# [Bond Case Briefs]

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## [Muni-Bond Buyers Want Tax Breaks. Saving the Earth? Not Much.]

- **States don't get lower borrowing costs from green bonds: study**
- **Wall Street charges about 10 percent more on green bond deals**

There appears to be a good reason why states and cities don't go out of the way to market their bonds to environmentally conscious investors: it doesn't save them any money.

That's the conclusion from a study by Stanford University accounting professor David Larcker and Edward Watts, a doctoral student at the business school there. Instead, they found that governments wind up paying higher fees to bankers when they sell certified green bonds than they do when they forego that brand, based on a review of debt issued for clean water, commuter trains, solar energy and other such projects.

The findings underscore the municipal-bond market's image as a haven for slow-moving investors largely concerned about getting tax-free income. It also explains why such green-certified bonds account for only a small fraction of the $3.8 trillion that's been raised by state and local governments, even though much of the money is used for work — like new public transit systems — that has a positive environmental impact.

"Municipal investors appear entirely unwilling to give up monetary gains to support Green projects," wrote Larcker and Watts, who said underwriting fees are 10 percent higher for green bond issues. "Our results suggest that municipalities actually increase their borrowing costs by issuing Green bonds."

States, cities and transit agencies have sold $3 billion of green bonds this year, accounting for about 3 percent of new debt sales, according to data compiled by Bloomberg. At its peak in 2017, such issuance hit $10 billion.

Some government officials have noticed that the marketing efforts — which arguably could increase demand — did little to drive down their borrowing costs. After the Iowa Finance Authority borrowed for a clean water project this year, the agency found no pricing difference.

"It helps to broaden the investor base and eventually, maybe, they'll be more momentum toward driving our costs lower," said Cindy Harris, the chief financial officer at the Iowa Finance Authority. The agency pays the same underwriting fees on green bonds as non-green securities, she said.

Last week, the Illinois Finance Authority issued $450 million of green bonds for clean water projects. While the agency didn't see any pricing difference, one of the largest buyers was a self-identified "green bonds investor," said director Chris Meister.

"I believe the sale benefited from the green designation -- and that, once closed, this transaction will positively contribute to the development of the green bond market here in the U.S.," Meister said in an email. In January, Illinois Governor J.B. Pritzker joined the U.S. Climate Alliance, whose members commit to implementing policies that advance the goals of the Paris climate agreement.

The lack of impact on pricing may be because the market is just developing. But asset managers have started setting up socially responsible investment funds, while S&P Global Ratings Inc. and Moody's Investors Service created evaluations to assess whether bond issues meet guidelines for being certified as green. Even bond insurer Build America Mutual Assurance created a service, GreenStar Assessment, which is free to municipalities that buy insurance from the company.

"Municipal investors shouldn't have to give up monetary gains to support Green projects. All of our infrastructure investments should be going to create a low carbon economy," said Eric Glass, who manages AllianceBernstein LP's municipal-impact portfolio in an email.

"I, for one, do NOT care whether a deal is officially certified 'green,' 'chartreuse,' or 'indigo.' What's essential is that the utility (municipal entity) be transparent and help the investment community document and understand the environmental impact of the original investment in year one and every year thereafter in which there are bonds outstanding."

Larcker and Watts's results are based on a sample of 640 matched pairs of green and non-green bonds issued on the same day, with identical maturity and ratings and issued by the same municipality. In 85 percent of matched cases, there was essentially no yield difference.

Prior studies on whether there's a difference yielded mixed results. One study found that green bonds had 0.08 percentage point higher yields while another found green bond yields are 0.06 percentage point lower.

**Bloomberg Markets**

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