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## Racial Equity in the Bond Markets



**BNY MELLON**



# Racial Equity in the Bond Markets



## Brendan Barry

Coordinator, Research & Technical Assistance  
Council of Development Finance Agencies



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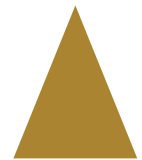
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# Racial Equity in the Bond Markets



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## Laura Brunner

President & CEO  
The Port - Cincinnati, Ohio

## Lourdes Germán

Executive Director  
Public Finance Initiative

## Chelsea McDaniel

Senior Fellow  
Activest

## Stuart Weiss

Vice President, Sales  
BNY Mellon



# Racial Equity in the Bond Markets



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The Port – Cincinnati, Ohio

June 2022

CDFA

# Racial Equity in the Bond Markets



THE PORT



# OUR WHY

## **VISION:**

To be a trusted partner in tackling the most complex real estate challenges in Hamilton County.

## **MISSION:**

To promote and enable equitable development by using unique tools to transform unproductive real estate in neighborhoods and industrial areas into **opportunities for employment and housing.**



# Impact of Institutional Investors

In Q2 of 2021

**1 in 5**  
**home**  
**sales**

were by large  
investors.

Primarily in

**low to moderate**  
**income areas**

where homeownership is vital for stability & equity

Amidst the COVID-19 pandemic, Vinebrook has  
“provided limited payment plans” and has

**“not granted any direct rent**  
**reductions” to assist their**  
**tenants.**

One investor, Vision & Beyond, referred  
to Cincinnati as an

**“eviction friendly**  
**place.”**

These acquisitions are concentrated in  
neighborhoods and communities where

**the Landbank and The**  
**Port are focused on**  
**moving blighted vacant**  
**properties to**  
**homeownership.**



# CASE STUDY: A Story of Two Homes



## VINEBROOK

**\$1,445/Month**



**Sale Date:** 2/8/2019

**Purchase Price:** \$50,000

**Payment Starts\*:** \$300

**Rent:** \$1,445

**Income\*:** \$1,145

## HOMEOWNER\*

**\$800\*/Month**



**Sale Date:** 9/8/2020

**Purchase Price:** \$142,500

**Term:** 30 years

**Payment Starts\*:** \$800

\*Assumptions made for mortgage term and payment



# THE OPPORTUNITY

A pathway to  
homeownership for  
current residents



194 Homes

Utilize Port-Issued Debt

Proactive vs. Reactive

Partnerships across the spectrum  
of needs

- Homeowner training
- Financial coaching
- Property management



# FINANCING

Patient, not publicly  
subsidized



## Renovation Account

- \$750,000
- \$3,965,000

## Why Taxable Debt?

- Allow Port to sell homes immediately

## Repayments

- Special Mandatory Redemption
- Special Optional Redemption



# FINANCING

Patient, not publicly  
subsidized



Sources			
	Taxable	Tax Exempt	Total
<b>NTR Bonds</b>	\$ 6,050,000	\$ 9,860,000	\$ 15,865,000
<b>Discount</b>	\$ (95,419)	\$ (225,005)	\$ (320,425)
	<b>\$ 5,909,581</b>	<b>\$ 9,634,995</b>	<b>\$ 15,544,575</b>
Uses			
	Taxable	Tax Exempt	Total
<b>Project Account</b>	\$ 5,795,000	\$ 9,455,000	\$ 15,250,000
<b>Acquisition</b>	\$ 5,045,000	\$ 9,455,000	\$ 14,500,000
<b>Renovation</b>	\$ 750,000	\$ -	\$ 750,000
<b>Cost of Issuance</b>	\$ 110,103	\$ 179,642	\$ 289,745
<b>Rounding</b>	\$ 4,477	\$ 353	\$ 4,830
	<b>\$ 5,909,581</b>	<b>\$ 9,634,995</b>	<b>\$ 15,544,575</b>



## Public Finance



# Over \$1.5 B

In Bond Financing Projects  
(2012 – 2020)

