

Health Care Providers: Considerations with Green Bonds Issuance

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As “Green Bond” designations become more prevalent in the public finance market, many health care providers are asking: Are Green Bonds Right for Me? Not all transactions are able to achieve designation as Green Bonds, because the need to finance particular assets – or refund them – may extend to assets that do not meet the requirements for designation. However, there are a few considerations:

- Without respect to any pricing benefit, bonds designated as Green Bonds may help to advance the sustainability goals of a health system's ESG program.
- Bankers do seem to be divided on whether there is a pricing benefit to issuing Green Bonds – although the market for Green Bonds is not yet mature.
- At present, the taxable market seems to be providing better pricing for Green Bonds, although your investment banker or financial advisor should be able to quantify the pricing benefits.
- More funds and investors are also looking at Green Bonds as a means to accomplish internal ESG program, which is leading to a more diverse base of investors and the creation of new funds willing to invest in Green Bonds. This argues for an increased pricing benefit going forward.
- Health care providers that issue Green Bonds need to be aware of four core components of the Green Bond Principles as published and administered by the International Capital Markets Association (ICMA). In June 2021, the ICMA issued its updated Green Bond Principles: Voluntary Process Guidelines for Issuing Green Bonds.

- Use of Proceeds – may require 100% of the projects be eligible in order to designate bonds as “Green Bonds;” noting that there is some difference of opinion around this point and will be a topic for discussion in your transaction
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting
 - Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation.
 - The annual report should include a list of the projects to which Green Bond proceeds have been allocated.
 - Transparency is key: should consider including the use of qualitative performance indicators and, where feasible, quantitative performance measures
 - Templates provided through ICMA

Green bonds are an exciting new area for many health care providers and certainly should be discussed as part of the planning for both tax-exempt and taxable financings, especially for those transactions involving new building projects. We anticipate Green Bonds are here to stay for the near future. Whether Green Bonds become a permanent fixture on the tax-exempt scene is yet to be known. But with the market’s focus on ESG, Green Bonds have an exciting future.

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