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WSJ: Massachusetts Selling 'Green' Bonds to Fund Environmental Projects.

Massachusetts is tapping into the popularity of environmental improvement to sell \$100 million of bonds it has labeled "green bonds." The sale is expected to wrap up Tuesday, and the state plans to use proceeds to pay for environmental endeavors, such as improving water quality, increasing energy efficiency and cleaning up pollution.

State officials say they hope to attract new investors for the Massachusetts bonds, which could mean lower rates for taxpayers. The state was inspired by a similar program from the World Bank, which has issued \$3.5 billion in green bonds since 2008. The Massachusetts bonds were being offered late Tuesday morning to yield between 3.20% and 3.85% for 20-year bonds.

Using municipal bonds to finance environmental projects is not unusual, but calling them "green bonds" plays into investors' desire to have more specifics about where their money goes. According to Thomson Reuters, more than \$1.7 billion worth of municipal bonds have been sold this year with explanations that their proceeds would be used to fund environmental facilities. These bonds have been sold by states, or issued by various authorities and linked to specific projects.

Massachusetts is first to call the new debt "green bonds," according to information provider Ipreo, whose database goes back to 2000.

The proceeds will be kept in an account separate from other state bond proceeds and Massachusetts said it plans to post quarterly updates on the use of green bond proceeds to its investor website. It also plans to post a final list of projects funded from the sale when all the proceeds have been spent. Massachusetts told investors in its bond offering documents that it plans to use the proceeds for environmental projects, but it has no legal requirement to do so, said a spokesman for the state.

"There has been a ton of interest in the product," said Colin MacNaught, assistant state treasurer for debt management. "We think we're offering something that fills a void in the market."

Julie Egan, portfolio manager at Community Capital Management, which plans to participate in the sale, said she would be surprised if proceeds were used for other purposes given how they are being described.

Otherwise, the Massachusetts green bonds are no different from other debt sold by the state. The bonds carry the state's general-obligation pledge, meaning they are backed by its full faith and credit and not tied to any one specific project. The green bonds share the state's overall credit rating of double-A-plus.

That's similar in structure to the World Bank green bonds: they carry triple-A ratings like any other World Bank bond and the bank itself bears responsibility for paying back investors, not any particular project, said Peter Coffin, president of Boston-based Breckinridge Capital Advisors. The World bank "green bonds" have been used to fund projects devoted to climate change.

Coffin says interest in environmentally friendly investing is on the rise. His firm began focusing on what it calls its “sustainable strategy” three years ago, and now oversees more than \$150 million in that area. Overall, the firm manages more than \$18 billion.

For those clients, Coffin said his firm will buy corporate bonds from companies deemed socially and environmentally responsible, the World Bank bonds and other municipal bonds similar to the Commonwealth of Massachusetts sale.

“We think it’s good that the commonwealth is highlighting the fact that these are sustainable investments that the state is making,” Coffin said. “We think more municipalities should do the same.”

Another option for green investors: mortgage-backed securities issued by Ginnie Mae Fannie Mae and Freddie Mac, according to the Weston, Fla.-based Community Capital, which oversees about \$2 billion and focuses on sustainable investing. Some state housing authorities offer mortgage programs that reward more energy efficient homes, and investors can also screen securities for mortgages from areas recognized for developing walkable neighborhoods.

Securities tied to federal agencies like the Small Business Administration also might fit into a green bond portfolio.

Barbara VanScoy, co-founder and chief impact investment officer at Community Capital, called the Massachusetts sale a “sign of progress” for bond buyers interested in sustainable investments.

“Most of the time, there’s not a lot of transparency or disclosure in these types of issues,” Ms. VanScoy said. “So even though we know that they’re financing projects that are environmentally sustainable, a lot of times it’s not disclosed.”

If the green bonds grow on investors, MacNaught said the state could sell more in the future.

“This isn’t sort of a hit and run, where it’s one bond sale,” he said. “We’re trying to determine if there’s enough capital, enough investors, where green bonds can be a small part of the state’s capital program going forward.”

Massachusetts is also wrapping up a sale of about \$575 million of additional general-obligation bonds on Tuesday.