Helped more than

# 5,600

Individuals and families  
purchase a home through  
Down Payment Assistance





THE PORT

# Economic Equity

Creating opportunities for residents and communities to share in prosperity



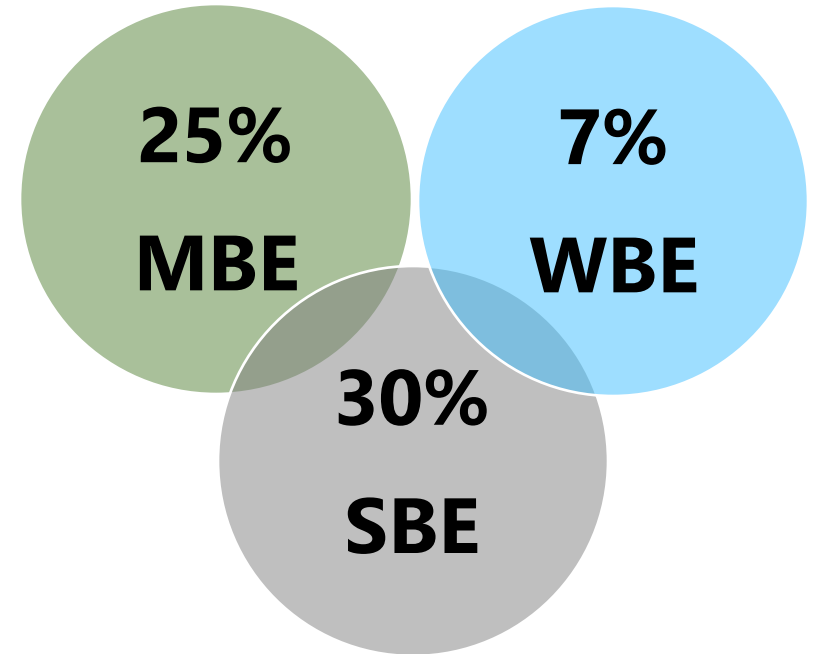
# Commitment to Inclusion

## Our Equity Team Leadership



Jilson Daniels

Vice President of Economic Equity



**African American Chamber**  
Greater Cincinnati | Northern Kentucky







# Investor Summit

**Two-day national and local investor challenge**

**Presenting investable opportunities**

**Lincoln Land Institute**

**Selected after national search**

# THANK YOU



**LAURA N. BRUNNER**

President & CEO

[lbrunner@cincinnatiport.org](mailto:lbrunner@cincinnatiport.org)



# Racial Equity in the Bond Markets



## Lourdes Germán

Executive Director  
Public Finance Initiative

*CDEFA BNY Mellon Development Finance Webcast Series:  
Racial Equity in the Bond Markets*

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Lourdes German  
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June 21, 2022





