

PROPOSING A JUST TRANSITION RATING SYSTEM

By Bradley P. Handler and Morgan D. Bazilian

Energy transitions threaten to leave communities struggling with facility closures, job losses, and reductions in tax revenues. Many of these communities will seek to reinvigorate—or even reinvent—themselves through investment and programs to spur job and business creation. Although some communities may have “rainy day” funds available for this investment (although legislatures have to be persuaded to use such funds for this purpose), many do not. As such, some municipalities (or other local government formations) will likely have to turn to public debt markets.

CONTEXT

The challenge for investors in that debt is that unlike project finance, the source of repayment are general tax revenues. Although a municipality may have resources or assets to offer as collateral, investors are more likely to be reliant on success in job and business creation and in stabilizing the local economy to restore the tax base.

Just Transitions, a term coined by the labor movement in the 1970s in response to regulatory changes that focused on addressing pollution, involve easing the impact on industrial workers affected by changes in policy or industrial realities. The concept, and term, is applied today to workers and communities impacted by energy transitions — primarily to-date the decline in demand for coal that is the result of both economic forces and climate change concerns.

Just Transition (JT) programs have demonstrated success at fostering new jobs and repositioning workers in the community through a combination of: (1) worker education/retraining (to bridge gaps to qualify for new employment); (2) social/support services to aid workers' transitions; (3) pension support (generally offered for workers nearing their expected retirement); and (4) entrepreneurial/ business support. There is, however, implied additional spending/investment required for all of these JT initiatives.

This short paper introduces the idea of creating a scoring system in order to assign a rating JT programs that would give investors more information to assess risk associated with investing in a specific municipality. In other words, an independent JT program rating can inform investors of a community's preparedness to investment in itself. That rating, along with more traditional ratings of credit worthiness, can inform the overall assessment of the debt issuance.

ELEMENTS OF THE SCORING TOOL

The diversity of conditions and ambitions complicates defining what makes a JT program successful. Nevertheless, there is consensus that successful JT programs have historically included certain characteristics and structural elements. Thus, a JT program rating would be derived from scoring the existence, and “quality”, of each of the following:

- **JT Leadership and Participation**
 - task force/committee to oversee all aspects of JT program development and implementation
 - clear leadership of the task force and degree of dedication of leadership to it (e.g. how many members are “full-time” working for the task force)
 - representation of constituents including government, business, labor (including union), other resident, educational institutions (including area universities), and financial sources (bankers, investors)
 - systems in place for tracking and reporting on the status of the programs and progress
 - mechanism to review successes and failures; an enshrined commitment to make changes as necessary
 - mechanism to evaluate the quality of jobs created vs promised
 - appreciation of the multi-year nature of JT programs

- **Up-front Planning**
 - assessment of the number of (likely) affected jobs—direct, indirect and induced
 - roadmap with targets for community and business/job development
 - diversity of credible opportunities to create jobs by industry or other sources
 - categorization system in place for affected workers’ skills to support planning for potential retraining needs
 - understanding of retraining requirements to qualify the available workforce for the new jobs
 - plan for how to provide such retraining; does the plan correspond to perceived local assets and strengths?
 - identification of property to access or repurpose (and in some cases remediate) to site business expansion
 - internal or external support to help data acquisition and analysis

- **Government Support**
 - degree of apparent understanding of issues by local and regional governments involved
 - specific legislation proposed/enacted to foster development
 - e.g. zoning, tax-based incentives, government contracts
 - degree to which plans tie to either a home-grown, state or federal government industrial policy
 - legally-binding financial commitments
 - duration of such commitments
 - commitment for sources of funding for such financial commitments

- **Business Support**

- Breadth and size of businesses committing to participate
- Commitment to offering apprenticeships
- Hiring plans and commitments

With respect to devising the scoring system, historical experience should offer insights for prioritization—and thus weighting—of these many factors. It should be anticipated that each factor in a JT program will have a scale on which it will be valued along; as such, the entity responsible for scoring must have both extensive knowledge of JT programs generally for context and deep insight into the specific community and individual program characteristics. Gaining that understanding will require significant time spent in the community meeting with constituents and studying the legal and organizational frameworks underpinning each proposed JT program.

Fossil fuel-dependent communities face the challenge of losing swaths of their corporate base and jobs in the transition to lower carbon energy. However, they are not alone; changes underway in the economy threaten various segments of industry and thus the potential universe of communities implementing JT programs over the next decade could prove quite large. With state-level budget deficits prevalent and interest rates low for the foreseeable future, public debt markets are likely a fruitful source of needed funds. Ratings of JT programs, which can supplement traditional credit evaluation, can be a valuable tool for investors in setting the appropriate interest rate of such public debt.

ABOUT THE AUTHORS

Brad Handler

Brad Handler is a Non-resident Fellow at the Payne Institute. He is currently researching the Oil & Gas industry's role and vulnerability in the global transition to lower-carbon energy, as well as the intersection between finance and energy, and has recently had articles published in the *Petroleum Economist* and *WorldOil*. He is a former Wall Street Equity Research Analyst with 20 years' experience covering the Oilfield Services & Drilling (OFS) sector and was most recently a Managing Director, Equity Research at Jefferies LLC, following several years at Credit Suisse. Brad has an M.B.A from the Kellogg School of Management at Northwestern University and a B.A. in Economics from Johns Hopkins University.

Morgan Bazilian

Morgan Bazilian is the Director of the Payne Institute and a Professor of public policy at the Colorado School of Mines. Previously, he was lead energy specialist at the World Bank. He has over two decades of experience in the energy sector and is regarded as a leading expert in international affairs, policy and investment. He is a Member of the Council on Foreign Relations.

The Payne Institute for Public Policy



ABOUT THE PAYNE INSTITUTE

The mission of the Payne Institute at Colorado School of Mines is to provide world-class scientific insights, helping to inform and shape public policy on earth resources, energy, and environment. The Institute was established with an endowment from Jim and Arlene Payne, and seeks to link the strong scientific and engineering research and expertise at Mines with issues related to public policy and national security.

The Payne Institute Commentary Series offers independent insights and research on a wide range of topics related to energy, natural resources, and environmental policy. The series accommodates three categories namely: Viewpoints, Essays, and Working Papers.

For more information about the Payne Institute please visit:

<https://payneinstitute.mines.edu/>

or follow us on Twitter or LinkedIn:



DISCLAIMER: The opinions, beliefs, and viewpoints expressed in this article are solely those of the author and do not reflect the opinions, beliefs, viewpoints, or official policies of the Payne Institute or the Colorado School of Mines.