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How Wall Street Banks Will Reap Billions From Tax-Free Renewable Energy Bonds.

One of the hottest trends in finance is prepaid muni bonds structured to help local utilities buy decades worth of renewable electricity. They're good for the environment, but even better for the banks that will profit from cheap financing, trading profits and federal tax breaks.

Socially responsible investing, marketed under the moniker "ESG" (short for environmental, social and governance), is a huge and growing business. In 2015 global ESG-related assets were \$2.2 trillion, according to PwC, growing to \$9.4 trillion in 2020 and nearly doubling in 2021 to \$18.4 trillion. Sustainable bonds are a big slice of this pie. Globally, over the last two years, an average of more than 400 bonds have been issued per quarter, totaling over \$1.7 trillion, according to the London Stock Exchange's Refinitiv group. European issuance is more than double that of the U.S., but a wave of new green bonds is coming here.

One particularly vibrant corner of this market: ESG-certified municipal bonds, such as those designed to help local communities prepay for decades' worth of green electricity. According to Monica Reid, the founder of Kestrel, which charges "a fraction of a basis point" of a new bond deal's face value to verify new issues as "social," "green" or "sustainable," there have been \$85 billion worth of these municipal bonds issued in the U.S. in the last two years. Reid's Hood River, Oregon-based team of 27 analysts and engineers certified nearly a third of them.

"Not everything is green or sustainable or socially beneficial because it's financed with municipal bonds," Reid says. "The muni market is also where coal ash dumps are financed, ports and airports. It's where turnpikes and toll roads are financed. We are very discerning. Internally we have a do-no-harm criteria. If repayment is from oil royalties or gambling revenues, that's a problem."

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