Photo Source: PBS





MINNESOTA HISTORICAL SOCIETY



PBS  
NEWS  
HOUR

#PBSNEWS

# Agenda

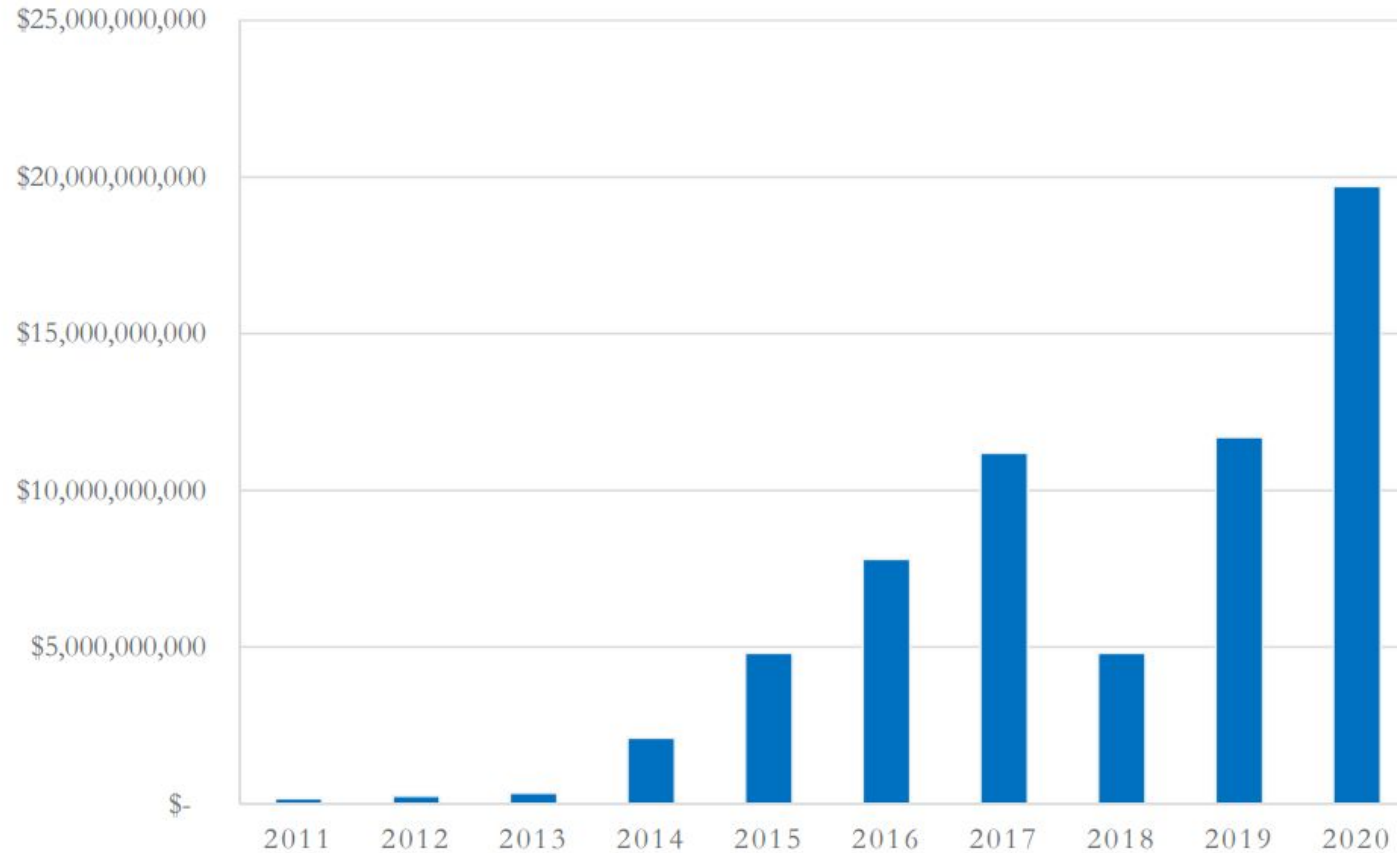
- What trends are we seeing in the municipal market?
- What noteworthy examples are we seeing?
- What work are we doing in this space?





