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STATE OF FLORIDA
DIVISION OF BOND FINANCE

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Florida Division of Bond Finance
Response to MSRB Request for Information on
Environmental, Social and Governance (ESG) Practices

(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?**

We provide ESG-related disclosures in primary offering documents but do not currently provide ESG-related marketing content. We do not consider the information we provide as being 'beyond what is legally required' and would not consider providing information beyond legal requirements in an offering document.

Several years ago, Florida added an 'Environmental Risk Factors' disclosure to all offering documents (Attachment 1) to fully inform investors about the environmental risks Florida faces and the policies and mitigation efforts in place to address those risks. Similarly, we have added an 'Information Technology Security' disclosure section regarding cybersecurity (Attachment 2). These disclosures were added after careful evaluation of how risks in these categories could impact the State in the future, our credit quality, and ability to make payments on outstanding bonds.

We have traditionally provided a great deal of information that falls into the 'G' category in our disclosure documents. The introduction to all of our official statements describes the legal authority to issue bonds and the necessary approvals that have been obtained, including the language of the resolutions. We also provide information such as demographic and economic data that can be categorized as 'S' social. Municipal issuers have customarily provided this kind of information long before it was categorized as 'Governance' or 'Social' within the ESG moniker.

We do not feel that rearranging or renaming sections of offering documents as 'ESG' is necessary to meet the information needs of investors. If the relevant disclosure information is included in a rational order and easy to follow, it should not require a label for investors to locate it within the offering document.

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?

No, we do not believe there would be a benefit to standardizing ESG-related disclosure. The strength of the muni market is in the unique attributes of the issuers, the infrastructure financed which provides essential public services, and the dependability of the revenues typically used to secure the bonds. This is entirely inconsistent with the notion of uniformity and homogeneity. Imposing additional regulatory burdens related to mandated, uniform ESG metrics will not serve to improve investor protections or increase available, meaningful information.

ESG is still a relatively a new concept and analysts and investors have not developed a consensus on what data and which metrics are important to their analysis. Accordingly, there are varying approaches to evaluating ESG risks. Therefore, the information investors want varies according to what they determine to be important to their individual analysis to evaluating credits.

In fact, last year we called several investors to try to determine if we were providing the necessary environmental disclosure to meet their needs and how they were evaluating the information provided by issuers through an ESG lens. None of the firms we called could provide insight into what they were looking for or metrics they were using to evaluate environmental risks. It would seem extremely premature to standardize information when investors have not coalesced around what is important to them.

ESG-related disclosures should follow the longstanding guidelines for risk-based disclosure for municipal market offering documents. The SEC has noted in the past that the diverse nature of this market means it is particularly ill-suited to a "one size fits all" approach to such disclosure and has historically taken a principles-based approach to disclosure in the municipal securities market. For example, certain environmental risks, like hurricane damage, are only applicable to certain issuers. It would be difficult to mandate disclosures around climate change when the nature of the risk will depend on the region in which the issuer is located and the type of credit. Each individual issuer is in the best position to determine risks relevant to its own credits. In addition, the GFOA's ESG Best Practices provide issuers with helpful guidelines along with the flexibility to define for themselves the most relevant and important risks they are confronting regarding ESG factors. These Best Practices and other industry-led initiatives on this topic should be given time to work prior to creating standards or "uniform metrics" that may serve to confuse or limit meaningful ESG risk disclosures.

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.**

No, we have not issued ESG-labeled bonds because there is currently no evidence that indicates a pricing benefit or wider distribution that would justify the expenditure of public funds for additional staff time or potential third-party verification expense. Much of the information that would likely be needed to issue labeled bonds is really marketing information and not relevant to disclosure or the kind of information that is appropriate for inclusion in an offering document. Additionally, public infrastructure, by its nature, has self-evident ESG attributes that benefit the general public making independent validation a needless expense and generally unnecessary.

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 Securities Exchange Act Rule 15c2-12 (collectively, "CDA")? If so, please consider providing an example of the CDA. If the disclosure commitment was not incorporated into the CDA, how is the information made available to an investor on an ongoing basis and at what frequency?**

Although we have not issued ESG-labeled bonds, we would not be in favor of adding any ESG-related reporting to the CDA. Adding reporting to the CDA would likely add an additional expense when, as stated above, there is no evidence that issuing ESG-labeled bonds results in savings for issuers. Additionally, in terms of the evolving world of ESG, it is very difficult to determine what metrics are meaningful and would have continued relevance for reporting over the 20-30 year life of a bond.

