U.S. states and municipalities are looking to their own green banks to drive environmentally-friendly investment as the administration of Donald Trump pushes the federal government out of that role.

"Green banks are more important now in the Trump Era because public policy uncertainty increases risk and the cost of capital," said Bryan Garcia, president and CEO of Connecticut Green Bank, in a March 23 telephone interview.

The Washington, D.C., mayor's office on March 15 proposed the first U.S. city-focused green bank, aimed at investing in new and retrofitted energy-efficient buildings. The D.C. government committed to invest $35 million over five years to the DC Green Bank, which is expected to launch in October.

Green banks are critical now that the Trump administration "can no longer be counted on as a partner," said Tommy Wells, director of the D.C. Department of Energy and Environment. The DOEE is working with the DC Green Bank to ensure its programs are aligned on energy efficiency, storm water and solar expansion programs, Wells said in a March 21 telephone interview.

"Even where there is uncertainty about federal benefits and tax credits we have seen solar and wind projects get done," said New York Green Bank's chief operating officer and managing director, Caroline Angoorly, in a March 24 telephone interview. The bank has invested over $300 million in clean energy since 2014.

The DC Green Bank is structured to be a "break-even entity" for the first few years before it becomes profitable, said Wells. Some loans, loan guarantees, and credit enhancement products may have interest rates as low as zero, while other products will have associated fees and market-rate interest to pay operating costs, he said.

By contrast, the Connecticut Green Bank earns a 4-6 percent annualized return over the 20-year life span of its $75 million solar lease program, said Garcia. Funding includes $15 million from the green bank and the balance from private investors.

A key challenge to create green banks is getting enough capital, despite funding from taxpayers, ratepayers and other public sources, Wells said. Green banks also try to get private investors, including local banks and pension funds through partnerships, co-investments, or transactions aimed at limiting credit risk, he said.

Since the first U.S. green bank was founded in 2011, those institutions have participated in investments worth more than $2 billion across six states, according to the Coalition for Green Capital. Green banks are usually set up as public or quasi-public lenders in order to fund some clean energy projects that traditional banks may be unwilling to finance, according to the Coalition.
Source: Bloomberg

Graphic by Bloomberg Briefs