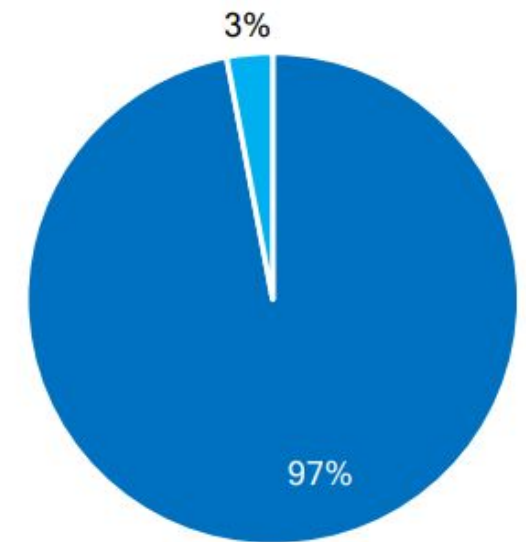
# Select Municipal Market Trends

*Chart I: Annual ESG Municipal Bond Issuance Volume, 2011-2020*



Source: Morgan Stanley Research, Bloomberg; May 26, 2021

*Percentage of ESG Labeled Social Municipal Bonds Adopting the ICMA SBPs*

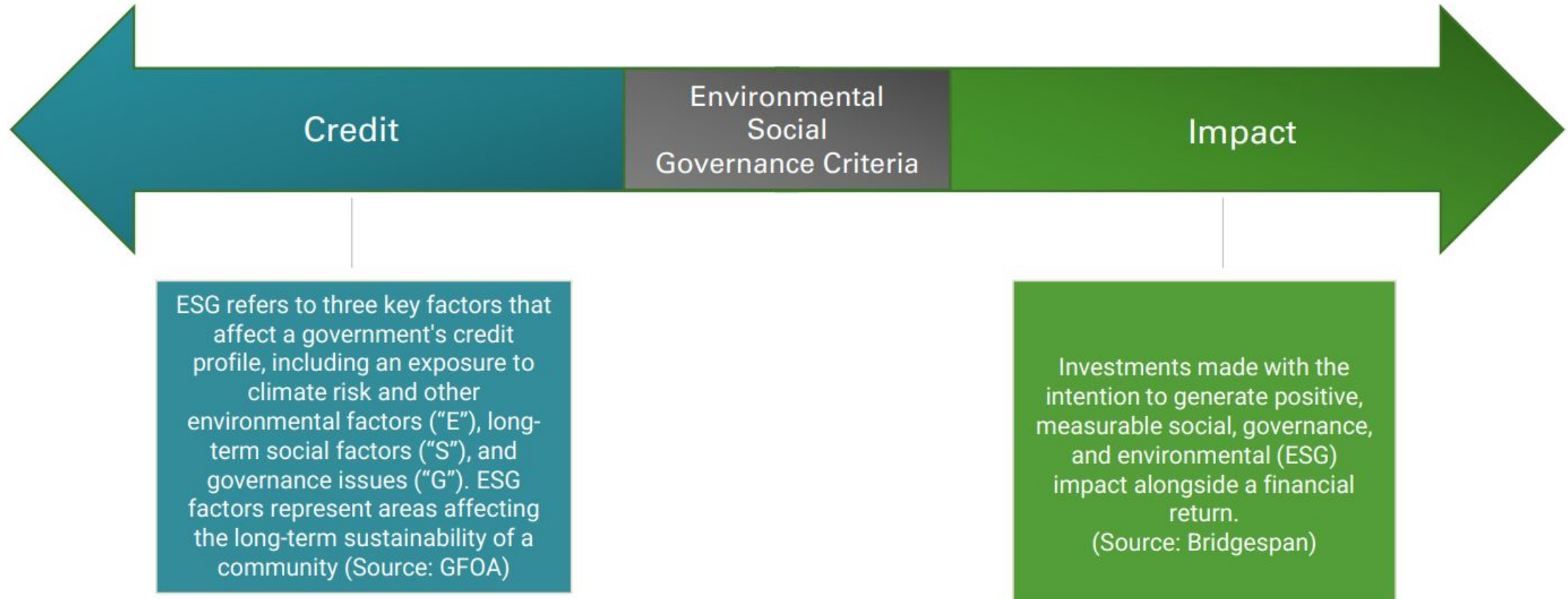


- ICMA Social Bonds Principles
- Other Principles & Frameworks

Source: ICMA



# Select Municipal Market Trends



# Select Municipal Market Trends

**S&P Global**  
Ratings

**RatingsDirect®**

Summary:

**Minneapolis, Minnesota; General  
Obligation; State Revolving  
Funds/Pools**

## **Environmental, social, and governance factors**

The revision of the rating outlook to negative from stable is informed, in part, by our view that the city is subject to elevated social risk relative to sector norms. George Floyd's death has exposed Minneapolis directly to large legal settlements, and the civil unrest and calls for police reform in its aftermath have created an elevated likelihood of the extraordinary costs mentioned previously that could pressure the city's budget for a prolonged period. Although we consider governance factors in line with the sector standards, we could revise our view of the city's governance risk in the future if its approach to police reform perpetuates conditions that could lead to greater social unrest, and with it, greater potential for economic and fiscal volatility. The city's environmental factors are in line with sector norms.

## **Negative Outlook**

### **Downside scenario**

We stress that while our outlook horizon has traditionally encompassed a period of up to one-to-two years, given the unprecedented nature of the pandemic and the rapidity with which circumstances are changing, we could take



# Select Municipal Market Trends

Where am I: [Home](#) / [News](#)

## Proposal N neighborhood improvement project gets final green light with sale of first \$175 million in bonds

FEB  
05

- Investor interest in Detroit bonds so strong they could have been sold 20x over
- City leverages intense interest to achieve low 3.36% interest rate
- Sale comes on the heels of S&P boosting Detroit's rating outlook to "Stable"

The City of Detroit's ambitious project to rehab 8,000 vacant homes and demolish another 8,000 got its first inf as the City of Detroit sold the first \$175 million in bonds of a planned \$250 million neighborhood improvement more than 70% of Detroit voters approved letting the city sell the bonds.

The bond funds will allow the city to begin the process of stabilizing and securing thousands of vacant Land Ba they can be sold for rehab and demolishing houses that can't be saved. The city plans to go to the market again additional Prop N bonds.

Interest among investors was so strong in this series of Detroit Prop N bonds that they could have been sold 20 Specifically, for this \$175 million bond sale, there were over \$3.4 billion in orders.

