

# **Bond Case Briefs**

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## **Want a Bike Path? Pay for It Yourself.**

Crowdfunding is one way to get a local project done. But wait a minute—what do you pay taxes for?

Your friends ask you to fund their marathon training, their home renovations, even their potato salad. Why not crowdfund something you'd actually use, such as a bike path or a public park?

That's what a growing number of startups are helping people do, as communities with a goal look for sources of financing outside the municipal bond market.

"More and more, people are seeing this as a great alternative avenue ... to going through your tax dollars or local public servant," says Slava Rubin, the chief executive officer of Indiegogo, a crowdfunding platform. Rubin says he started seeing public works projects on the site in 2011, with campaigns funding such small-scale infrastructure projects as a \$1,000 dog park in Chicago, and that he expects interest only to increase.

"Government is a very slow-moving industry, and it's quite bureaucratic. ... Indiegogo, and anybody who creates a campaign, is able to move much more nimbly," Rubin says.

The pickup in crowdfunded infrastructure projects comes at a time of waning city budgets and interest in funding projects, says Erin Barnes, a founder of Ioby, a startup that helps neighborhood residents kick-start public works development. Brooklyn-based Ioby has helped individual contributors fund about \$2 million in projects, such as bike lanes, gardens, and park landscaping.

### **Taking on the Muni Market**

Federal and state governments are spending less on public works projects than in recent years, despite historically low interest rates, with transportation and water infrastructure spending in the U.S. declining about 9 percent from 2003 to 2014, according to a Congressional Budget Office report. Tracy Gordon, a senior fellow at the Urban Institute's State & Local Finance Initiative, says public-private partnerships are starting to fill the void.

"What I hear a lot is that debt is a four-letter word," she says. "There's a strong anti-debt, anti-tax sentiment out there. Politicians are very concerned that voters won't approve a municipality selling bonds ... to fund a project." When municipalities do sell or refinance bonds, it's more likely to pay for a large-scale project with a lot of community visibility, such as a school or a stadium. Crowdsourcing allows communities to target projects with smaller price tags that might otherwise get overlooked.

"They might not rise to the top in some other government processes in financing public projects," Barnes says of the kinds of projects funded on Ioby's platform. "When neighbors fund something in their community, it sends a signal [to city organizations] that there is significant buy-in."

The Downtown Denver Partnership used Ioby to raise \$36,085 for a protected bike lane expected to open this fall, says Aylene McCallum, the director of the partnership's downtown environment division. She says the project garnered significant interest and the selection, design, and construction of the project will take one year compared with three or four years for other buffered or

protected bike lanes in the area.

Critics of the project say the city should have funded the project with the tax dollars residents are already paying for such projects, McCallum says. "It was important to explain that we didn't see this as an ongoing funding approach to fund infrastructure," she says. "We saw it as an opportunity to kick-start, if you will, a specific project in downtown Denver to demonstrate to the city that there was broad support for it."

The Urban Institute's Gordon points to another potential problem with the model. "A lot of the things we've talked about seem like amenities for affluent areas," she says. "You have to wonder about that desperately needed capital improvement across town, where perhaps the neighbors aren't as well mobilized."

## **How the Golden Gate Bridge Got There**

Many community-interest projects are still funded by traditional sources. When they are, startups such as Neighborly are helping individuals play a role. The company, which says on its website it is "democratizing the \$3.8T municipal securities market," aims to allow users to buy portions of a municipal bond rather than the whole thing.

"Most people don't think to go, 'Hey, I'm going to go buy a municipal bond,'" says Jase Wilson, the chief executive officer of Neighborly. "It's about breaking down the minimum denomination on one side so there's more of a democratic access. It's about demystifying it."

Wilson says Neighborly seeks to sell municipal securities through its registered broker-dealer and tries to make it easy for investors to understand where their money is going. He says he hopes the company will help rekindle local involvement in the municipal market, which once created such projects as the Golden Gate Bridge. At the moment, the bond market that millennials' grandparents invested in is gone, he says.

"They would go buy bonds in their own community for a project they support," Wilson says. "They would put [the bond certificate] under their bed and clip the coupon, and they would just get some ice cream. It was super local, super hands on, super regenerative."

Mitchell Moss, an urban planning professor at New York University, says crowdfunding municipal bonds would be a breakthrough for issuers, underwriters, and investors.

"It's a terrific way to access capital very inexpensively," Moss says. "We could have a revolution in the municipal bond market by making it as easy to use as an ATM."

## **The Shakeout**

Jouko Ahvenainen, the executive chairman of Grow VC Group, which works on crowdfunding investment models, says bringing municipal bonds to digital investing services will make the market more efficient. Still, Ahvenainen says, the market is fragmented, and it's too early to tell how the nascent sector will shake out.

"There will be consolidation and companies with models that disappear," says Ahvenainen, whose company works on crowd-based investment models.

It will depend on how well technology can get investors to provide the capital the issuer needs, says Thomas Doe, the president of the research firm Municipal Market Analytics. Although the impact of companies such as Neighborly won't be seen until more deals are done, the tax-exempt status of

municipal bonds is piquing investors' interest, he says.

"People are intrigued. They're engaged by the passion and excitement displayed by a couple of these firms," he says. "It may happen in smaller communities first."

Gordon, of the Urban Institute, says increased access to household investors doesn't necessarily mean governments will start issuing more debt.

"It doesn't replace large-scale infrastructure projects or maintenance," she says. "I don't see these firms displacing governments."

## **Bloomberg**

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