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Pacific Northwest Firm Wants Blockchain to Work for Small Muni Borrowers.

A firm in the Pacific Northwest is trying to take blockchain-based municipal borrowing mainstream, and has announced its first loan in Oregon after launching with issuers in its home Washington state.

Small issuers in particular stand to benefit from, say the founders of Alpha Ledger Technologies, which just recorded a \$1.345 million loan for the Port of Astoria, Oregon, its second such loan and first in Oregon.

"This is a historic event in the democratization of municipal finance," Alpha Ledger CEO and co-founder Manish Dutta said in a LinkedIn post Tuesday.

In a deal that builds on municipal loans done by Alpha Ledger since 2019 in Washington state, the Special District Association of Oregon Advisory Services was municipal advisor to the Port of Astoria for the taxable loan financing.

The municipal market can be divided into two lending sectors - municipal bonds and municipal loans. Muni loans are often focused on smaller, less liquid issuers, such as small towns and villages with buyers such as community banks.

Blockchain is technology that uses computing power to generate a distributive ledger for transactions. It is often associated with cryptocurrencies, but it can be used for any type of financial payments or actions that need to be recorded. It is both decentralized and transparent, boosters say.

Blockchain allows a smaller muni loan to be digitized and placed up for sale. Auctioning off the loans directly can be good for issuers because they will see lower costs and it also fosters market competition while providing a liquidity for community banks that wasn't there before.

While blockchain is often associated with Bitcoin, these muni transactions - while they are tokenized digital assets - are denominated in dollars and not crypto-currency. Its aim is efficient custody and clearing combined with blockchain to make the loans cheaper to issue and easier to transact.

SDAOAS, an organization that represents several hundred special district issuers in Oregon, has informed them they will now be able to issue debt through this system and that banks all over the Western United States will be able to bid on the loans.

SDAOAS invited 31 banks to bid on the Port of Astoria loan last month and the winning bid on the platform was from Kitsap Bank in Port Orchard, Washington.

The port was trying to refinance an outstanding loan to lower interest rates and avoid a balloon payment, according to port commission agenda packets that make little or no mention of the word blockchain.

The Kitsap Bank term letter to the commission simply states that “The Bank is prepared to close via either scanned documents or the Alpha Ledger Platform.”

Dutta, Tammie Arnold, head of business strategy, and Chris Wade, president and CTO, founded Alpha Ledger in 2019.

Dutta and Arnold had previously worked for PIMCO and crossed paths when working on exchange traded funds. They decided their new firm would develop and build a space for blockchain fixed-income infrastructure and applied for their broker/dealer license and built that business from the ground up.

“We recorded our first municipal loan transaction in 2019, making us the first one to do it,” Dutta told The Bond Buyer Tuesday. “We were making sure that we could put together an infrastructure that allowed the issuers to connect to the community banks.”

Dutta said as the firm built its business it was introduced in May 2020 to the Riverview School District in Washington, which was having challenges raising capital during the height of the COVID-19 pandemic.

“We then helped the district raise capital through our platform,” Dutta said, adding this was also through community banks.

“The amazing thing about this story is that this school district was looking to raise some capital and they called the banks and got some bids that they weren’t happy with,” he said. “So we brought the school district onto our platform, they created an RFP and they were able to get a winning bid.”

Arnold said it was a natural fit for the firm.

“We’re based in Poulsbo, Washington, just outside of Seattle,” Arnold told The Bond Buyer. “So it was very natural for us to work with individual issuers in the state of Washington and develop relationships in the state as we built our business.”

Arnold said the firm has plans to expand in the United States.

“We are already working on building relationships across states – mostly in the Western part of the U.S., but we have aspirations to do our work across the country,” she said, adding that as a young firm it is starting off in the part of the country that they already know well.

She noted that the firm “is a company that is built from a first principles level. We have thought through the implications of digitization throughout the life of fixed-income instruments. We have worked to build a platform that is open, direct and transparent.”

“And we are starting here in the municipal loan market and we’re super excited about our work in that particular part of the market today,” Arnold added.

Dutta said it is satisfying to “innovate in a market that is of great importance to our country and infrastructure.”

Arnold said it is important to look at the process of bringing institutional economics to smaller transactions.

“Through a combination of modern technology and process change related to the municipal market, we have really thought through and addressed the economics around small transaction size,” she

said.

This new system is seen not only as an upgrade in providing added market efficiency, it's a total change in the way of doing business in the muni loan space from moving from paper to cyberspace.

Alan Konevsky, the chief legal officer at tZERO, a financial technology firm, says that digital technology is the wave of the future and that local governments are starting to ride it.

"The United States has reached an inflection point of secular acceptance of digital infrastructure and blockchain technology, and recognition that it is a far superior way of recording, tracking, exchanging and storing value than legacy systems, whether it's in the realm of payments or securities flow in the capital markets or other use cases," Konevsky told The Bond Buyer.

He said the COVID-19 pandemic probably had something to do with accelerating that recognition because of the increased use of digital payments while people were at home.

"It's another step on the journey of integrating this technology into everyday society," Konevsky said. "What digital technology did for data and voice for the internet, it's going to do the same thing to value and money."

By Chip Barnett

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