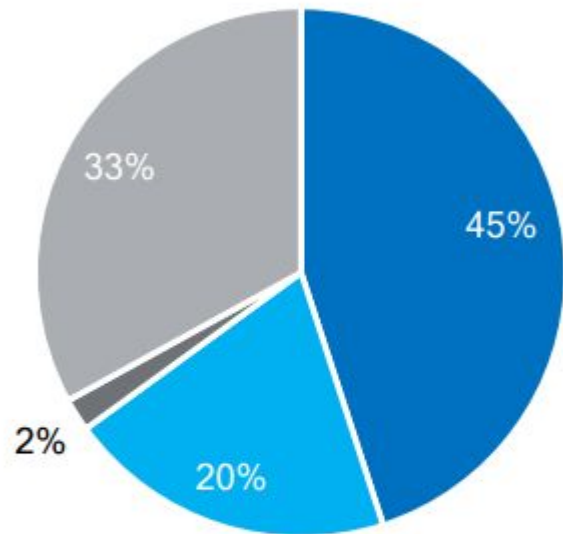
*"The City marketed these bonds with the "Social Bond" designation to attract Environmental, Social, and Governance (ESG) focused investors that are interested in financing socially beneficial projects."*  
*-City of Detroit*



*Select Examples*

# Sector Based Activity & Select Examples

*Infrastructure Sectors funded with ESG  
Labeled Social Bonds*



■ Education      ■ Mixed Purposes  
■ Other          ■ Housing

Source: Standard & Poor's

- Enterprise Community Loan Fund  
**(Affordable Housing)**
- Education Example: The Equitable School Revolving Fund  
**(Education)**
- State SRF Water/Sewer Revolving Funds  
**(Environment)**



# Racial Equity Bonds CDFI Issuance



- In 2021, Minneapolis-based U.S. Bank and Enterprise Community Partners sold a racial equity bond to support BIPOC developers building multifamily affordable housing.
- Enterprise is a nonprofit focused on investing in affordable housing; the organization also owns and operates 13,000 affordable homes.
- The \$30 million bond was issued by Enterprise Community Loan Fund, Enterprise's Community Development Financial Institution (CDFI).
- The money will support developers through Enterprise's Equitable Path Forward program. Enterprise will use the bond proceeds to finance loan capital to people of color-led community-based nonprofit organizations and mission-aligned for-profit developers. The loans are primarily for multi-family housing and community facilities. The loans themselves will vary in both type and stage of project development, including acquisition, construction, mini-perm, permanent and predevelopment.



# Equitable School Revolving Fund



- The Equitable School Revolving Fund has issued bonds to finance low-cost, long-term, fixed-rate loans to high-performing charter schools that serve predominantly low-income communities and underserved students.
- Past bonds have a use of proceeds strategy focused on expanding access to Essential Services (Education) and Socioeconomic Advancement and Empowerment for target populations that include children and adolescents who are economically disadvantaged or vulnerable, underserved by the US education system, and/or identify as Black, African American, Latinx, or of mixed races.





# State Water & Sewer Revolving Funds



- The Infrastructure Investment & Jobs Act (IIJA) passed in November, 2021 reauthorizes Drinking Water State Revolving Loan Funds (DWSRF), an incredibly important program for underwriting essential public services for small to mid-size cities.
- It enables \$48.4 billion over the course of five years for drinking water and wastewater spending at the U.S. Environmental Protection Agency, but it also increases the minimum percentage of additional subsidies designated for **disadvantaged communities** from 6% to 12%.
- The IIJA broadens the discretionary authority of states to assist disadvantaged communities with grants, negative interest loans, forgiveness of principal, and loan forgiveness for DWSRF revolving loan fund programs.
- States are empowered to buy, refinance, or restructure the debt of a **disadvantaged community**, which can act as a powerful tool that can result in meaningful support for the hardest-hit communities that need to finance essential services while operating with diminished resources.



