

Impact Investing – Elevating Racial Equity in the Municipal Bond Market

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The Public Finance Initiative (PFI) and the National League of Cities (NLC) have launched the Bond Markets and Racial Equity Project (the “*Project*”) to identify the factors in a municipal bond issuance that signal progress toward racial equity and income equality to investors and other stakeholders. Additionally, PFI and NLC will use the Project to develop resources that can be used by governmental issuers to center racial equity in municipal bond-funded infrastructure investments and to measure how social determinants of equity change over time on a uniform basis. The unprecedented Project is funded by a \$4M grant from the Robert Wood Johnson Foundation (the “*Foundation*”). By funding the Project, the Foundation aims to help issuers leverage the municipal bond market in a meaningful way to help correct racial and economic inequities.

Public infrastructure investments play a critical role in creating access to public transportation, quality affordable housing, education, internet connectivity, water and sewer services, and other drivers of health and equity. Governmental issuers rely on the municipal bond market as a vital source of funding for public infrastructure projects. With the recent passing of the \$1.2 trillion federal Infrastructure Investment and Jobs Act, the federal government explicitly highlighted the importance of considering equity across various functional areas of infrastructure investment and acknowledging the legacy of systemic racism throughout the history of American infrastructure, construction and maintenance decisions. For these reasons, the Project will focus on market strategies and investment practices that fund public infrastructure to serve as a powerful intervention in communities that are predominantly populated by low-income people of color.

The Project seeks to develop a common equity framework that governmental issuers may use to integrate racial equity as a core criterion of the municipal bond investment process and enable them to engage in better measurement, evaluation, and reporting of equity outcomes alongside traditional public finance criteria. To start, the Project will convene national focus groups of issuers, investors and other market stakeholders to explore how issuers center racial equity—or fail to do so—in the context of bond issuances. Then, such data will be used to identify factors in the municipal bond issuance that signal progress toward racial equity and develop metrics, measurements and reporting tools to elevate racial equity considerations in bond issuances on a uniform basis.

There is a strong desire by investors to use their investment dollars for good causes. This is evidenced by the continuing, and growing, popularity of impact investing, including through the issuance of social impact bonds, social bonds and ESG bonds. A focus on racial equality in investments has captured the impact investing marketplace’s most recent attention. Some of Wall Street’s biggest investors in U.S. state and local government bonds have started to ask questions about racial equity ahead of bond offerings signaling to issuers that there is added value in conscientious fiscal policies.

Success for the Project means developing strategies for governmental issuers to be well positioned to take advantage of federal funding, in the form of the Infrastructure Investment and Jobs Act, that has been committed to addressing public infrastructure racial and economic inequities and private investor capital that is being made available for issuers who emphasize racial equity in their municipal bond offerings. Chapman attorneys will provide updates on both the Project’s important work and further developments with respect to the Infrastructure Investment and Jobs Act as needed.

For More Information

If you would like further information concerning the matters discussed in this article, please contact any of the following authors, another member of the National Public and Health & Education Finance team, or the Chapman attorney with whom you regularly work. Chapman’s [Social Finance and Impact Investing](#) resources are available at [chapman.com](#).

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