THE BOND BUYER

Green bonds: Saving money, widening disclosure, helping the environment

By

Chip Barnett

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How to save money and improve disclosure and transparency were two of the ideas discussed during a Green Bonds America Conference in New York on Tuesday.

Sponsored by Environmental Finance, the conference brought together green bond issuers, buyers and investors in Midtown Manhattan to hear about the latest trends in this fast-evolving market space that aims to compensate issuers and investors while helping mitigate the effects of climate change.

Chris Meister, Illinois Finance Authority's Executive Director, spoke during an issuer and investor panel about the agency's most recent state revolving fund bond issue and the challenges it faced — and success it achieved — because of the green bond designation.

A conduit municipal bond issuer for the state, the IFA sold $450 million of **green bonds** (NR/AAA/AAA) last April, during a volatile time in the muni bond marketplace.

"I had challenged the transaction team to establish a positive price differential for the borrower. And I was told 'that would be impossible.' But what happened was that we did two days of pricing — one retail, one institutional. The par value was $450 million and we had an unexpectedly tough day during professional retail. Now what I will tell you is that for the two prior issues we had had retail periods — and we had the most response from buyer groups this time around. We had somewhere in the order of $300 million in orders through the professional retail period. Among those was that we were talking to a particular buyer and while we were discussing the green designation they increased their order from $30 million to $60 million," Meister said.

Chris Meister, Illinois Finance Authority’s Executive Director, speaks at issuer panel.**Chip Barnett**

“And based on the strength of the retail period, which I attribute to the green designation, when we got a second sort of turbulent day in the market, we were able to hold our pricing and ultimately keep spreads that were record lows for the program," he said. "We added 13 wholly new investors and we kept the orders in the range of between $10 and $80 million across maturities. This was important and it contributed to the success of the transaction.”

The bonds, which were priced as 5s, had final yields ranging from 1.61% in 2020 to 2.90% in 2041. Proceeds of the sale are funding loans that finance eligible wastewater treatment and sanitary sewerage facilities and drinking water facilities and to provide state matching funds that are needed to leverage federal monies.

He added that the authority has been working very hard to reduce transaction costs.

According to Environmental Finance’s bond database, the top use of proceeds of the U.S. municipal green bond market is sustainable water management at 42%. This is followed by clean transportation at 25.1%, energy efficiency at 15.6%, green buildings at 7.2%, renewable energy at 3.8%, pollution prevention and control at 2.8%, terrestrial and aquatic bio-diversity conservation at 2.2%, climate change adaptation at 0.9%, and eco-efficient products, production technologies and processes at 0.3%.

Brad Fletcher, IFA vice president, said the authority has about $26 billion in outstanding conduit debt, traditionally issuing private activity bonds. He said that about a year and half ago the agency took efforts to ramp up its efforts to issue state revolving fund bond issues, which are leveraging U.S. EPA capitalization grants.

He spoke about Illinois' commercial property assessed clean energy (C-PACE) program.

He said that legislative changes made in 2018 allow counties and municipalities to assign assessment contracts to the authority for its ability to offer turn-key bond issuance and scalability and standardization.

"We feel this will improve the secondary market, improve the flow of capital into Illinois by diminishing due diligence costs in the secondary by having uniform bond indentures, the same form assessment contract throughout the state, and so far we have been warmly received," he said.

Looking at document transparency, James McIntyre, New York State Homes and Community Renewal's Director of Capital Markets, said that when it came to disclosure what guided the agency's decision makers were "following the dollars."

He said that they were an issuer of affordable housing bonds, doing between $1 billion and $1.5 billion of multi-family issuance and about $400 million to $500 million of single-family bond sales a year.

"On the multi-family side especially, we've really focused on revamping our disclosure and a lot of that has to do with listening to investors," he said. "We are a project-finance based issuer — but we started to do was say 'we are an affordable housing agency and what we do is mission focused.' And a lot of it was just the fact that our disclosure documents failed to tell investors exactly what we were doing."

He said what the agency did was revisit what it did and asked what investors wanted to see in the disclosure documents.

"For example, we never included the street address of our projects," McIntyre said. "If you want to understand census tract or where we are building physically, it was something that we never included. We also never included the other subsidy programs that the state commits. We're operating under the governor's housing plan, it's a $20 billion housing plan, it is housing for the formerly homeless, it is housing for veterans — it's housing with supportive services and we sold bonds and it said affordable housing on the on the front cover with some description on the inside, but it wasn't really wasn't going into the nature of what we were financing."

So, he said, the agency began to include a table that detailed the subsidy sources, such as Office of Mental Health dollars that were flowing in to a make a project work, and put it side-by-side to the dollars that they were using for the bond proceeds.

"We became the first U.S. issuer in our June deal to align to the sustainable bond ICMA guidelines and also used the ICMA guidelines to map to the U.N. SDGs [sustainable development goals]," he said. "But also I think a lot of this is just giving our program credit for what we already do as a housing agency."

The New York State Housing Finance Agency (Aa2/NR/NR) sold $129.975 million of affordable housing revenue bonds in June, consisting of Series 2019H climate bond certified/sustainability bonds and Series 2019I sustainability bonds.

In another panel on transitions bonds, getting greener faster, where it really matters, Hervé Duteil, Chief Sustainability Officer at BNP Paribas Americas, led a discussion on bonds from corporate issuers that were not fully green but that were attempting to head in that direction.

In a recent two-part article on transition bonds, he looked at sustainable finance and where it was heading.

He identified three "revolutions" within the sector: Labeling the use of proceeds, linking returns with sustainability performance and impact, and linking the cost of risk and funding with sustainability performance and impact.

"Let's be clear," he wrote. "Transition finance is not about transitioning from brown to green: that is green finance. Transition finance is about transitioning from brown to brown; a lighter shade of brown, of course."

He listed the criteria: sectors that are not green today, such as some segments of the fossil fuel industry; sector that cannot become green tomorrow, such as those that do not have access to a green alternative; and sector that can and need to get greener faster.

"This may be a new way of thinking in sustainable finance, the idea that we can expand the space not by financing more under the same label, but by using more and clearly differentiated labels," he wrote. "This might actually require a transition in mindsets, after all."