*Our Work*

## CASE STUDY



### Making a Difference: Leveraging Municipal Bond Markets to Disrupt Systemic Inequities



### About this Investment

The \$4 trillion municipal bond market is one of the largest pools of private investment capital flowing into America's states and localities, shaping the built environment in communities across the country and directly impacting health and equity. Through a \$4 million grant, the Robert Wood Johnson Foundation is seeking to identify the factors in a municipal bond issuance that can create progress toward equity<sup>1</sup>. In addition, the grant will fund the development of tools that issuers can use to center equity in municipal bond-funded infrastructure investments and measure how the factors that shape equity are changing in a jurisdiction over time. **This first-of-its kind effort aims to empower communities across America to leverage bond market investments to disrupt historic, systemic racial inequities.**

### Why is it Needed?

Public infrastructure investments play a critical role in creating access to public transportation, quality affordable housing, education, water and sewer services, and other drivers of health and equity. Putting an equity lens on market strategies and investment practices that fund infrastructure can serve as a powerful intervention for historically underserved groups—especially residents of low-income communities and communities of color.



*Thank you*

# Racial Equity in the Bond Markets



## Chelsea McDaniel

Senior Fellow  
Activest

A photograph of a protest at night. In the background, a large building is on fire, with thick black smoke rising into a dark, cloudy sky. In the foreground, a line of police officers in riot gear stands across a street. A large metal structure with traffic lights and railroad crossing signs spans the street. To the right, a billboard for Firefly Mortgage is visible. The overall scene is one of civil unrest.

**ACTIVEST**

**WHERE THE FIRE OF SOCIAL JUSTICE  
MEETS FINANCIAL MARKETS**



**Chelsea McDaniel, Senior Fellow, Activest**

Chelsea McDaniel is a Senior Fellow with Activest. She has experience in corporate ESG policy, municipal finance, and economic development in the US and internationally. She has an MBA from Duke University.

## ABOUT ACTIVEST

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Activest is a voice for fiscal justice, which we define as the equity of municipal budgets.

We believe that cities and communities that treat their residents better realize stronger fiscal outcomes.

Our approach blends economic modeling, financial analysis, and social policy research to advance racial justice in municipal finance.



# WHERE THE MUNICIPAL MARKET GOES WRONG

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**Flint investigator says greed and fraud led to drinking water crisis**

Paul Egan, Detroit Free Press

Published 4:56 p.m. ET March 23, 2018 | Updated 7:38 p.m. ET March 23, 2018

## **Analysis: Where Governments Are Losing the Most Revenues To Tax Abatements**

**Bankrupt San Bernardino spars with creditors over police spending**

THE SACRAMENTO BEE **IMPACT2020**  
**THE SACRAMENTO BEE**  
**CHP overtime costs for George Floyd police brutality protests estimated at \$38.2 million**  
BY SAM STANTON AND SOPHIA BOLLAG  
JUNE 16, 2020 02:19 PM , UPDATED JUNE 16, 2020 04:24 PM

## **Addicted to Fines**

Small towns in much of the country are dangerously dependent on punitive fines and fees.

# WHERE THE MUNICIPAL MARKET GOES WRONG

Ratings Attributes	Moody's	S&P	Description
Economy/Tax Base	30%	30%	Health of the asset base relied upon to provide locally derived revenues.
Management	10%	20%	Rigor of a government's financial management decisions, policies, and practices.
Debt/Pensions	20%	10%	Governmental debt service as a % of total governmental revenue and expenditures.
Institutional Framework	10%	10%	Legal and practical state environment in which the local government operates.
Liquidity	10%	10%	Availability of cash and cash equivalents to service both debt and expenditures.
Budgetary Performance	10%	10%	Fiscal balance of the government, both from a general fund and total funds perspective.
Budgetary Flexibility	10%	10%	Forms of additional financial flexibility available to the government in times of stress.

### What's Missing?

- Predatory Revenues
- Social Unrest
- Lawsuits
- Economic Decay
- Climate Change
- Tax Abatements
- Public Health

# FISCAL JUSTICE HYPOTHESIS CONFIRMED

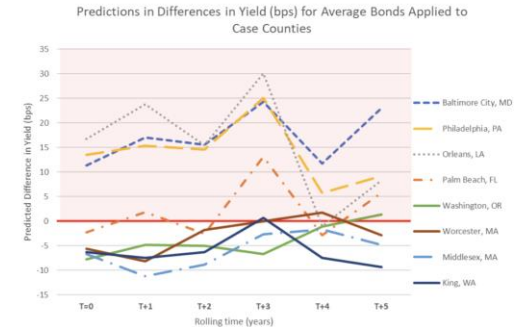
Key Findings: Fiscal justice is a measurable financial risk.

