

## **Hawaii paves the way with first green-energy ABS**

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Hawaii has become the first state in the union to tap the securitization market with a US\$150m green energy bond, a rare capital markets transaction designed to meet a social purpose.

The two-tranche financing is part of an expansive plan by Hawaii to have 70% of its energy derived from clean or renewable sources by 2030.

To get to these goals, a securitization platform was set up to provide funding to bridge the “divide between those who directly benefit from clean energy technologies and those who cannot,” stated a copy of the 2014 legislative order permitting the bond sale and loan program.

“When we did a deeper dive, we found there were haves and have-nots,” said Tan Yan Chen, project manager of Hawaii’s Green Energy Market Securitization (GEMS) program, a part of the State Department of Business, Economic Development and Tourism, which issued the bonds.

“More wealthy folks do better getting those (solar panel) systems in place,” Chen said. “Our target market is (residents), who don’t have up-front cash or can’t get access to financing.”

Initial funding to achieve this goal came from the recently-closed bond sale, which was structured and led by Goldman Sachs.

The trade securitized a roughly US\$1.25 flat monthly payment attached to the utility bill of each Hawaiian household that relies on the power grid, according to analysts at Moody’s Investors Service.

These monthly payments would flow into a green infrastructure fund run by the State of Hawaii and service interest payments on the ABS.

Both tranches, rated Triple A, were oversubscribed and ended up pricing 10bp–15bp inside of initial talk to offer a blended coupon of less than 3%.

“Investor interest was strong,” said Timothy Romer, a managing director and head of Goldman’s Western region public sector and infrastructure financing group. The issue sold not only to buyers in the asset-backed world, but also accounts focused on municipal bonds and socially responsible investors, he said.

The bond proceeds will also be put into the green fund that, in turn, is expected to originate 5,000 to 7,000 low-interest loans over a two-year period starting in December to help defray the costs of installing solar panels, Chen at GEMS said.

The trade clearly puts Hawaii ahead, in terms of taking decisive steps to raise money in the asset-backed bond market to meet its green goals, even though a number of US states have also in the past 30 years passed legislation to wean themselves off fossil fuels.

Analysts at Moody's attribute Hawaii's headstart to a combination of its high fuel costs, ample sunshine and political will to promote green energy legislation.

"Much of Hawaii's energy production is based on oil," said Pedro Sancholuz Ruda, assistant vice president at Moody's, who rated the bond issue. "All of this starts because Hawaii passed legislation to achieve its energy efficiency goals."

But other states with energy surcharges of their own have already taken notice, with a few making quiet inquiries with Hawaii about potentially replicating its program, Chen said.

And while Hawaii's latest estimates are that it will need roughly US\$30bn in funding to reach its clean energy goals, the latest securitization is a start.

"In terms of raising money, (Hawaii is) just starting to get into the market for that," Chen said. "For the GEMS program, this is the first true effort to start that process in financing."