

# THE BOND BUYER

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## Muni Bonds for a More Sustainable Future

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An increasing number of foundations, public funds, religious organizations, and individual investors are actively pursuing the integration of green initiatives into their investment strategies. In fact, at more than \$1.9 trillion in assets, socially and environmentally screened separate accounts managed for institutional investors and high-net-worth individual clients constituted the bulk of socially responsible investing assets tracked in 2007, up 28% from \$1.5 trillion identified in 2005.

Green investing is growing considerably as more investors look to invest in environmentally sustainable companies, wind farms, and clean technology sectors. While demand for environmentally sustainable investing has been traditionally met on the equity side, green fixed-income investing is growing as a viable investment alternative, allowing investors to utilize their fixed-income portfolios towards investing in bonds that finance or support environmentally sustainable initiatives. More specifically, municipalities may establish bond programs to finance green initiatives such as energy efficiency, renewable energy, water conservation, and green jobs.

As well, the recent passage of the American Recovery and Reinvestment Act of 2009 provides new tools for state and local governments to finance basic infrastructure, which include green components. For example, the new Clean Renewable Energy Bonds can finance projects that may include wind energy, geothermal, and solar and energy facilities.

Green municipal bonds offer investors the relative safety and diversification of fixed-income investments coupled with the ancillary benefit of financing and supporting environmentally sustainable projects.

Municipal bonds that finance neighborhood revitalization activities help to strengthen cities, and offer environmental benefits as a by-product of the resulting economic development. Urban areas that have good schools, job opportunities, an adequate housing supply, safe and reliable transportation systems, and low crime rates are attractive places for families and businesses. Consequently, the revitalization of blighted urban neighborhoods contributes to more economically robust communities, which lowers development pressure on open space in outer suburbs and reduces the multiple environmental problems associated with sprawl.

In recent years, green projects have multiplied throughout the United States as federal and state governments have embraced the mandate of energy efficiency. One of the ARRA's environmental goals is reviving the renewable energy industry and providing the capital over the next three years to eventually double domestic renewable energy capacity. The ARRA lays the foundation for a more robust and sustainable 21st century economy and it is anticipated that with the ARRA's passing, opportunities for municipal bonds financing green initiatives will rise. The ARRA also creates the new Build America Bonds program, which is intended to assist state and local governments in financing capital projects at lower borrowing costs to stimulate the economy, create jobs, and support green industrial projects.

A recent municipal bond issue to finance the Tuolumne Wind Project was designated as BABs. The project, located in Klickitat County, Wash., has been recognized as one of the most productive wind resource areas in the Western United States. The Tuolumne Wind Project is a wind farm comprised of

62 wind turbines that will produce enough green energy to power 44,000 homes.

Aside from supporting activities that promote conservation and sustainability, municipal bonds also provide economic development opportunities, including job creation in distressed or impoverished areas. For example, the Ohio Enterprise Bond Fund Program issued bonds for a loan to Xunlight Corp. to finance the development of a photovoltaic solar cell production line.

Founded as a technology spin-off from the University of Toledo, Xunlight manufactures lightweight and flexible thin film silicon solar modules. The company is expected to add hundreds of green manufacturing jobs in a low-income area of Toledo, a city where tens of thousands of citizens have lost their jobs in recent years. Xunlight's presence in Toledo is also expected to attract other renewable energy initiatives to the city. The Ohio Enterprise Bond Fund Program was created to promote economic development in Ohio by creating and retaining quality private-sector jobs.

With the added incentives for renewable energy and green building projects included in the 2009 economic stimulus package, green fixed-income investors should find an increasing range of attractive investment opportunities. As green fixed-income investing becomes more mainstream, it becomes easier for investors to identify municipal bonds that support environmental sustainability. Increased investor demand will spur new financing incentives, which ultimately will lead to a greater issuance of green municipal bonds.

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