Bond Case Briefs

Municipal Finance Law Since 1971

How Public Agencies Can Use Green Bonds to Finance Projects.

Part 1 of a PublicCEO Series on Using Green Bonds to Advance Community Sustainability

When the Hayward Unified School District looked to advance its sustainable energy plan, it turned to green bond financing to fund the installation of solar energy systems at 33 schools in the East Bay.

The District issued its first series of bonds last spring, months after Alameda County voters approved Measure H, authorizing the school district to issue up to $381.7 million in general obligation bonds. In a series of bonds issued, the District generated $145 million in project proceeds with $20 million in municipal green bonds allocated to developing more climate-friendly facilities.

Green bonds have emerged as a new tool over the past decade for the municipal and corporate markets to directly connect environmentally conscious capital market investors with climate action projects. They've since transformed development finance and rapidly grown in issuance.

Globally, green bond issuance increased by 49 percent from 2018 to 2019 with roughly $255 billion in green bonds being issued in 2019. The U.S. alone accounted for a $76 billion, or a 30 percent, share of the global green bond market last year.

This two-part series on municipal green bonds explores how public agencies can utilize the mounting financing tool to finance public projects and further community sustainability goals.

What are Green Bonds?
There is no legal definition for a what constitutes a green bond. However, from a credit, structural and legal standpoint, municipal green bonds mirror traditional bonds but they are expressly earmarked to raise capital for — or refinance — vital public projects with positive environmental and climate benefits.

While not exhaustive, this list includes a wide range of projects that could be financed with a green bond:

- **Renewable Energy & Energy Efficiency:** Clean-energy projects utilizing the sun, wind, water and biomass (among other sources) providing an alternative to non-renewable fossil fuels as well as retrofits and updates that improve the energy efficiency of buildings and transmission systems.
- **Low Energy or Low Carbon:** Building projects designed to reduce greenhouse gas emissions by optimizing a building's structure and orientation, window location, materials used and more.
- **Water Management & Conservation:** Projects that enhance water quality, reduce flooding, improve distribution systems, provide sustainable water supplies, rehabilitate and replace aging water and sewer systems, conserve water usage, restore waterways and treat wastewater.
- **Pollution Control & Clean Transportation:** Transportation projects that expand mass public transit, including trolley, light rail, streetcar and bus rapid transit lines as well as the installation of electronic charging stations and replacing public vehicles with energy-efficient models.

- **Information Technology & Communications:** Projects improving communications with such as upgrades to dispatch systems and early wildfire detection systems, installation of advanced water meters that eliminate the need for workers to read individual meters and smart city applications that include technology tracking traffic-flow data to ease congestion on roadways.
- **Natural-Resource Preservation:** The conservation and preservation of ecosystems, open space, wildlife and wilderness (forests, wetlands, mountains, desert, coastal and other regions), including coastal-risk reduction and restoration projects, natural resource management and more.

Are There Different Types of Green Bonds?
Yes, there are generally five types of green bonds.

1. **Standard Green Use of Proceeds Bonds:** This type of bond falls in line with the general definition of a green bond as the proceeds will be used for one or more eligible projects.
2. **Green Revenue Bonds:** The cash flow associated with this type of bond's repayment must come from a green source.
3. **Green Project Bonds:** Bond proceeds are used to finance eligible green projects; however the security for the bonds is limited to the projects' assets, which may make these bonds riskier to investors.
4. **Green Securitized Bonds:** The debt obligation for these bonds is collateralized (a type of structured asset-backed security) by one or more green projects.
5. **Environmental Impact Bonds:** These bonds are issued as a public-private partnership where the bond proceeds are provided by a private entity at the onset for the construction of eligible public project. Bond payments to investors are tied directly to performance outcome.

Why Issue a Green Bond?
First, green bonds can increase investor diversification.

These bonds often attract investors who are looking to invest in a project with specific environmental impacts. With a growth in the green bonds market, there are mainstream, specialized and corporate investors who now exclusively seek out environmentally conscience investments.

"Green bonds were a great fit for Hayward USD as we want to attract socially responsible investors to our bonds and increase competition that will result in a lower borrowing cost to our community," the District's assistant superintendent of business services, Allen Garde, said after the successful bond sale.

Green bonds can also help align a public agency's goals. Across all levels of government, agencies are adopting resolutions to combat climate change and green bonds are yet another tool that agencies can use to demonstrate that they are committed to obtaining these goals.

Finally, agencies can use green bonds as a positive public relations tool. Promoting your green bonds demonstrates that an agency is actively engaging in, and delivering on, vital projects that address climate change and keep your community's health and vitality at the forefront of planning.

Looking Ahead: Designating, Issuing and Reporting on Green Bonds
Part two of this series will focus on how public agencies can designate and issue green bonds as well as the different approaches that can be taken on annual reporting for investors.

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