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Impact Investing: Addressing Local Needs with Precision and Purpose

Impact investing, which seeks to make a direct—and measurable—social or environmental impact while generating a financial return, has historically been synonymous with the private debt and equity markets. But that ignores the hugely important public market of municipal finance.

Impact investing and municipal bond investing are a natural fit. Municipalities are uniquely positioned and responsible for building and supporting the physical infrastructure and public goods that better enable all citizens to participate in an inclusive economy. In turn, investors can put muscle behind the political and civic will to make a difference.

The opportunities to fund positive change are deep and broad within state and local governments. But muni impact doesn't need to cast a wide net to make a big difference. In fact, it does its best work in smaller spaces at a grassroots level.

Take America's aging public schools. In thousands of school systems nationwide, facilities are, on average, 70 to 100 years old. These aren't historical landmarks. They're just old buildings suffering from a half century or more of underfunded maintenance and deferred repairs. These inadequate and sometimes dangerous facilities are concentrated in communities of low socioeconomic status, where they have both direct and indirect effects on student achievement. Impact investors can help correct this inequity by injecting modern facilities and resources directly into school systems. Evidence points to significant long-term benefits to student outcomes from improving infrastructure through capital infusion.

The Dallas Independent School District (ISD) is doing exactly this by issuing a bond to fund its efforts toward educational equity. Families in underserved communities in this district lack sufficient access to mental and physical healthcare, after-school programs, job training, healthy food and safer infrastructure. To help close this gap, Dallas ISD plans to locate four student and family resource centers in neighborhoods that have been disproportionately affected by a history of disinvestment, marginalization, segregation, redlining and other inequities. The planning team is currently deliberating the physical layout of the facilities, which are now mandated by the voter-approved bond.

Health is another area where municipal finance can bridge gaps. In Boston, for example, the wealthy Back Bay community has an average life expectancy of 90 years. Yet, just two miles away in the predominantly poor neighborhood of Roxbury, the average life expectancy is just 60 years—a 30-year "death gap."

Much of this gap can be attributed to a grim cycle of socioeconomic instability. From 2016 through 2019, Boston Medical Center enrolled 78 Boston families experiencing housing instability and defined as "medically complex" in a study to determine if the coordination of services addressing housing, financial, legal, social and health needs would lead to improved physical and mental health. The conclusion was clear. In the first six months of the study, not only did parental mental health improve, but also the share of children with fair or poor health fell by 32 percentage points.

Boston Medical Center—a safety-net hospital for which 70% of patients are from underserved areas, including Roxbury—understands the need to address the cycle of instability to improve community health. The hospital is taking measurable steps to reduce the disparity between wealthy and poor communities through population health management that extends beyond simply providing medical care. By supporting institutions such as Boston Medical Center, municipal impact investors can help achieve health equity in historically underresourced communities.

Access to clean water is also a risk for many communities throughout the United States. Dated and potentially toxic lead service lines are still used in far too many systems, the vast majority being low-income communities of color. As the lines corrode, lead leaches directly into each home's tap. Children are at a particularly high risk of cognitive delays, as no amount of lead exposure is safe. Municipal impact investing can directly address this environmental justice issue.

In Newark, New Jersey, residents were endangered by these very conditions beginning in 2015, when a corrosion control system began to fail. To effectively and efficiently address the situation, the Essex County Improvement Authority issued municipal bonds to mandate the replacement of 18,000 lead residential service lines throughout the city. So far, nearly 21,000 lines have been swapped out, marking a clear beginning of the end to lead-contaminated drinking water for the city.

These are some of many examples of how municipal impact investing can measurably improve quality of life for historically marginalized and excluded communities.

Global economies will need to galvanize more than US$100 trillion to address climate and social justice challenges in the years ahead. A spectrum of responsible investing strategies—including ESG integration and sustainable investing—will be foundational to helping in these areas. But for municipal bond investors, impact investing may deliver the biggest bang—and one a lot closer to home.

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Advisor Perspectives

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12/6/21

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