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?**

   Yes, we are providing ESG information to rating agencies through our annual meetings and presentation (Attachment 3, ESG slide). The information provided is very similar to what is contained in our official statements and the presentation is available on our investor website, sbafla.com/bond.

   Rating agencies have produced reports/scores regarding Florida ESG risks. For the most part, we did not provide information to help formulate outcomes but would have appreciated the opportunity to do so. The narrative form taken in the Fitch and S&P Florida ESG reviews provides more relevant and in-depth information than Moody's score-based approach. The varying rating agency approaches offer a good example of why standardization of ESG disclosure or reporting is not as meaningful as flexible, freeform narrative. We have not experienced any significant changes to the credit rating process related to ESG-related information since any ESG risk factors that are relevant to our credits were already being assessed by the ratings agencies and made part of their reviews and published credit opinions. The primary change we have observed is that the ratings agencies are attempting to be more transparent in their reports regarding how such factors impacted their credit analysis by including them in a separately identified section.

(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?**

   The largest risk is the threat of mandatory ESG disclosure standards which could impair the efficient operation of the municipal market. Sufficient investor protections already exist within the current legal framework (antifraud provisions of federal and state securities laws, SEC Rule 15c2-12, etc.).

   The SEC could encourage issuers to provide additional ESG-related information through something similar to the statement on the Importance of Disclosure for our Municipal Markets regarding COVID-19 (the "COVID-19 Statement") which provided guidance for disclosure and is a great example of the right regulatory approach to enhancing information available in the municipal market. The COVID-19 Statement encouraging voluntary disclosures had the most meaningful and timely impact to enhance disclosure than any previous regulatory actions. Providing principles-based guidance affords sufficient flexibility for issuers to formulate disclosures specifically tailored to their circumstances. The guidance was embraced by the issuer community and resulted in thousands of voluntary filings on issuer websites and the municipal industry's EMMA platform. A similar approach to encouraging issuers to provide information related to ESG risks and mitigation strategies in their bond offering documents coupled with assurances regarding protection from securities liability and enforcement actions could be a game changer for ESG disclosures.

2. **There are a number of organizations establishing voluntary standards for the issuance of ESG-Labeled Bonds, such as the ICMA and CBI.17 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?

Yes, there is a plethora of information available on how to issue ESG-labeled bonds. Issuers can use external sources to better understand how various groups are advising on the issue and make informed decisions about what works best for their circumstances. There could be some usefulness in a set of industry accepted guiding principles for labeled bonds to ensure a more uniform application of the marketing of ESG bonds.

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?**

   Industry-led initiatives are always preferable to regulation. Industry practices are more adaptable and effective than regulation. There are several industry organizations, including the GFOA, that have provided meaningful guidance on ESG disclosure. The GFOA is also working on a best practice on designated bonds. Industry-led initiatives should be given time to work before regulation is contemplated. Regulation should always be a last resort to a clear problem not a tool for advocating or promoting social causes.

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?**

   No. The best place for investors to find information about an issuer's ESG risks is from the issuer or the issuer's official offering document. If investors choose to seek information from other sources that is their prerogative and there are many venues, both free and fee-based that may provide useful information. Non-uniform ESG data and information does not create confusion and is no different than any other external information investors might use to augment their analysis and inform their investment decisions. The official statement should remain the primary document that investors rely on to make informed investment decisions.

   Standardization through EMMA would likely serve to sanitize useful information and set a ceiling rather than a floor on information being disclosed. Additionally, EMMA is not designed for segregating one-off disclosures into specific categories. This would likely be a slippery slope that could lead to innumerable categories for postings that then lose their usefulness to analysts and investors.

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 the differing expectations of different classes of investors (*e.g.*, foreign versus domestic; retail versus institutional; or tax-exempt versus taxable) regarding ESG-related information affect pricing, underwriting, trading, and other market activities?**

   No, the municipal market, due to the public nature of the issuing entities, is unique and information that may be available in other markets will not impact the efficient functioning of the municipal market. Trying to translate conventions of other markets into the municipal market is ill-advised as the diversity of issuers and differences among sectors and credit structures does not lend itself to off-the-shelf, one-size-fits-all solutions.

