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How the Opioid Crisis Hurts Muni Finance Stability: New Study

The opioid crisis has a profound effect on municipal finance, according to a new study from U.S. researchers.

The study found that municipalities with higher levels of opioid abuse also saw lower credit ratings, reduces bond issuances and reduces access to capital.

The paper, titled *Opioid Crisis Effects On Municipal Finance*, can be read here.

From the paper:

> Using nationwide data at the level of every U.S. individual death certificate, every prescribed opioid pill, the totality of municipal bond issuance, and county-level socio-economic variables, we find that opioid abuse results in higher offer yields, lower credit ratings, and reduced bond issuance. Specifically, highly affected counties face offer yields that are 16.74 bps higher compared to less affected counties and reduce total issuance amount by nearly 9%. Given the average annual issuance of $167 million per county, our results imply a reduction of about $15 million in annual funding that could have otherwise been raised, an amount roughly equivalent to twice the average price of a new elementary school (see Cornaggia et al., 2018). Because there is significant within-state dispersion in the severity of the crisis, our county-level study links local opioid abuse to credit risk and capital market outcomes at a granular level.
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> Overall, we conclude that opioid abuse has significant adverse effects on local government access to finance. We further conclude that the effects manifest more strongly through the issuance quantity channel (sizable reduction in funding amounts raised) than the issuance price channel (economically smaller impact on municipal bond offer yields). Credit supply reduction can further amplify the negative effects of opioid abuse on local communities, as lower and more expensive credit reduces the provision of municipal services and infrastructure. Our results commend policies such as federal (or state) subsidized bond insurance for highly affected counties in order to alleviate credit constraints and mitigate the potential for such negative cycles.

by CivMetrics Staff | Apr 29, 2021