

Bond Case Briefs

Municipal Finance Law Since 1971

CNBC: Issue Municipal Bonds? No Thanks, We'll Crowdfund Instead.

When most towns need trash cans, they use money raised from taxes or municipal bonds. But when a city that emerged from bankruptcy less than a year ago needs trash cans, a touch of creativity is required. That's why Central Falls, R.I., is trying to use a method more commonly associated with Internet start-ups and low-budget movies: Crowdfunding.

In 2011, Central Falls became the only Rhode Island city to ever file for bankruptcy. And while the impoverished 1.2-square-mile city of about 20,000 residents never missed a bond payment, pensions were slashed, and the city budget became very tight. So tight, in fact, that the city couldn't afford to buy trash cans for its public park.

"We have these plastic blue bins that we literally got for free from the state," explained Stephen Larrick, the city's director of planning and economic development. "They're not mounted to the ground at all. So if they're empty, they will just blow over. Or kids will push them over. And the trash gets everywhere."

In addition to being unsightly, the spilled trash increases the city's maintenance costs. And since the cans don't provide a recycling option, Central Falls is also paying more than necessary to landfills, and missing out on a Rhode Island recycling-based rebate.

But due to the city's precarious financial situation, simply buying trash cans proved a daunting task for Central Falls.

"The outlook is bleak to get additional things funded," said Larrick (who is a college acquaintance of the author). "I don't have a line item that would cover that."

That point was emphasized by Len Morganis, the city's administration and finance officer, who is responsible for ensuring that the city abides by its bankruptcy plan. "There's very little discretionary spending," Morganis said. "There is not a lot of room for, 'Hey, this just came up, let's put ten grand towards it.' That doesn't happen."

And the city won't turn to the bond market for additional funding anytime soon. The city hasn't issued debt since the bankruptcy, and according to Morganis, "that's a long way off. We haven't even talked about it."

After all, even though Moody's recently upgraded the city's credit rating from B1 to B2, Morganis said bond issuance "would still be too cost-prohibitive."

So Larrick turned to crowdfunding, and specifically to a new company called Citizeninvestor. Its concept is simple: Municipal employees post projects that they are trying to get funding for on to the site. Citizeninvestor, which is a for-profit company, increases the total project costs by 8 percent—3 percent for transaction fees, and 5 percent for the company. Individuals then donate online, and their credit cards aren't charged until the project is fully funded.

“We’re giving citizens an alternative way to fund projects,” explains Citizenvestor co-founder Jordan Raynor. “Government has never had enough resources to provide every good and service that citizens want. This was exacerbated by the recession, but it’s always been true.”

But while the need was simply for mounted trash cans with a recycling capability, Larrick wanted something more. He wanted the project to “reflect a sense of place or purpose.”

He also needed the somewhat-staid municipal project to stoke interest online. So he proposed artistic garbage bins constructed by The Steel Yard, a Providence, R.I.-based nonprofit industrial art firm.

All in all, the project, which would see five creative garbage units installed (each with a bin for trash and a bin for recycling) has a price tag of \$9,300. With Citizenvestor’s 8 percent added on, the city is trying to raise \$10,044. The project quietly went live on Friday (“Clean up CF: New bins in Jenks Park”) and as of Wednesday evening, \$246 has been raised from eight people.