   State and local governments are on the frontline of providing essential infrastructure in communities and addressing challenges posed by ESG risks to protect the health, safety and welfare of our citizens. These goals are central to the mission of government entities and therefore should alleviate many investor questions and concerns that may arise from dealing with less transparent for-profit companies.

Differences between markets has no impact on attracting capital in the municipal market. Investors in our market are focused on the tax exempt nature of the security and the safety that the government sector provides. This can be quantified by the more than $60 billion in fund flows into the municipal market in 2021.

6. **The MSRB recently incorporated an ESG indicator from an independent data vendor, IHS 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 this 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?**

   No, we do not believe that the ESG indicator on EMMA added any meaningful information to the market. This initiative, although well-intentioned, seems to fall outside the MSRB's mission and may actually serve to further confuse by adding another third-party opinion to the mix of information. Additionally, the MSRB indicator is an endorsement of the IHS Markit inappropriately favoring a private market data provider or the go-to for ESG designation. For satisfying its ESG criteria, if any, the label should not excuse an investor from doing their own analysis and evaluation prior to making an investment decision rather than relying on an arbitrary indicator.

7. **What improvements could the MSRB make to the EMMA website regarding ESG-Related Disclosures, 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?**

   Improvements to the searchability of ESG information on EMMA would be helpful. However, improvements to the generally functionality of EMMA should be the focus of the MSRB not one-off projects that nip around the edges rather than focus on the overall ease and usefulness for market participants.

Environmental Risk Factors

With more than 2,000 linear miles of coastline and relatively low elevations, Florida's weather and natural resources affect its economy in a variety of ways. Economic activity attributable to in-migration and tourism represents a significant part of the State's economy, and the State's warm weather and beaches are responsible for attracting seasonal and permanent residents and tourists to the State. In addition, a majority of the State's residents live and work in coastal counties. Because of the State's reliance on its natural resources to generate business and sustain in-migration, its economy and financial condition may be vulnerable to the impacts of environmental events, including hurricanes and inland and coastal flooding, as well as long-term environmental risks associated with climate change, such as accelerated sea level rise.

The State has effectively responded to past environmental events because of its financial resources, emergency response system, and dedicated leadership and regulatory programs focused on addressing environmental risks. However, the frequency of environmental events, such as hurricanes, may increase on an annual basis according to models and forecasts. Consequently, the magnitude of the impact on the State's operations, economy, or financial condition from environmental risks is indeterminate and is unpredictable for future environmental events. There can be no assurance that such risks will not have an adverse effect the operations, economy, or financial condition of the State.

Resources - The State has a variety of resources available to respond to damage caused by environmental events. The State has financial reserves available to cover response-related expenditures, and, in most cases, the State can request reimbursement from federal relief funds to pay for a portion of such expenditures. Further, upon a declaration of a state of emergency, Florida law provides the Governor broad spending authority to meet financial needs resulting from a disaster. Notwithstanding multiple hurricanes, State finances and the economy have only experienced temporary economic disruption. In addition, the State has improved its resiliency to the threat of environmental risks through the establishment of the Florida Hurricane Catastrophe Fund and the Citizens Property Insurance Corporation to stabilize the property insurance market in the State.

Emergency Response - The State can respond to the impacts of environmental events through its robust emergency response system. The Division of Emergency Management ("DEM") was established as part of the State's structure to plan for and respond to both natural and manmade disasters. In addition to coordinating disaster response activities, DEM prepares and implements a statewide Comprehensive Emergency Management Plan and routinely conducts extensive exercises to test state and county emergency response capabilities.

Leadership - The State's response to environmental risks includes the creation of state-level leadership positions to help coordinate resilience efforts through Florida's 67 counties and over 400 cities. Although a portion of environmental resiliency efforts in each county or city falls on its respective local government leadership, state-level leadership provides valuable resources and support to the State's local governments. In 2019, the Governor created the position of Chief Resilience Officer in the Executive Office of the Governor to work with state agencies to, in part, develop and coordinate the implementation of a comprehensive statewide resilience plan with goals designed to adapt to the environmental challenges facing Florida's communities. Also in 2019, the Governor created the Office of Environmental Accountability and Transparency, led by the State's Chief Science Officer, to conduct scientific research that focuses on current and emerging environmental concerns most pressing to Floridians. The Chief Resilience Officer consults with the Chief Science Officer on policy issues so that each policy decision takes into consideration the environmental impact strictly from a scientific perspective.

