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Cambridge, Mass., Community-Sourced Minibonds Could Spark Market Trend.

Cambridge, Mass., raised $2 million through a sale of community-sourced minibonds, which the city and its underwriter say could further a trend in the $3.8 trillion municipal bond marketplace.

Public finance firm Neighborly underwrote the general obligation deal through its affiliated broker-dealer, Neighborly Securities.

“Our intention is to democratize access to municipal bonds,” said James McIntyre, head of finance for San Francisco-based Neighborly and a former executive director of public finance for Morgan Stanley.

Cambridge, a 110,000-population city across the Charles River from Boston and home to Harvard University and Massachusetts Institute of Technology, will use the proceeds to fund capital projects such as school building renovations and street and sidewalk improvements.

Officials marketed the tax-exempt bonds only to city residents, capped individual orders at $20,000 and lowered the minimum investment amount to $1,000 from the customary $5,000.

Retail orders began selling at the close of business on Feb. 17, at the start of the three-day President’s Day weekend. The sale closed March 8.

The Series A minibonds bonds pay a tax-exempt interest rate of 1.6% and will mature in five years, on Feb. 15, 2022, with the first coupon due Aug. 15.

According to Neighborly, more than 240 individuals invested in the minibonds. It marked the initial investment in a municipal bond for 45 of them.

Locke Lord LLP was bond counsel in Cambridge. Hilltop Securities Inc. unit First Southwest was the financial advisor.

Fitch Ratings, S&P Global Ratings and Moody’s Investors Service all assign triple-A ratings to Cambridge GOs.

“This will not only engage residents, but we will make them a financial partner in our infrastructure investments,” said City Manager Louie DePasquale.

A publicity campaign included pamphlets, “invest in Cambridge” mass-transit posters, a video and a huge sign in front of City Hall on Massachusetts Avenue.

According to neighborly founder Jase Wilson, the sale is a throwback to yesteryear.

“The most exciting thing about the Cambridge minibond issue is that it’s not a new idea at all,” he said. “It’s in fact the way our nation’s communities used to borrow money to build public projects.”

Denver, for example, issued its first minibonds in 1990. In 2014, the city generated $12 million through a crowdfunding in $500 increments, as part of a $550 million transaction to finance city road improvements.

“The minibonds definitely met Denver’s goal of helping residents invest in the community, so the project was well worth the additional resources and effort,” wrote Elizabeth Fu, a manager at the Government Finance Officers Association’s Research and Consulting Center.

“Of course, this tool isn’t for everyone,” she wrote, because some governments might have trouble with the additional workload, the level of resources needed for administration, or the additional cost.

Cambridge also sold $56.5 million in general obligation municipal purpose loan of 2017 Series B bonds competitively on March 1. Morgan Stanley submitted the winning bid with a true interest cost of 2.303%.

Proceeds from that sale will benefit sewer and stormwater, energy efficiency and street repair citywide, including Cambridge Common and tourist spot Harvard Square.

Neighborly’s director of business development, Pitichoke Chulapamornsri, said the firm structures bond financings to connect a city’s capital plan with its residents. “We are excited to help redefine the ‘public’ in public finance,” he said.

Wilson and bond broker Patrick Hosty founded Neighborly in Kansas City, Mo., in 2012. Wilson moved headquarters to San Francisco while Hosty still runs the Kansas City office. The firm also has an office in New York.

Neighborly plans deals similar to Cambridge this year in Burlington, Vt.; Austin, Texas; and Lawrence, Kan. – all home to state universities.

“Communities that are innovative and engaged are usually college towns,” said McIntyre. “They are the ones with the most participation.”

Harvard and MIT, two of the nation’s wealthiest universities and the two largest employers in Cambridge, fuel the city’s economy. According to Fitch, they employ more than 18% of the city’s workforce.

MIT, in particular, has built out significantly around the Kendall Square neighborhood near the river.

“Cambridge continues to maintain and strengthen its position as a national leader in the life-sciences and high-tech sectors,” Fitch wrote in a report. Expansions in these sectors have contributed to the tax base, employment and resident income growth over the past several years and is projected by the city to continue in the near future, the rating agency wrote.

The city has $377 million of debt, said Moody’s.

The Bond Buyer

By Paul Burton

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