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Bonds on the Blockchain: Streamlined, Low-Cost, Transparent Funding

Berkeley, Calif., is getting ready to test using blockchain to issue micro bonds to raise money for city projects, such as affordable housing.

City staff are fine-tuning plans for a pilot test of a program the city council unanimously approved on May 2 that would let the city issue micro bonds in amounts of $10 to $25 — much lower than the current minimum of $5,000. That would make bonds more accessible to more people.

“These bonds — we call them micro bonds because they’re small — are really cool because you can target them to make one building,” said Ben Bartlett, the city’s vice mayor. “They’re extremely flexible like that because the cost is so low, and they’re fast, too. The micro bond proposal is leveraging the blockchain to crowdfund bonds, essentially. You can also do geotargeting to the bond.”

Blockchain is a decentralized digital ledger in which transactions are quickly recorded. Benefits of the technology include greater security and transparency.

“Blockchain technology is attractive because it allows you to instantly record transactions indelibly, and it can’t be altered,” Bartlett said. “When you can do that, you lower the cost so much on issuance that you can make the bond available for 25 cents, honestly.”

The pilot test will likely start in the fall and raise funds for a $3 million firetruck, he said — something “attractive and visual for the community to see.”

But Bartlett has bigger applications in mind. One is to address Berkeley’s shortfall in affordable and homeless housing. Beyond that, he’s looking to use blockchain to secure voting and managing internet-of-things applications such as street lights and connected city vehicles. For this goal, Bartlett and Mayor Jesse Arreguin launched the Berkeley Blockchain Initiative with the Blockchain Lab at the University of California at Berkeley and Neighborly, which applies technology to municipal finance.

“Currently, governmental entities sell their bonds to banks who then resell the bonds to numerous intermediaries before reaching an investor,” Bartlett wrote on Medium. “Each intermediary charges fees and mark ups. The UC Berkeley Haas Institute estimates that bond issuers lose approximately $4 billion annually as a result of this process.”

Issuing bonds via blockchain would disrupt this process by letting government entities, nonprofit organizations and owners of properties that provide low-income housing, for example, to issue micro bonds directly, removing the middle man and democratizing asset ownership, he wrote.

The idea came to Bartlett after a series of actions by President Donald Trump. One was the December 2017 tax bill that reduced corporate tax rates from 35 percent to 21 percent. That decreased the incentive corporations had to seek breaks for investing in things the government finds

“noble,” such as affordable and senior citizen housing, Bartlett said.

Last year, Trump suggested pulling federal funding from UC-Berkeley after protests turned destructive, and as part of his immigration reform plan, he’s threatened to withhold funding from sanctuary cities such as Berkeley, which limit their cooperation with federal agencies on immigration enforcement.

“There’s a lot more people using facilities, a lot more people needing housing and a lack of funding,” Bartlett said. “How do you avoid bankruptcy, how do you stall the growth of homelessness? How do you keep people well? One way to do that is to let the jurisdiction increase wealth for itself.”

Because the municipal bond market is worth about $3.8 trillion, Berkeley’s proposal is attracting attention. Bartlett said he’s spoken about the idea in front of 120,000 people at various conferences and fielded calls from at least 30 cities, several states and even other countries. “Everyone’s seeking this new way to speed capital and improve their communities,” he said.

The Berkeley city council isn’t the first public-sector entity to consider blockchain for government applications. Delaware is looking into using blockchain to streamline the incorporation process for companies that want to form Delaware-based businesses.

The Illinois Blockchain Initiative, a consortium of state and county agencies that explores ways to leverage the technology, has partnered with identity solutions firm Evernym to provide self-sovereign digital identities.

According to a 2017 report by the National Association of State Chief Information Officers, potential use cases for blockchain include property, finances, public and private records and physical asset keys.

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