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The ‘Black Tax’ Plagues Small Municipalities. Can Bond Banks Help?

An old idea is finding new life in the municipal bond market, where a stubborn complacency with conventional ways of doing things is being challenged by a fresh crop of market participants.

The status quo has long meant that smaller, poorer, public entities – often communities of color – face hurdles when they try to borrow in the muni market. What’s sometimes called the “Black Tax” can add nearly half a percentage point to borrowing costs for municipalities with higher proportions of Black residents, recent research shows.

Bundling bond deals from multiple municipalities through state agencies known as bond banks is a time-tested way of achieving economies of scale, with benefits for both issuers and investors. Now, bond banks are getting a new look as a possible tool for not just mitigating inequities, but tackling them proactively.

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