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How Impact Bonds Can Save Taxpayer Dollars: Neighborly

The Massachusetts Bay Transportation Authority (MBTA), known to its Boston ridership as “the T”, has a history of innovation. As North America’s oldest mass transit system, it was home to the first subway tunnels and underground streetcars. The T formalized the first transit art program and was the first transit agency to offer mobile ticketing. In October 2017, we brought the spirit of innovation to public finance. Our team issued the first ever tax-exempt sustainability bonds, and perhaps more noteworthy, tested the hypothesis that issuing impact-focused as opposed to traditional bonds results in lower borrowing costs.

Sustainability bonds exclusively finance green and social projects. At the MBTA, we identified 74 projects within our 2018-2022 Capital Investment Plan that fit the strict definition of sustainability. These projects make our system more resilient to climate change, more energy efficient and more accessible. They reduce pollution, enhance safety and improve workplace conditions.

To finance the remaining projects, we issued traditional tax-exempt bonds. This created the opportunity to directly compare sustainability and traditional bonds. The two types of bonds were nearly identical: they had the same rating and average life, and both are large maturity size. Through a competitive pricing process, we were able to A/B test our hypothesis that impact-focused issuance translates to a lower cost of capital. These were the results:

1. More banks participated in the sustainability bond offering than the traditional bond offering
2. The banks that participated in both offerings submitted more aggressive bids on the sustainability bonds than the traditional bonds
3. The T’s borrowing cost ended up being lower for its sustainability bonds than its traditional bonds

This is just a single data point, but as with our subway tunnels and mobile ticketing, we hope our sustainability bonds will be the first of many. We believe that being aware of our environmental and social footprint is critical to the long-term success of our organization. We also believe that the new breed of impact-seeking investors who supported our sustainability issuance will continue to do so in the future.

Neighborly

Posted 05/09/2018 by Paul Brandley

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