Regulatory Programs and Planning – State Level - The State's resilience to environmental risks has been enhanced through state law restrictions and targeted regulatory programs. Coastal construction is regulated by DEP in various ways in order to protect Florida's beaches and dunes from imprudent construction. For example, under the Coastal Zone Protection Act, Florida law imposes strict construction standards for most activities within the "coastal building zone", which covers over 1,500 feet from the coastline. Further, the Office of Resilience and Coastal Protection was created within DEP to focus time, energy, and resources into resiliency issues. DEP regulations include a prohibition on most construction within 50 feet of the mean high-water line, known as the 50-foot setback. Also, DEP requires new construction in the coastal areas with higher risks of environmental impacts to meet more stringent standards and demonstrate that the proposed project will not result in a significant adverse impact. Additionally, for coastal areas that are further inland, DEP makes 30-year erosion projections and generally will not issue construction permits for areas projected to be within the erosion projection. In lieu of meeting state law restrictions, Florida's local governments may establish coastal construction zoning and building codes as long as they are pre-approved by DEP.

In 2020, the State enacted the Clean Waterways Act that strengthens regulatory requirements and provides a wide range of water-quality protection provisions aimed at minimizing the impact of known sources of nutrient pollution, including stormwater-related pollution. The Clean Waterways Act directed DEP and Florida's water management districts to update stormwater design and operation regulations using the latest scientific information.

Regulatory Programs and Planning – Local Level - DEP also implements programs related to sea-level rise and coastal issues that offer technical assistance and funding to communities dealing with coastal flooding, erosion, and ecosystem changes, including the Beach Management Funding Assistance Program and the Florida Resilient Coastlines Program.

On the regional level, Broward, Miami-Dade, Monroe, and Palm Beach Counties formed a collaboration, the Southeast Florida Regional Climate Change Compact (Compact), to address climate change. The Compact's work includes developing a Regional Climate Action Plan and developing a Unified Sea-Level Rise Projection. Many local governments in southeast Florida have since incorporated the Compact's projections into their planning documents and policies. Florida's local governments in coastal areas are required to have a coastal management element in their comprehensive plans that uses principles to reduce flood risk and eliminate unsafe development in coastal areas. In certain coastal areas, local governments are authorized to establish an "adaptation action area" designation in their comprehensive plan to develop policies and funding priorities that improve coastal resilience and plan for sea-level rise.

Planning for the Future - Although the State has effectively responded to past environmental events, the State is vulnerable to future environmental events. In order to position itself to effectively respond to future events, the State has taken additional actions to plan for the future. In 2020, the State Legislature enacted legislation, effective July 1, 2021, that requires DEP to adopt rules to develop a standard by which a governmental entity must conduct a sea level impact projection (SLIP) study under certain circumstances prior to commencing construction of a coastal structure. The DEP and the Chief Science Officer will review the SLIP studies in order to develop policies and guidance to address issues that may arise on a statewide basis.

Additionally, in 2021, Governor Ron DeSantis signed into law Senate Bill 1954, which establishes statewide programs for adaptation to flooding and sea level rise. The programs are intended to address flooding all across the state, including the creation of the Resilient Florida Grant Program within the DEP to provide grants to counties or municipalities for community resilience planning, such as vulnerability assessments, plan development, and projects to adapt critical assets. The law also requires DEP to develop a Comprehensive Statewide Flood Vulnerability and Sea Level Rise Data Set and Assessment, including statewide sea level rise projections, containing information necessary to determine the risks of flooding and sea level rise to inland and coastal communities. DEP is also directed to develop the Statewide Flooding and Sea Level Rise Resilience Plan consisting of ranked projects addressing the risks of flooding and sea level rise to communities in the state. Furthermore, the law creates the Florida Flood Hub for Applied Research and Innovation (Hub) within the University of South Florida (USF) College of Marine Science. USF's College of Marine Science will serve as the lead institution to coordinate efforts to support applied research and innovation to address flooding and sea level rise in the state.

Information Technology Security

Similar to other large organizations, the State relies on electronic systems and information technologies ("IT") to conduct operations. Protecting the State's IT infrastructure and data is essential to delivering government services. The State maintains a security posture designed to protect data, deter attacks on IT infrastructure, and respond to security incidents to minimize the impact on operations. The State has also historically maintained reserve funds and a liquidity position that provide the ability to respond to potential incidents.

