

Moody's Investors Service Rating Environmental, Social, and Governance

Why OCA did this project

Investors, regulators, and customers are increasingly interested in environmental, social, and governance (ESG) strategy. Because the City of Tulsa relies on investors to buy the bonds we use to finance capital improvements, OCA wanted to learn more about the effects of ESG on our credit rating.

Project Scope

ESG factors affecting City of Tulsa's rating from Moody's Investors Service ("Moody's)

How OCA did this project

Project procedures included:

- Discussing with a Moody's analyst how ESG risks were included in their assessment
- Learning how ESG factors impacted City of Tulsa's credit rating through analysis of Moody's Credit Opinion, dated February 1, 2022
- → Researching impending changes related to ESG disclosures

Key observations

- 1. Moody's ESG Credit Impact Score for the City of Tulsa was Neutral-to-Low
- 2. Finding accurate and relevant information to form an opinion about ESG is challenging
- 3. Required ESG reporting will increase in the future

Audit Advisory Moody's Investors Service Rating Environmental, Social, and Governance

Introduction

What is ESG?

Environmental, social, and governance is a framework of factors that promote an organization's sustainability. Sustainability allows an organization to meet the needs of its current customers without compromising the ability to meet customer needs in the future. The ESG framework includes a set of nonfinancial performance indicators that can be used to measure how well the organization is meeting its sustainability goals. See Exhibit 1 for more information.

Why is ESG important?

Traditionally, potential investors have primarily relied on financial indicators for investment choices. Today, investors have an interest in looking beyond financial measures and have turned their interest to sustainability. Agencies that rate investment opportunities have begun taking an interest in and including ESG factors in their rating methods.

The City of Tulsa uses Moody's Investors Service and Standard and Poor bond ratings as operating indicators. Both these rating agencies now include ESG factors in rating evaluations. This project took a deeper look at how Moody's rated City of Tulsa ESG factors.

Observations

Observation 1 – Moody's ESG Credit Impact Score for the City of Tulsa was Neutral-to-Low

The City's annual FY22 consolidated financial report states:

"In their report dated July 21, 2022, Standard and Poor's assigned and affirmed an AA rating with a stable outlook to the City's general obligation bonds. **Moody's Investors Service assigned and affirmed the City an Aa1 rating with a stable outlook** in their report dated July 22, 2022."

Moody's ratings range from Aaa to C, with Aaa being the highest quality and C the lowest quality. Numerical modifiers range from 1-3, 1 being the highest quality. See Exhibit 2 for additional information.

Moody's ESG Credit Impact Score for the City of Tulsa was neutral-to-low. This means the ESG score did not have a significant effect on City of Tulsa's overall rating. However, Moody's attention to ESG measures will be increasing over time.

OCA interviewed a Moody's analyst who addressed ESG scores in an email dated October 7, 2021:

"The new scores are part of Moody's on-going commitment to demonstrate the systematic and transparent incorporation of material ESG issues into credit ratings. Over time, Moody's will be expanding ESG Investment Policy Statements and Credit Impact scores to an increasing number of issuers across sectors."

Observation 2 – Finding accurate and relevant information to form an opinion about ESG is challenging

Moody's publication, *General Principles for Assessing Environmental, Social and Governance Risks Methodology* states:

"The potential credit impact of many ESG considerations is challenging to assess because it must often be inferred or estimated from multiple sources based on reporting that generally is not standardized or consistent."

City of Tulsa has an opportunity to expand and improve the information it provides on ESG topics. For example, a Tulsa Urban Data Pioneers report dated May 28, 2020 described an opportunity that City of Tulsa has missed. The American Council for an Energy-Efficient Economy requests cities to complete its Clean City Energy Scorecard. This scorecard allows cities to report their progress on energy, greenhouse gas emissions, utilities, transportation, and beginning in 2019, metrics that measure investments in and engagement with low-income communities and communities of color.

The Urban Data Pioneers team learned City of Tulsa had not responded to the request for scorecard information. All the information used for Tulsa's scorecard was obtained from publicly available websites. In the latest scorecard, Tulsa scored 11 out of a possible 100 points, putting Tulsa near the bottom in the national ranking. See Exhibit 3 for additional information.

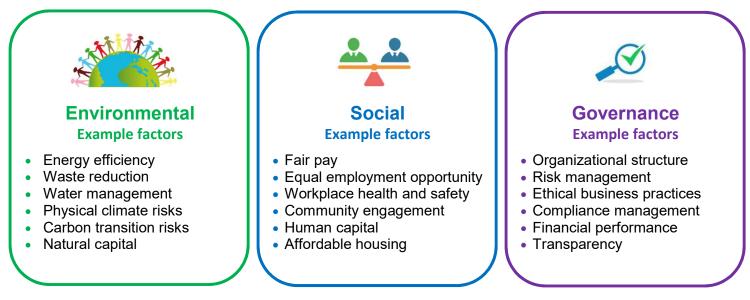
Observation 3 – Required ESG reporting will increase in the future

Activity by two key rule-making bodies indicate changes in ESG reporting.

City of Tulsa voluntarily complies with Government Finance Officers Association reporting criteria and has continually earned its Certificate of Achievement for Excellence in Financial Reporting. The GFOA recommends and describes in the Best Practices: Voluntary Disclosure report that ESG risk factors should be provided in official statements when municipal securities are being offered for sale. The Securities and Exchange Commission issued a proposed rule, which is currently open to public comment. The proposed rule would require certain domestic and foreign registrants to include ESG information in financial reports. The City of Tulsa is not required to follow SEC rules but should consider the possibility of voluntary reporting. Many organizations have voluntarily included ESG information in financial reports because of increased investor and customer interest in this type of information.

