CONNECTICUT GREEN BANK

Mobilising citizens against climate change

The Connecticut Green Bank hopes to marry capitalism and civic virtue to help fund the state's response to climate change. Its CEO and chief investment officer talk to *Environmental Finance*

***Environmental Finance:* What is the remit of the Connecticut Green Bank?**

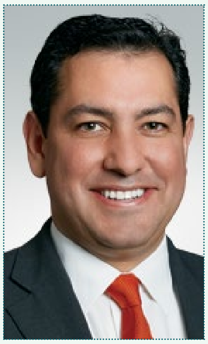
Bryan Garcia, CEO: The Connecticut Green Bank was created by bipartisan legislation in July 2011 – making it the world's first green bank. We are a quasi-public organisation that uses private sector disciplines to achieve public sector goals. Our mission is to confront climate change and provide all of society a healthier and more prosperous society by accelerating the flow of private capital into markets that energise the green economy of Connecticut.

Our focus is on financing clean energy – statutorily defined as renewable energy, energy efficiency, alternative fuel vehicles and associated infrastructure. Since our inception, we've helped mobilise $1.7 billion of investment in Connecticut's clean energy economy at a leverage ratio of seven private dollars to one public dollar. That's generated nearly $90 million in tax revenue, supported the creation of over 20,000 jobs, reduced the energy burden on over 40,000 families and businesses, with projects that will, over their life, avoid nearly 6 million metric tons of CO_2.

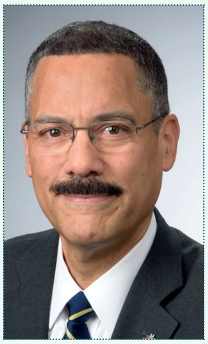
EF: What role does the bond market play in your strategy?

BG: The Green Bank receives about $26 million/year from Connecticut's Clean Energy Fund, which collects a system benefit charge from households, and $4 million from the state's revenues from the RGGI carbon market, which is used to invest in clean energy programmes and projects, saving residents and businesses energy costs and creating jobs in the local economy. We also turn to the bond markets to provide us access to additional capital.

Bert Hunter, chief investment officer: We've issued three privately placed bonds, but our 2019 bond was the first to be rated and placed in the capital markets. It was the first asset-backed security we've issued, and the first ever solar-backed green bond issued by a green bank. The 15-year bond, which was lead-managed by RBC Capital Markets, raised just under $40 million in two classes.



▲ Bryan Garcia



▲ Bert Hunter

EF: That bond was recognised with awards from *Environmental Finance*. What was innovative about the structure?

BH: What is unique are the cashflows backing the notes. One of our roles in Connecticut is managing a residential solar incentive programme. In exchange for helping householders finance solar panels, the Green Bank receives the environmental attributes of the power generated, in the form of Solar Home Renewable Energy Credits, or SHRECs. Local utilities are required to buy these SHRECs to help meet their Renewable Portfolio Standard; these sales provide the cashflows that back the bonds.

Through this securitisation, we obtained sufficient funds up-front to pay the incentives to householders and administer the programme – it provides full cost-recovery.

EF: Why did you choose to certify your bonds as compliant with the Climate Bond Initiative (CBI) standard?

BH: There are a number of states and municipalities throughout the US that are also issuing green bonds. For the most part, they self-certify. However, best practice is increasingly to use an established standard, and we wanted to give buyers of our bonds complete confidence that what they are buying is actually being used to help fight climate change. In addition, we think certified bonds are going to be increasingly sought after by investors in future.

Similarly, we're committed to reporting on an annual basis the use of proceeds of these bonds and on their impact: we consider ourselves to be a leader in data collection, analysis and impact reporting.

EF: I understand you're about to start marketing a new type of green bond, something you're calling the Green Liberty Bond.

BG: We wanted to come up with something to mark the 50th anniversary of Earth Day, so we've created Green Liberty Bonds as a green bond sub-category. They will have a few features. The first is that their proceeds must be used to confront climate change, whether through mitigation or adaptation. The second is that they have to be available to retail purchasers as well as institutions. What we're doing there is lowering the denomination value of the bonds to make them more accessible and affordable.

The third feature is that they must be analysed by a credit rating agency to assess the transaction's cash flows and structure and independently certified and verified as to the how the bonds genuinely contribute to addressing climate change. We think that's important because, in the context of selling bonds to retail purchasers, we want to ensure that robust consumer protections are built into the structure of the bond.

We're marketing them with posters that give a nod to the War Bonds sold to help fund the US war effort in World War II. In this case, they provide a means to combat climate change. As Americans, we have the privilege of voting in a democracy, and the opportunity to confront climate change through the ballot box. Here, we wanted to create a financial instrument to use our capital markets system to give every American the opportunity to invest in the climate economy, creating an additional avenue for those who want to confront climate change.

We're bringing the first of these to market in early summer, offering $16 million of bonds that, like the 2019 bond, will be backed by revenues from our SHREC programme. There's real interest from the residents of Connecticut in investing in their communities to support the modernisation of their energy and environmental infrastructure. ■