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With Pressure and Data, Muni Bond Market Could Drive Racial Justice.

In the days of civil unrest following the fatal shooting of unarmed black teenager Michael Brown by a police officer in Ferguson, Missouri, a few foundations asked Ryan Bowers and his co-founders of [Frontline Solutions](#) consultancy for advice on how to do some rapid response grantmaking in and around the city. As natural conveners, Bowers and his colleagues' first instincts were to arrange a series of site visits with activists and national funders. The experience brought attention to an existing connection between the foundations and the structural violence that served to fuel that same unrest.

"In looking at how to get philanthropic capital on the ground, we started to look up and see how foundations' invested endowment capital was also playing a role in all that," Bowers says.

The U.S. Department of Justice's [report](#) on Ferguson connected the dots, Bowers remembers. It documents how Ferguson's police enforcement focused on revenue generation instead of public safety. It details tactics used to boost fines and fees to become the city's second-largest source of revenue. The report cited a 2014 [Bloomberg story](#) that put the connection in plain sight: Without those revenues, the article outlined, Ferguson's municipal bond ratings would have dipped, severely limiting the city's ability to finance infrastructure, public building construction and other long-term needs.

Investors, including most typical foundation endowments, hold \$3.8 trillion in municipal bonds issued across the United States, and there are more than \$400 billion in new municipal bonds issued annually. They're an attractive investment, given that the interest earned from them is federal tax exempt. For foundations that generally have to disburse 5 percent of the value of their endowments annually, municipal bonds, or muni bonds as they're known, are a no-brainer asset to hold.

After credit rating company Moody's eventually [downgraded](#) Ferguson's municipal bond rating, things clicked for Bowers and company. Even while the community knew what was happening, with regard to fees and fines, "ratings agencies hadn't yet incorporated that into their methodology," Bowers says.

"We knew there were tons of other Fergusons out there that just hadn't blown up yet to become a national story, just below the surface," he adds. "This was an opportunity to get this on the radar of the ratings agencies, investors and municipalities themselves."

That spark led to the creation of [Activest](#), a platform to drive "financial, structural and community change" through the municipal bond market. Bowers and Activest co-founders want to mobilize people around the idea that racially and socially unjust policies aren't just immoral, they're also terrible fiscal policy, as they sow the seeds of civil unrest and stalled economies.

In the era of President Donald Trump, that notion may be more important than ever. So-called "sanctuary" cities face possible federal penalties if local police don't enforce federal immigration policy. Put that in the context of large-scale funding sources that have been drying up for years:

Funding for HUD's community development block grants peaked in 1995, and has fallen nearly every year since.

"Our thinking is that cities are more desperate for money, you're going to see more desperate policies at the local level to raise revenues and that's going to hurt poor families," Bowers says.

Bowers thinks there will be opportunities for municipal bond holders to be more like activist shareholders, reinforcing positive behaviors like sanctuary cities and pushing back against bad behaviors like over-reliance on fees and fines, or maybe even racial segregation in housing and schools. It's a carrot-and-stick approach, with the added benefit of putting at least some large-dollar investors on the same side as movements like Black Lives Matter and the fight against the Dakota Access Pipeline.

"We think we can start to create a municipal justice index, and give cities a score on how their social impact practices compare to each other," Bowers says. "We want cities to take credit for the things they're doing really well but also put pressure on the things they're really bad at."

"Among investors committed to social justice, such as our members, Activest provides a unique opportunity to be more thoughtful about the structural and systemic impacts of municipal finance allocations," says Andrea Armeni, executive director of [Transform Finance Network](#) of investors, which includes foundations as well as high net-worth families, investment asset managers and other like-minded investment groups oriented around social justice.

"Not all municipal finance is created equal," Armeni adds, pointing to the example of Chicago's municipal bonds [issued](#) to raise funds for payment of legal settlements in police brutality cases.

In its ultimate incarnation, Activest will help ratings agencies and investors incorporate racial and social justice metrics into the predictive models they use to judge financial health of investments, starting with municipal bonds — and they hope that communities can help shape such predictive models at the grassroots level.

The first step in that direction is figuring out what data is already out there or what data communities could produce that would display a correlation, positive or negative, between racial or social justice and long-term fiscal health. Bowers and his colleagues have been looking at dependency on fees and fines for municipal revenue, data on civil forfeiture (the confiscation of cash or sellable assets even without a trial), average bail or bond amounts, or [legal financial obligations](#) — fines and fees in the justice system that gather and sometimes accumulate interest while one is incarcerated.

"And we're also working with some data scientists to do some predictable statistical modeling to get ahead of the Fergusons before they bubble over," Bowers says. "We're also looking for some more nuanced social indicators that are correlated to financial outcomes, including indicators sourced through local partners in place to gather data and funnel it up to us."

Unfortunately, it's not entirely certain any of the above will matter at all. Trump has not quite publicly ruled out removing the tax exempt status of municipal bonds as part of anticipated comprehensive tax reform. The municipal bond market has already seen prices dip as a result of the [uncertainty](#).

"If you remove that status, it will dry up this market," says Bowers.

EQUITY FACTOR

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