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Where Some Investors See Red, These 'Banks' See Green.

States are tapping public financing institutions to advance a green agenda and create jobs as they plan their economic rebound from the coronavirus pandemic.

New Jersey adopted the idea in April, saying it will set up a green bank by the end of the year to finance environmentally friendly infrastructure. The state follows in the footsteps of Connecticut, New York and other states that provide loans and grants to fund carbon-cutting projects, such as community solar and energy efficiency retrofits.

As other lenders pull back during the economic downturn, taxpayer-backed green banks can aid recovery by keeping money flowing to construction projects, their supporters say. Green banks in New York and Connecticut, for example, have continued financing during the pandemic even as many homeowners and small businesses put projects on hold.

The New Jersey Economic Development Authority will seed its green bank — essentially a pot of capital, not an actual bank — with some $12 million in annual revenue it collects from the Regional Greenhouse Gas Initiative, a carbon cap-and-trade program. The project will prioritize projects that offer employment training and create jobs.

"Access to affordable financing and job training will be instrumental in helping New Jersey build back better," said Pari Kasotia, Mid-Atlantic director for the nonprofit advocacy group Vote Solar. "By being able to invest in clean energy now, New Jersey's low-income and environmental justice communities will also be more economically resilient to the next crisis, thanks to lower energy bills."

While the banks aren't new — Connecticut launched the nation's first in 2011 — their numbers are growing. In 2019, the nine global members of the Green Bank Network committed a total of nearly $15 billion, mobilizing $50 billion in public and private capital. Now the coronavirus pandemic is giving them a chance to flex their muscle as other lenders rein in business.

Money is invested in projects that deliver environmental, health, social — and financial — returns. And the institutions are designed to demonstrate to Wall Street and local banks that an investment in clean energy can be a safe bet.

"At a time when we've had such a strong negative economic shock, all sources of capital are pulling back a little bit [but] green infrastructure is largely identified as a clear, safe and solid place to put money moving forward," said Brian Sabina, the senior vice president of economic transformation at the New Jersey Economic Development Authority.

In New York, Green Bank President Alfred Griffin said his team is modifying deals with loan recipients to keep people on payrolls and provide flexibility around construction timelines to deal with Covid-19-related supply chain issues.

"The primary focus is to get those businesses back up and get those people back on those jobs," Griffin said. "The needs of the market evolve, just like today, what we're seeing in this unprecedented period."

Bryan Garcia, president and CEO of the Connecticut Green Bank, said his group is resetting contract terms, restructuring borrower debt and allowing delayed payments. But the bank's loans generally are low-risk and borrowers — especially low- and moderate-income families — are making payments.

"We had expected them to be more delinquent," Garcia said, but "they're paying their bills because they've seen the energy burden reduction benefit and they don't want to lose it."

New Jersey's initial $12 million investment might not sound like much — New York established its bank with $1 billion in 2013 — but it will be "a ton of money" if it can lure private capital off the sidelines to launch new projects, said Jeffrey Schub, executive director of the Coalition for Green Capital, a nonprofit that advocates for the creation of green banks.

"It's obviously not enough to decarbonize the entire economy or reemploy the millions of New Jerseyans who are out of work, but it's the start you need to build off of because the hardest thing to find is the first investment of risk capital," Schub said. "It can be a way of priming the pump, getting private capital back into the market."

New Jersey could learn from New York and Connecticut's emphasis on investments in community solar for households that rent or just can't afford solar. Access to clean energy technology cuts utility costs and makes a market segment traditionally perceived as risky more attractive to private investors.

"At the end of the day, it is a wealth-building program," Garcia said. "It is reducing the amount of monthly budget a low-to-moderate income family spends on energy and allows them to save more of it and use it for other things."

But as states struggle to close budget gaps torn open by the coronavirus pandemic, green banks could be facing a challenge from some of the policymakers who created them.

Connecticut's green bank is funded by $26 million from the state's clean energy fund and about $4 million from Regional Greenhouse Gas Initiative proceeds. But in fiscal 2018 and 2019, state lawmakers diverted $28 million in clean energy funds and $4 million in greenhouse gas funds that were planned for the bank.

Bank officials filled the gap by issuing bonds, cutting operating expenses and transferring staff to an associated but independent nonprofit.

"We're now on a path to organizational sustainability," Garcia said. "The interest income we're receiving from financing projects using the clean energy fund and RGGI allowance proceeds is close to covering our operating expenses."

New Jersey officials must decide how to set up its green bank to deliver the biggest economic bang for the buck to withstand changing political tides. Part of this will entail figuring out what kind of entity the green bank will be: a specialized state entity, like New York's, an independent, quasi-public institution like Connecticut's, or something else altogether different.

New Jersey "will move like heck to crowd in as much capital as we can to get projects going," Sabina said. "It's going to be important as part of the recovery.

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