A 2022 academic study out of The Wharton School of the University of Pennsylvania concludes that, **“Of particular substantive importance** are a set of factors related to **racial justice including inequality in racial exposure to toxic waste, expenditures on public safety, and inequality in housing prices.**”—all of which are indicators within our Fiscal Justice™ methodology.

Black cities have historically been mispriced, accessed the market through unnecessary insurance or been underbooked or undersubscribed in order to access capital. Consequently, these cities are **paying a premium for capital.**

**Figure 3: Difference in predicted yield between county and “average” county for an average bond. Specific counties, with high and low overall ESG outcomes, are highlighted.**

Figure 3 applies the statistically significant ( $p < 0.10$ ) coefficient estimates to 2001-2018 average performance in the ESG variables for specific counties. Specifically, it plots the sum of the predicted difference in yield between the select counties and an average sample county based on individual coefficient estimates for each variable. Distance from the dotted line represents the difference in predicted yield based on the sum of individual coefficients on predicted yield to worst applied to each ESG variable. The coefficient estimates used were from Models 2 to 7 in Table 2, where robust standard errors are clustered at the county level. Authors' calculations based on data available from the sources outlined in section 3 and the data appendix. Note: the control variables are not used in the calculations; they are based on the ESG and inequality variables of interest only.



This figure shows how average county values across the statistically significant ( $p < 0.10$ ) ESG variables predicted higher or lower yield for select counties.

## KEY ISSUES: TRANSPARENCY

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Scale of fiscal injustices become more complex to define when issuers do not report items related to the fiscal justice methodology (ex. Tax abatements). Activest recommends more transparency and reporting so there is a real sense of an asset's risk.

For example, GASB 77 requires cities to report tax abatement allocations yet **only 28.9% comply**—according to [Good Jobs First](#).



## LOCAL GOVERNMENT FISCAL IMPACTS

While state and local taxes only equal 1.8% of a corporation's cost structure, abatements can account for significant losses of local government revenue.

Local Gov	Per Capita	Direct & Passive Revenue Losses	General Fund Revenue	% Gen Fund Revenue
New York, NY	\$401	\$3,389,468,000	\$79,339,507,000	4.3%
Chicago, IL	\$220	\$596,599,000	\$3,682,612,000	16%
Greenville, SC	\$211	\$13,248,017	\$91,018,295	15%
Kansas City, MO	\$190	\$89,811,000	\$538,306,000	17%
Kenosha, WI	\$181	\$18,032,574	\$62,770,779	29%
DeKalb, IL	\$177	\$7,657,438	\$33,034,444	23%
Glendale, CA	\$171	\$33,814,000	\$181,764,000	19%
Denver, CO	\$162	\$107,244,000	\$1,189,450,000	9%

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# Fiscal Justice

# THE FISCAL JUSTICE PROCESS

This approach works to address the critical shortcomings of municipal finance systems and restructure these systems to be accountable to and provide better service for disempowered residents.

**01**

## Community-Sourced Intelligence

Activest's approach changes the fundamental nature of analysis, by moving it from the hands of the few financial analysts at major agencies, to sourcing data and insights directly from the community.

**02**

## Measuring Risk

We use this novel information to quantify social risk (the cost of racial injustice) for community stakeholders using traditional and new methods of accounting and credit analysis.

**03**

## Change Municipal and Investor Behavior

Promote open-sourced, community-contextualized financial research that shifts investor behavior. Using a combination of facts (data), narrative change (research), and mobilization (investor and movement groups).

**04**

## Shift Capital & Power to Communities

As this new analysis is applied and adopted, we highlight solutions that shift power to disempowered communities who have given the most and received the least from municipal financial systems.

## MUNICIPAL ADVISORY: FISCAL JUSTICE FOR CITIES

✓ Budgeting for Equity Framework: Data will reveal gaps and disparities in resident outcomes when disaggregated by race, class, and neighborhood. A thorough data analysis sets up cities to conduct a more thorough root cause analysis of the forces and trends underlying and maintaining negative outcomes.

✓ Measuring for Equity Framework: For each municipal strategy or program, participants estimate the net fiscal benefit (positives minus negatives) as well as the equity benefits or drawbacks. Equity benefits might include the number of people served, or the expected positive or negative social ROI from a particular intervention (increased graduation rates, decrease in public benefits consumption, or an increase in arrest rates).





