THE BIDEN INFRASTRUCTURE PLAN: A Boon to the Municipal Green Bond Market?

Sarah Christian, of Counsel, Winstead PC

President Joe Biden's proposed infrastructure plan has attracted a lot of attention. As originally proposed, it includes a $2.25trn spending plan focused on US infrastructure and a transition to green energy and sustainability.

While Biden's bill as proposed faces an uphill battle in Congress, many believe that some form of infrastructure bill will be adopted in the near future. States and municipalities have tentatively begun to identify projects for use of the potential funds, in anticipation of the time and complication involved in planning and approving public infrastructure projects.

Much of the attention around Biden's proposal has been focused on the dollars earmarked for much-needed modernization of bridges, highways, and electrical grids.

However, the Biden infrastructure plan also outlines various project categories that would qualify for designation as Green Bonds, which has created similar excitement among investors increasingly eager to add green financial products to their portfolios. Those project categories include public transportation, clean water and energy projects, and green building projects, each of which have been traditionally financed through the municipal bond market and are prime candidates for development through P3s.

The appetite of investors for Green Bonds has surged over the last few years. Bloomberg's league tables report a nearly tenfold increase in municipal Green Bond placements from 2014 ($2.9bn) to 2020 ($20.4bn). So far, 2021 is on pace to continue that trend, with green project financing dollars outpacing even fossil fuel financing for the first time in history.

Recent events such as the Covid-19 crisis and global environmental trends have turned investor focus to green investments. Investors view these products as a way to offset the risk profile of traditional portfolio assets, which were hit hard during the Covid downturn and struggle in the wake of environmental crises, such as the freeze that hit part of the southern US this winter; coastal hurricanes and California wildfires.

The cost of managing weather-related volatility is high and falls on states and municipalities, which causes growing concern to municipal bondholders. That volatility can be mitigated through the development of green infrastructure, and the related financial products bring stability to the municipal bond market.

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Investors are eager to fund projects that make a societal or environmental impact, and the ability to deploy those funds in an investment grade bond is very attractive. Some of the biggest participants in the municipal bond market, including JPMorgan, Citigroup and Bank of America, have pledged to facilitate at least $4trn of sustainable and climate-friendly deals over the next decade: a move that is likely to be followed by other banks and investors.

This trend is seen on other fronts as well. Investment bankers have reported that investors have increasingly begun to require some "green" or "social" designation to their investments.

Politicians and business leaders seem to be taking cues from the market and moving forward on policies that make sustainable projects more feasible. For example, both New York and Florida governors have advance proposals to provide public dollars to projects focused on solving needs relating to climate change.

Much of the Green Bond availability domestically is in the municipal bond market, and even investors who have not traditionally purchased municipal bond assets are beginning to show increased interest for these financial products in their drive to round out investment portfolios with desired Green Bonds. That is good news for municipalities looking to fund sustainable infrastructure projects. The higher demand means lower interest rates, more readily available capital, and ultimately increased project viability, especially when combined with federal dollars and other incentives available through Biden's proposed infrastructure plan.

Green Bond demand and the potential for federal infrastructure dollars have many states and municipalities re-evaluating previously shelved green infrastructure projects. Examples include transportation projects, such as mass-transit and clean-fuel and battery-powered vehicles and related charging stations; clean water and energy projects such as replacement of lead pipes to schools and public facilities; and solar panel arrays and green building projects, such as ESG renovation projects.

These and similar green infrastructure projects are much more likely to become reality in light of the more favorable market conditions and potential funds available through Biden's infrastructure plan.

The growing hope and expectation in the municipal bond market is that Biden's infrastructure bill will provide the needed boost to get those projects off the ground and will ultimately boost the Green Bond to the volume the market desires.