, and that OBM was in agreement. She stated that the preferred measure would be to have an amendment included in the operating budget to increase the Authority's spending limit, but if that did not happen, then OBM may raise it during the conference committee. A final option is that OAQDA would go before the Controlling Board in July if the operating budget did not include this provision. She then noted that the deadline for creation of the custodial account for the fund is October 2021 when the charge for fund collection will commence as being handled by PUCO. OAQDA will work with the Treasurer of State to establish the account. She stated that the first subsidy payments are anticipated in early 2022. In addition, OAQDA plans to go before Controlling Board to request the reimbursement of its program expenses as enabled by H.B. 128.

Chairman Simon thanked those involved for their work to get the expense reimbursement and said that it had been a long time coming.

Mr. Keenan left the meeting and rejoined at 11:04 am.

LIBOR Transition

Director O'Keeffe stated that LIBOR is on track to conclude at the end of 2021, and noted this topic was added to the agenda as OAQDA is expecting to receive many requests for amendments from borrowers who had used LIBOR within their bond documents. She introduced Mr. Schnackenberg to provide an overview to help anticipate what to expect with this change.

Mr. Schnackenberg stated that the London Interbank Offered Rate (LIBOR) was used as a benchmark borrowing and lending rate for trillions of dollars of loans, investments, mortgages and derivatives, and that it was determined via a survey of 11-16 international banks based on judgment-based lending rates from those banks. He stated that it was calculated for five currencies daily and for seven tenors in each currency. He said that the one-week and two-month USD LIBOR tenors were ending on December 31, 2021 with the remaining tenors are set to expire on June 30, 2023. All tenors for the other four currencies would be discontinuing on December 31, 2021. He stated that the preferred reference rate to replace USD LIBOR is the Secured Overnight Financing Rate (SOFR), in part due to the fact that it could not be easily manipulated by banks. SOFR is based on the U.S. Treasury repurchase agreements based on actual market transactions.

Mr. Schnackenberg stated that OAQDA's portfolio includes outstanding variable rate debt using LIBOR as the index, and that the borrowers for these items may approach OAQDA to make changes to the documents to change the index from LIBOR. He noted that while the most likely replacement index would be SOFR, there is an index published by Bloomberg that could be used sometimes. He further stated that it would be dependent on each borrower's language and that some borrowers may have included flexible language and therefore not need to change, but most would need to make changes. He stated that OAQDA may receive numerous requests in the second half of 2021 and 2023 due to the expiration of the LIBOR tenors. Director O'Keeffe stated that there would be a request for amendment considered at the June meeting from a borrower who has already submitted a request.

Discussion surrounded the responsibility of the borrower or OAQDA to initiate this change. The understanding is it is on the borrower, but bond counsel will be consulted to confirm.

<u>Overview of the Air Quality Exemption Certificate and Process</u>

Director O'Keeffe introduced General Counsel Thad Boggs to present on the air quality exemption certificate and process that OAQDA goes through when issuing air quality exemptions for tax benefits.

Mr. Boggs stated that issuing the certificate is part of the process following board approval of a bond resolution and closing on projects. He stated that it is a statutory process to implement the tax benefits to the borrowers. He provided an outline of definitions in ORC 3706.041 (B), which includes "project" and "air quality facility" which are defined by the Board when projects are considered for approval. This also includes "cost" which is the acquisition, construction and equipping of an air quality project per ORC 3706.01 (I). He said that as part of the process, at or shortly after closing the Executive Director provides a certificate of the property comprising the project that is subject to the statutory exemption from taxes and assessments. This is used to document the exemption of the property comprising the project to the applicant and county auditor. He stated that this is not always a familiar document to auditors and vendors, who tend to be more accustomed to exemption certificates or determinations issued by the Ohio Department of Taxation. He noted that it is not uncommon for staff to receive questions regarding the nature of the exemption. He further noted that the Authority strictly does not advise concerning valuation methodology, which is the purview of county auditors.

Mr. Boggs then noted that the CAIP process and guidelines have been a positive step for OAQDA to define more clearly the scope of a project as it is included with the exemption certificate. Further, the requirements in the guidelines also encourage applicants to affected local taxing units that provides them notice and additional opportunity for engagement. He said that as the geographic portfolio of OAQDA financed projects broadens, staff have identified the need for proactive outreach to county auditors and other stakeholders and are identifying opportunities for additional resources to provide to stakeholders. Director O'Keeffe stated that it has been a goal of OAQDA to broaden the geographic portfolio of its projects and these types of inquiries are an indicator of progress toward that goal.

<u>Final Thoughts</u>

Director O'Keeffe turned the discussion over to Chairman Simon to discuss thoughts on future planning and goal setting. Chairman Simon said that he, along with Director O'Keeffe, wanted to check in about strategic planning. He said that traditionally OAQDA has done in-person strategic planning sessions near the beginning of the year. With OAQDA returning to in-person meetings in July, he opened the question of pursuing a strategic planning session over the summer. He stated that more time could be taken after July to discuss what topics might be discussed and what direction might be needed for strategic planning. Ms. Brook expressed support for the approach.

Mr. Celeste stated that his timing for leaving Ohio and the Board may be sooner than expected and noted that this may be something to keep in mind for strategic planning. Chairman Simon stated that his input may be valuable considering his lengthy service to the Board. General Counsel Boggs stated that they could follow-up to discuss the timing and specifics of his departure.

3. Adjournment

Director O'Keeffe inquired if the Members had additional questions or comments and there were none.

Session concluded at 11:25 am.