

Aloha! Hawaiian State Govt issues green ABS for solar: \$150m, AAA in two tranches: 50m, 8yr, 1.467% + 100m, 17yr, 3.242%. An excellent example!

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The Hawaii State Department of Business, Economic Development and Tourism (DBEDT) ([link is external](#)) has issued ([link is external](#)) US\$150m of AAA-rated green asset-backed securities in two tranches. The first tranche for US\$50m has an 8-year tenor and coupon of 1.467%. The second tranche for US\$100m has a 17-year tenor and 3.242% coupon. Goldman Sachs and Citi were joint bookrunners.

The investor base was reported as a mix of ABS investors, muni bond investors and socially responsible investors, with 25 investors participating in the transaction. Local retail investors could also place orders during a special order period. Nice added touch – tapping into retail investors can provide the crucial benefit of building community support for low-carbon investment. Community ownership of renewable energy assets has played an important role in renewable energy deployment in countries with high shares of renewables in the energy mix, such as Denmark and Germany.

The bonds are the first asset-backed green muni bonds in the US, meaning the bonds are collateralised by a specific pool of green assets. In the case of Hawaii, the issuance is backed by a Green Infrastructure Fee ([link is external](#)), which will be applied to the bills of electricity customers of the Hawaiian state utilities. The fee will be offset by a reduction in the Public Benefits Fee that is currently on electricity bills, providing no net increase in fees. Win-win.

The model combines the rate reduction bond structure used by many utilities in the US with "on-bill financing ([link is external](#))". On-bill financing is used also under the PACE model that has been successful in backing other green securitisation issuances in the US; under PACE the bonds are been backed by an additional property tax. Hawaii's DBEDT also provides an additional investor incentive by making interest on the bonds exempt from state taxes. Great example of how governments can combine policy tools to support green bonds!

We were happy to see that DBEDT explicitly recognised that they are using “tried-and-true financing methods” ([link is external](#)), combining them in a fashion suitable for the specific green investment. Spot on! This is what we need to understand: there is really nothing new about this - the climate mitigation and adaptation challenge is essentially all about infrastructure financing, just that it's also green. Great to see Hawaii connecting the dots on this.

As for the green credentials of the bond, proceeds will go to support the DBEDT's Green Energy Market Securitization programme (link is external), which will provide loans to consumers to fund the installation of solar PV panels and solar connectors such as storage, advanced inverters and monitoring devices. All good stuff in our book, although it would have been good to have a second opinion and reporting commitments in place – we hope to see that for the next issuance.

But overall, definitely a model to follow for other municipalities! Well done, Hawaii!