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Berkeley To Use Blockchain For Tokenized Bonds.

The City of Berkeley, California will be the first U.S. city to explore blockchain-based financing to tackle social issues such as affordable housing. Mayor Jesse Arreguin and Councilmember Ben Bartlett are collaborating with the UC Berkeley Blockchain Lab and San Francisco-based financial startup Neighborly for the Berkeley Blockchain Initiative (“BBI”) to develop a tokenized municipal bond. According to Forbes, Berkeley had a similar idea twenty years ago with a local currency called “Berkeley Bucks.” This time, Neighborly explains, “[t]he initiative will explore how to harness the power of blockchain and cryptocurrencies to democratize access to public finance and improve social outcomes.”[1]

Termed an “initial community offering” rather than an initial coin offering (“ICO”), municipal bonds will be divided into micro-bonds and sold as a token as a new source of capital that will enable more Berkeley residents to invest directly in their community through various projects at low denominations. According to Coindesk, Councilmember Bartlett claims the offering will be less risky than an ICO because the tokens will be backed by an underlying bond. Residents will be able to choose specific social impact projects of interest compared to the traditional nature of a single bond that may be raising funds for multiple municipal projects. Councilmember Bartlett believes “[b]lockchain’s benefits, such as security, efficiency, transparency and speed, are not only applicable, but much needed at the government level to deliver better and more streamlined services to the people who need it most.”

Details on what this new token will be named and whether it will be issued on a private or public blockchain are up in the air, but the plan is to keep the initiative local to Berkeley. Issuing tokenized micro-bonds through blockchain will fund smaller ventures like purchasing an ambulance at first, but the City of Berkeley envisions the model will eventually fund affordable housing projects and could potentially give the homeless population access to other goods and services in the future.

This project may be a signal that tokenized public finance models could become mainstream in the near future. Local investors may like the flexibility that these municipal tokens allow in investing in smaller investments in specific projects the investors support. Bonds issued by states, cities, and municipalities are exempt from the registration requirements and certain of the reporting requirements under the federal securities laws. Nevertheless, these products are subject to the Securities and Exchange Commission’s (“SEC”) antifraud rules and therefore it is important that issuers make appropriate risk disclosures with respect to the crypto market and nature of the tokens to investors.

Issuers also should carefully weigh the risk of special treatment by the SEC. The agency may more carefully scrutinize bonds issued as crypto tokens out of concern that the issuer chose to issue crypto token bonds rather than traditional bonds to garner attention or to capitalize on the euphoria associated with crypto investments. This offering will test the waters for new security token issuances amid an environment where the SEC is scrutinizing a broad swath of so-called “utility” tokens for being unregistered securities.

[1] The statement can be found at neighborly.com/.

Last Updated: March 15 2018

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