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Moody's Issues First Muni Green Bond Assessment in U.S.

WASHINGTON — The Upper Mohawk Valley Regional Water Finance Authority received a green bond assessment of GB1 for \$8.78 million of water system revenue bonds on Wednesday from Moody's Investors Service — the first GBA the rating agency has issued in the U.S.

The GBA, which ranges from GB1 for excellent to GB5 for poor, is designed to help investors determine if green bond proceeds are being used to achieve "positive environmental outcomes," said Henry Shilling, Moody's senior vice president who has played a key role in the development and use of the GBA.

Moody's rolled out the final methodology for the GBA, which is not a rating, at the end of March. Since July, the rating agency has assigned four GBAs, the first three of which went to European entities.

The Upper Mohawk Valley Regional Water Finance Authority bonds are to be issued soon to help finance an increase in the water system's resiliency and the furtherance of its mission to provide safe drinking water to users. The authority is an instrumentality of New York State that serves 130,000 residents through 38,900 service connections in the eastern portions of Oneida and Herkimer counties as well as the city of Utica.

And Moody's expects to see more green bond issuances in the future.

In a report on the sector issued about two weeks ago, Moody's said global green bond issuance during the second quarter reached a new quarterly high of \$20.3 billion, raising total volume for the first half of the year to \$37.2 billion, an 89% increase over the same period a year ago.

The U.S. accounted for about 22.8% of the second quarter issuance and 19.8% of first quarter issuance, Moody's said. U.S. Issuers in the second quarter were from Massachusetts, New York, California, Maryland, Indiana, Cleveland, Ohio, New Jersey, Rhode Island, and St. Paul, Minn.

"With strong issuance already observable in the first two weeks of the third quarter, the global green market is poised to reach \$75 billion in total volume for the year and set a new record for the fifth consecutive year," Moody's said in the report.

"The green bond market is gaining traction," Shilling told The Bond Buyer.

Up until this year, green bonds were rated by Moody's based on their creditworthiness, Shilling said. But institutional investors that buy them, which include banks, insurance companies and pension funds, wanted the rating agency to begin assessing whether they were actually being used to improve the environment, he said.

Investors want to know, for example, whether bonds issued to finance a project that will reduce a carbon footprint and deter climate change or to improve water quality were really accomplishing those goals.

The GBA is part of a broader strategy at Moody's to address environmental, social and governance risk more systematically and more consistently, Shilling said.

It is based in part on the disclosure practices of the issuer and borrower and how transparent they are. The GBA is determined according to five key factors: organization; use of proceeds; disclosure of the use of proceeds; management of proceeds; and ongoing reporting and disclosure on environmental projects financed or refinanced with the bonds.

In its rationale for giving the Upper Mohawk Valley Regional Water Finance Authority its GBA1 rating, Moody's said the authority is effectively organized and properly staffed with qualified and experienced personnel.

The bonds, which are explicitly designated as green bonds in the draft official statement, are to be issued under the authority's capital improvement plan to improve the water system's infrastructure through increased capacity and dependability, Moody's said.

About \$4.05 million of the proceeds will be allocated to raw water transmission upgrades that will improve the authority's ability to draw water from the Hinckley Reservoir during major droughts that lead to below-normal water levels in the reservoir.

Another \$650,000 is to be used to design two new water storage facilities in Marcy as well as improvements to a water treatment plan in Prospect and upgrades to pumps and regulating stations.

The final \$4.13 million will be used to refinance callable bonds previously issued in 1999 and 2000 for improvements.

The authority has disclosed information on these projects in its annual comprehensive financial reports and on its website in capital projects committee reports.

"The MVWA has committed to track the net proceeds of the 2016 bonds and will confirm that such proceeds were used to finance the projects," Moody's said in its release. "The MVWA is committed to providing disclosures that demonstrate the environmental benefits resulting from the planned expenditures of the 2016 bonds."

The projects are expected to be completed within 12 months after they become available, the rating agency said.

"The first-year initial disclosure will indicate in detail how the proceeds were expended, the contractors performing the work and receiving payments, and the actual work that was completed," Moody's said in the release.

"Annual reporting will also include updates on four key metrics that at the same time link up to base line disclosures that permit comparative analysis," the rating agency added. "These include reservoir water levels versus transmission capacity, conveyance of purified potable water during the year, trihalomethane levels and the total amount of hydroelectric power produced by the turbines within the water treatment facility."

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