City of Tulsa is becoming a data-driven organization. As our interest and capability grows for using data in decision making, our thoughts should also include deciding what ESG measures are best for us.

Exhibit 1 – ESG components



OCA compiled the example factors in this exhibit based on our research of ESG models.

Exhibit 2 – Moody's Long-Term Obligation Ratings

Moody's long-term obligation ratings are opinions of the relative credit risk of fixedincome obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default.

Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are considered upper-medium-grade and are sub- ject to low credit risk.
Baa	Obligations rated Baa are subject to moderate credit risk. They are consid- ered medium-grade and as such may possess speculative characteristics.
Ba	Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
В	Obligations rated B are considered speculative and are subject to high credit risk.
Caa	Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.
Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery in principal and interest.
С	Obligations rated C are the lowest-rated class of bonds and are typical- ly in default, with little prospect for recovery of principal and interest.
from Aa of its ger	's appends numerical modifiers 1, 2, and 3 to each generic rating classifica- through Caa. The modifier 1 indicates that the obligation ranks in the higher heric rating category; the modifier 2 indicates a mid-range ranking; and the dicates a ranking in the lower end of that generic rating category.

Source: https://www.moodysanalytics.com/-/media/products/Moodys-Rating-Symbols-and-Definitions.pdf

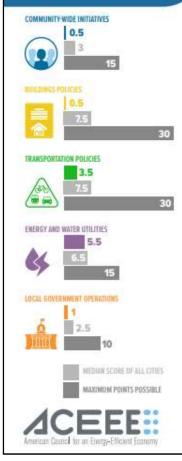
Exhibit 3 – City of Tulsa's 2021 Clean Energy Scorecard

RANK **82/100**

overall score

RECOMMENDATIONS

- Adopt more stringent building energy codes.
 Adopt location-efficient zoning codes that
- apply to the entire city. + Employ equitable community engagement practices in planning clean energy initiatives.
- Set and track community-wide goals for GHG emissions.
- Adopt policies and programs to mitigate the urban heat island effect.
- Adopt policies and programs targeting energy efficiency in existing buildings, such as retrocommissioning and audit requirements and incentives, particularly targeting low-income housing.
- Expand high-quality transit access for lowincome residents.

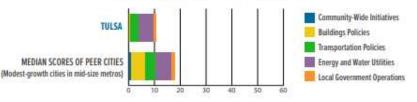


2021 CITY CLEAN ENERGY SCORECARD

TULSA, OK

Tulsa has few clean energy policies and substantial room for improvement across all categories of the Scorecard, particularly in buildings policies, local government operations, and community-wide initiatives. The city can pursue foundational clean energy policies that could serve as stepping-stones to a clean energy future.

HOW DOES TULSA STACK UP TO PEER CITIES?



COMMUNITY-WIDE INITIATIVES (0.5 OF 15 POINTS)

Tulsa aims to increase urban tree canopy coverage to 30% by 2036, but the city has pursued few other community-wide initiatives. It has not adopted citywide climate and energy goals or taken an equity-driven approach to clean energy planning. Tulsa has not supported the creation of community solar or the integration of emissions-reducing technology in distributed energy systems within the community.

BUILDINGS POLICIES (0.5 OF 30 POINTS)

Tulsa has few initiatives to reduce GHG emissions and energy use in the buildings sector. Oklahoma requires residential and commercial buildings to comply with the 2015 International Residential Code and 2006 International Energy Conservation Code, respectively, and allows local jurisdictions to adopt building energy codes; however, Tulsa has not done so. We could not find information on whether the city has adopted solar ordinances or policies requiring buildings to include EV charging infrastructure or be EV ready. Tulsa does not have programs committed to developing a dedicated energy efficiency or renewable energy workforce, and it does not have policies that incentivize or require energy efficiency in existing buildings.

TRANSPORTATION POLICIES (3.5 OF 30 POINTS)

Of low-income households in Tulsa, 0% have access to high-quality transit. With 34.1 per 100,000 people, the city has a moderate number of EV charging station ports available for public use. Tulsa has neither a sustainable freight transportation plan nor any policies that address freight efficiency, nor has it codified VMT or transportation-related GHG reduction targets. Transportation entities that serve Tulsa have received roughly \$27.00 per capita on average in local transit funding annually between 2015 and 2019, a very low funding level.

ENERGY AND WATER UTILITIES (5.5 OF 15 POINTS)

Compared to other utilities, Public Service Company of Oklahoma (PSO) and Oklahoma Natural Gas show low savings as a percentage of sales for both electric and natural gas efficiency programs. PSO offers a portfolio of energy efficiency programs for low-income customers, including a comprehensive program; it also offers a comprehensive energy efficiency program for multifamily properties. Tulsa does not provide community-wide energy use information at the aggregate level or advocate for better ratepayer access to utility data or establishing data-sharing agreements between the city and its utilities. We were unable to confirm if the city participates in activities or strategies to encourage more utility-scale or distributed renewable energy generation from its local electric utility. American Electric Power, the parent company of PSO, set a modest company-wide goal to achieve net-zero emissions by 2050.

LOCAL GOVERNMENT OPERATIONS (1 OF 10 POINTS)

Tulsa requires the purchase of high-efficiency vehicles for its fleet but has few other initiatives to reduce GHG emissions and energy use in local government operations, and has not established GHG emissions reductions goals for municipal operations. We were unable to find information indicating that the city has an efficient outdoor lighting policy, installed renewable energy systems on municipal facilities, established inclusive procurement policies, or developed a comprehensive retrofit strategy.