## HOW WE WORK WITH COMMUNITIES

Our approach centers the lived experiences, insights, and perspectives of BIPOC residents and local organizing allies. We will work with organizers with strong histories of resident engagement and leadership to train resident teams to formulate their own city credit analysis, local budget and policy analysis, and articulate a vision for reinvestment and reallocation of resources.

### WEST END TIF **EXPLAINED** expert panel

JOIN US THIS WEEKEND!

**Saturday, Nov 13**  
**10:00am EST**

Zoom Virtual Event / In-Person  
Watch Party / LIVE on Facebook



**WATCH LIVE**  
from Facebook on the  
Historically Black  
Neighborhood Assembly  
Facebook page:  
[Facebook.com/hbnassembly](https://www.facebook.com/hbnassembly)

**REGISTER ONLINE**  
to join the zoom audience.

**CALL (502) 383-1082**  
to inquire about watch  
parties happening in the  
West End for this event.

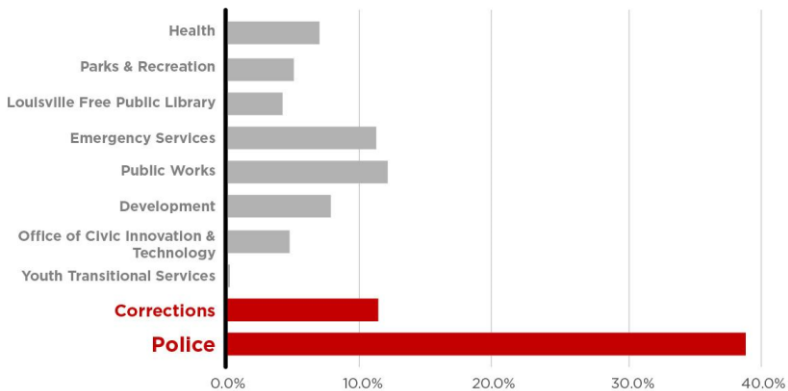
# ACTIVEST

ACTIVEST is an investment research and analytics firm led by social scientists, policy analysts, and public finance practitioners.

Chelsea McDaniel and Homero Radway will breakdown Tax Increment Financing (TIF) and how it impacts investment, municipalities, and residents of low-income communities within the development area.

# FISCAL JUSTICE RESEARCH: Louisville, KY

## LOUISVILLE METRO GOVERNMENT 2021-2022 BUDGET



### Lost Tax Revenues

- Occupational Taxes: -\$43,000,000
- Tax Abatements: -\$11,700,000

### Additional Expenses

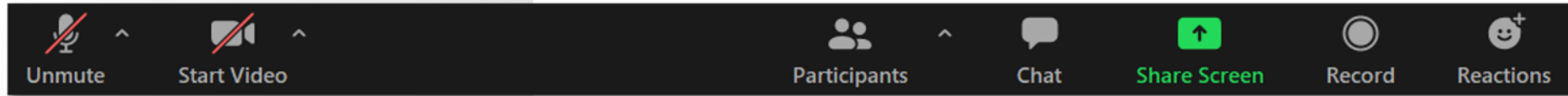
- Average Annual Police Settlements: \$7,215,886
- TIF West End Investment Allocation: \$30,000,000

### Campaign: #StoptheWestEndTIF

- Economic development solution to social issues
- Largest historic Black neighborhood
- Unfunded bond revenues
- 80% of tax above the base rate diverted to TIF

Source: <https://louisvilleky.gov/management-budget/document/2021-2022-louisville-metro-approved-detail-budget-final-web-1pdf>  
 Graphic provided by the Root Cause Research Center - [www.rootcauseresearch.org](http://www.rootcauseresearch.org)

# Audience Questions



**Submit your questions by  
using the chat function!**



# Upcoming Events at CDFA

## CDFA TRAINING INSTITUTE

We offer 17 courses in development finance designed for all skill levels. Learn more and register today at [www.cdfa.net](http://www.cdfa.net)

### **Intro Public-Private Partnership (P3) Finance WebCourse**

June 29 - 30, 2022 // Daily: 12:00 - 5:00 PM Eastern

### **CDFA Virtual Summer School**

August 1 - 4, 2022 // Daily: 12:00 - 5:00 PM Eastern

### **CDFA National Development Finance Summit**

November 2 - 4, 2022 // Denver, CO

# Contact Us



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## Brendan Barry

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