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Baltimore to Use New Form of Financing for Green Infrastructure Projects to fight water pollution.

Baltimore officials will announce a plan Monday to use a new form of financing to help pay for \$10 million in green infrastructure projects designed to reduce water pollution from stormwater runoff.

The Department of Public Works plans to take out \$6 million in environmental impact bonds to pay for the projects, which use trees, plants and other forms of greenery to absorb rainwater so it doesn't flow into streams and eventually into the Chesapeake Bay, collecting pollutants along the way.

The rest of the money will come from state funds and fees the city charges on water bills.

The public works department already promotes green infrastructure projects, such as rain gardens and green roofs, but was seeking ways to pay for more to meet federal guidelines to decrease stormwater runoff.

"We are always looking for funding options, but also wanted to get a social and economic benefit for it," said Troy Brogden, the department's chief financial officer. "We like to think outside of the box and go with nontraditional funding mechanisms, and this is one that is good for the city of Baltimore and our citizens."

The bonds are different from typical municipal bonds because investors will pay money back to the city if the infrastructure projects do not meet certain metrics. For instance, they could measure if the Chesapeake Bay water is cleaner because of the projects.

Environmental bonds are meant to give cities more incentive to try new innovations by putting some of the risk on investors.

These types of bonds were issued for the first time for green infrastructure projects last year in the District of Columbia. Under the five-year agreement there, stormwater runoff reduction will be measured twice. If runoff flow is reduced, the city will pay full principal to investors at maturity. If runoff is reduced more than expected, DC Water will pay investors a bonus, and if reduction is less than expected, investors will give the city a risk-sharing payment.

Baltimore public works officials have gotten approval from the city finance department to use the funding mechanism, Brogden said, but will still have to get individual contracts approved by the finance board.

The city is working with the Chesapeake Bay Foundation, which has hired the investment firm Quantified Ventures to structure the deals and help find investors for the projects. Quantified Ventures also worked on the financing on the environmental impact bonds in Washington.

"There are investors who care about environmental and social issues," said Eric Letsinger, CEO of Quantified Ventures. "They want to make money. But they want to invest in things that make us

better.”

Municipalities are looking at ways to curb stormwater and sewage runoff to meet federal standards. The old methods of water drainage, including concrete gutters and drains, have led to more pollutants pouring into the water systems. Green infrastructure absorbs the water, but municipalities have been reluctant to invest because it is new and some perceive the results as uncertain.

“They have to do this stormwater work and it is expensive to do,” said Lee Epstein, lands program director and special counsel for the Chesapeake Bay Foundation. “You have to lift up pavement and the nature projects have to be engineered. Now along comes this new idea, this new financing mechanism, that might be beneficial to these local governments.”

Epstein believes the financing could be used in other areas of the Chesapeake Bay region as well.

Bethesda-based Calvert Impact Capital was one of the investors in the Washington project. Beth Bafford, the company’s vice president of syndications and strategy, said they would be interested in investing in environmental impact bonds in Baltimore, but they don’t know details about how the city plans to have its bonds structured.

“All the investments we make have some kind of social-environmental impact as well as a financial incentive,” Bafford said. “We are hardwired to like this kind of investment.”

Bafford said the company will know in 2021 if the Washington investment pays a good return, but said it seems to be on the right track.

The city plans green infrastructure initiatives in neighborhoods throughout the city, including Sandtown-Winchester, Dickeyville, Pigtown, Belair-Edison, Cedonia, Westport and Mt. Winans. Workers are scheduled to plant greenery in the 1200 block of Edmondson Ave. Monday.

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