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WSJ MoneyBeat: Municipal-Bond Issuers Find It's Easy Being 'Green.'

Massachusetts, a pioneer in selling so-called green bonds for environmental projects, is going greener.

The state this week is selling $350 million of the bonds, more than triple the size of last year's sale, as more municipalities tap into investor demand for environmentally friendly investments.

Case in point: California is prepping its first green-bond sale ever and plans to start selling $200 million in the debt Friday. Earlier this year, the New York State Environmental Facilities Corp. and the District of Columbia Water and Sewer Authority sold green bonds, with the latter selling a bond that matures in a whopping 100 years.

Investors who buy green bonds are paid interest and principal from the same revenues as other municipal bonds. The difference is that municipalities pledge to use the proceeds of a green-bond sale for projects that are environmentally friendly.

Massachusetts will use this week's green bond to help pay for a marine terminal in New Bedford, Mass., that will be designed to support the construction of offshore wind projects. The state will also use proceeds for clean-water, energy-efficiency, river-revitalization and open-space-protection efforts, according to the prospectus.

As of late Wednesday morning, the state had received more than $250 million in orders for the green bonds from individual investors. A 10-year bond, rated double-A-plus, was offered to yield 2.45%. The sale is to be completed Thursday after orders from larger institutional investors.

"There are an increasing number of investors, both individual and institutional investors, who want legitimately green, energy-efficient projects in which they can invest," said Massachusetts Treasurer Steven Grossman. "I would think it is overwhelmingly likely that we will do this again in the future and that it will be a regular part and fixture of our bond offerings."

The growth in green bonds this year "is partially due to the success of the bonds that were issued last year," said Kevin Lehman, a credit analyst at Breckinridge Capital Advisors, which oversees about $20 billion and has bought green municipal bonds in the past.

"We invest in projects that are essential to a community, and typically these environmentally related bonds are essential projects that support the community in critical ways, whether it's through clean water or whatever it might be," he said.

California didn't indicate a specific project that would be funded with its green-bond proceeds but provided a list of similar categories to which the money could be allocated.

California has experience on the other side of green-bond transactions—on Wednesday, it announced it agreed to buy $250 million in two-year green bonds issued by the World Bank for the state's

pooled investment account. California has been buying World Bank green bonds since 2009.

“It’s a way to provide investors an opportunity to buy bonds that they know will be used exclusively to finance projects that strengthen and protect the environment,” said Tom Dresslar, a spokesman for California Treasurer Bill Lockyer. “We finally reached the point where we were comfortable going down this road.”

There are no immediate plans for a second green-bond sale, but Mr. Dresslar said, “we hope it becomes a permanent part of our bond-sale program.”

Not all investors are enthusiastic. Marilyn Cohen, president at Envision Capital Management in California, which oversees $320 million, said she wouldn’t be opposed to buying green bonds as long as they are backed by the state’s taxing authority, like other California state bonds. But she said she would skip the coming sale because her clients are already fully invested in California state debt.

The green-bond label is a marketing tool to “entice the retail public,” she said. “I, for one, find it a big yawn.”

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