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How Green Bond Issuers Weigh Certification

By Paul Burton
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The rise of green bonds brings the question of how to certify whether bonds are really environmentally friendly.

While backers tout the benefits of green bond certification, municipal issuers must examine whether it's an ideal fit. Concerns include costs for smaller issuers such as Rhode Island as well as burdensome procedures and redundancies.

In an interview at the state capitol in Providence, Seth Magaziner touted the benefits of certifying municipal green bonds.

"I'm generally in favor of certification," said Rhode Island's general treasurer. "Otherwise, you'd have no standards.

"Maybe it comes from having sat on the other side of the fence," said Magaziner, a former vice president at Trillium Asset Management. "If I were investing I would want some standards. You need to have a structure. Otherwise, anything could be called a green bond."

He also said the issuance of green bonds, or securities issued to support climate-related or environmental projects, can attract new investors that are looking for social benefits.

Magaziner, though, said he would continue to study costs and other factors to see if certification would benefit Rhode Island. "We have to wait and see what certification would mean for us," he said.

U.S. municipal green bonds surfaced three years ago, when Massachusetts sold them, using the World Bank's 2008 deal as a model.

New York's Metropolitan Transportation Authority, which operates the city's subway and bus systems, commuter rail lines and several intraborough bridges and tunnels, sold the first certified U.S. green bonds in February, a $500 million general obligation transaction that it followed in May with $750 million.

Also in May, the San Francisco Public Utilities Commission issued the first green bond certified under the Water Climate Bonds Standard, for $240 million.

"Both San Francisco and New York MTA used metrics in their underwriting standards using scientific methodology," said resilience financing expert Alan Rubin. "Investors were very comfortable with that."

Representatives of Climate Bonds Initiative, a London-based nonprofit working to mobilize the $1 trillion bond market for climate change, briefed municipal issuers on certification last month at the midtown Manhattan office of its counsel, Shearman & Sterling LLP.

"We're looking to build consistency and transparency of green bonds, and to build a common definition of green as a language," said Anna Creed, the organization's standards manager. "We want a common benchmark for what is green."

Standards, said Creed, "are scientifically rigorous and there's no greenwashing going on. That makes it easy for investors."

"Greenwashing" is a term for labeling an issuance as green regardless of standards or whether or not it actually deserves to be called green.

The "labeled," or certified U.S. muni market now stands at $12.5 billion outstanding, according to Climate Bonds Initiative's communications manager, Andrew Whiley. Muni bonds from other countries, he said, now stand at $8.6 billion outstanding.

Certification can cost from $10,000 to $50,000 roughly, payable to a third party, depending upon the project complexity.

"As more bonds are certified and the various processes become more familiar and standardized in the market, we would expect the top end of the range to reduce," said Whiley. "Climate Bonds is looking at programmatic certification for large asset pools."

According to Thomson Reuters, 47 U.S. green bond deals this year have totaled $6.8 billion as of Oct. 31. The MTA's combined $1.3 billion tops the list. Bank of America Merrill Lynch is the top underwriter with nearly $2 billion.

Climate Bonds Initiative certified the MTA deal through analytics firm Sustainalytics. The sale produced a combined all-in true interest cost of 3.54%, while market conditions enabled the MTA to add some refunding bonds.

"We had very favorable market conditions, and the spreads between the high-grade revenue index and the transportation revenue bonds were the best we've ever seen," MTA finance manager Patrick McCoy told the transit authority's board members at the time.

Resilience financing is also coming under the green label. Projects as diverse as energy or industrial water efficiency, reuse, catchment or watershed restoration and-or large-scale water supply infrastructure development could be included, according to nonprofit sustainability group Ceres.

The Climate Standards Board last month approved a new standard for climate-resilient water bonds. Climate vulnerability assessments considering past, present and future climate risks will merit certification, as will relevant climate adaptation and-or mitigation plans.

"The criteria will provide assistance to corporate, municipal, city based and other bond issuers seeking to ensure their bond offerings for water-related infrastructure, or water systems within industrial and manufacturing processes, maximize sustainability and environmental factors," Ceres said in a statement.

New York Mayor Bill de Blasio on Oct. 28, one day before the fourth anniversary of Hurricane Sandy, touted "continued progress" on the city's multi-layered $20 billion resiliency program.

"In the four years since the storm hit, New York City has become a stronger and more resilient city, making significant progress on coastal defense and climate resiliency measures in some of the most vulnerable communities," de Blasio told reporters.

Some projects include dunes to protect coasts; storm water management and bluebelt projects to lessen flooding impacts and protect water quality; and more than $3 billion for reconstruction and resiliency projects across New York City Housing Authority developments that the storm affected.

Several key recent milestones, said de Blasio, include an agreement with the Federal Emergency Management Agency to draft more precise flood insurance maps. These new maps, said de Blasio, could reflect current flood risk and future climate conditions, including sea-level rise.

They also include completing a $28 million T-Groin reinforcement project in Sea Gate, Brooklyn, in partnership with the U.S. Army Corps of Engineers; reopening the entire 5.5-mile length of the Rockaway Boardwalk in Queens; and launching a community design process for a $45 million flood-risk and energy resilience project at Hunts Point in the Bronx.

According to Rubin, while New York and South Florida have beefed up resilience following weather disasters, it's a work in progress elsewhere.

"Florida is better prepared in the south than in the north," said Rubin, who advised Gov. Rick Scott and other state officials after Hurricane Matthew struck the U.S. Southeast in early October. "As I went up the state, to St. Augustine and Jacksonville, they were somewhat ill-prepared inland."

Meteorologists measured a peak surge of nearly 10 feet on Oct. 7 at Fernandina Beach, Fla., just outside Jacksonville. In St. Augustine, 60 miles south, a $6.7 million seawall finished two years ago was not enough to stop the destruction of roughly 1,000 homes and buildings.