The State has defended against cyber-attacks in the past, and cyber-attacks are an on-going risk to the State's IT infrastructure and data. Despite the State's robust cybersecurity policies and procedures designed to protect their data and IT infrastructure, no assurance is given that such security measures will prevent cyber-attacks, nor can any assurance be given that any cyber-attacks, if successful, will not have a material impact on State operations.

The Florida Digital Service ("FDS"), created within the Department of Management Services, is the lead entity for cybersecurity for the State and is led by the State Chief Information Officer who is charged with implementing the State's comprehensive framework for addressing cybersecurity and establishing standards and processes consistent with best practices for IT security across all State agencies. The FDS is responsible for assessing cybersecurity risks and determining appropriate security measures for each State agency; creating and annually updating the statewide cybersecurity strategic plan, including security goals and objectives and performance monitoring; developing a framework for use by State agencies to meet their IT security responsibilities, such as conducting IT security risk assessments and reporting IT security incidents; and annually reviewing each State agency's IT security plans. State law requires State agencies to annually review and consider upgrades to computing and software applications to help mitigate against potential breaches. Within Florida's emergency response capabilities through the Division of Emergency Management, FDS established a Cybersecurity Operation Center (CSOC) that creates a centralized threat clearinghouse and site for incident response coordination. The CSOC is staffed by cybersecurity experts that help to monitor threats and vulnerabilities faced by state agencies during emergency and regular operations. The Florida Cybersecurity Advisory Council, comprised of cybersecurity experts from outside of State government, serves as an additional resource to assist State agencies by reviewing cybersecurity policies, assessing ongoing and potential risks, assisting the FDS in developing cybersecurity best practice and examining inconsistencies between state and federal law regarding cybersecurity.

The Board of Administration acts as the fiscal agent for the bonds issued by the Division of Bond Finance on behalf of the State and its agencies. As trustee for the Division of Bond Finance's bond programs, the Board of Administration protects its data and IT infrastructure, including data and information related to bond programs, through a multifaceted cybersecurity strategy. The Board of Administration's cybersecurity strategy includes a comprehensive set of security policies and procedures, which are designed to guide staff in their cybersecurity responsibilities; a security awareness program, which educates staff on active cybersecurity threats and security best practices; a risk-based threat and vulnerability management program; and a managed threat detection and incident response service which is continuously monitored by a third-party service provider. Additionally, the Board of Administration has implemented access and authentication protocols, which include multi-factor authentication and industry standard encryption to protect data in transit and at rest. As a further precaution, the Board of Administration's cybersecurity program is subjected to routine internal audits to evaluate the effectiveness of the program, as well as annual external audits and penetration testing to identify opportunities to improve its security posture. The Board of Administration's cybersecurity strategy is supported by administrative and technical controls, which assist in identifying potential threats and preventing attacks that may target the Board of Administration's data and IT systems. In the event a cybersecurity issue arises, the Board of Administration has an incident response capability to quickly address such issues, including comprehensive plans and external services to assist with incident response, crisis communication, and breach notification management.

Environmental, Social, and Governance (ESG)

- "S" & "G" of ESG have favorable long-term characteristics, supporting State's credit fundamentals—vulnerability around "E"
- Actions taken to address climate change, global warming, sea-level rise and attendant consequences

Resources

- FY 2022 spending plan includes more than $4.44 billion in environmental funding, including $791 million for the protection of Florida's water resources

Emergency Response

- Robust Division of Emergency Management (DEM) to plan, coordinate and manage emergency response
- Statewide Hazard Mitigation Plan and routine proactive coordination with local governments and first responders

Leadership

- Office of Environmental Accountability and Transparency, led by Chief Science Officer, to conduct scientific research on current and emerging environmental concerns
- The Chief Resilience Officer consults with the Chief Science Officer to assess environmental impact from a scientific perspective

Regulatory Programs and Planning

- Statewide hurricane building codes to harden infrastructure and "coastal building zone" imposes strict construction standards for coastal areas with higher risks of environmental impacts
- Mandated sea level impact projection (SLIP) studies prior to commencing construction of a coastal structure for governmental entities
- Resilient Florida Grant Program to provide grants to locals for community resilience planning
- Developing Comprehensive Statewide Flood Vulnerability and Sea Level Rise Data Set and Assessment, including statewide sea level rise projections