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Texas' Anti-ESG Stance is Costing Municipalities Millions in Extra Interest Payments.

Texas banned municipal bond issuers from using ESG-minded banks—and now they're paying the price

In 2021, the Texas legislature prohibited any cities or towns in the state from using banks that limit financing for the oil, gas, or gun industries. As a result, five major municipal bond underwriters, representing more than a quarter of all competitive-bid municipal bond offers in Texas, withdrew from the state.

That meant municipalities issuing bonds were more likely to engage in negotiated borrowing rather than holding a bid auction—which also meant they got more expensive financing. For municipalities that had relied on the underwriters that left the state, borrowing costs went up by an average of 0.41 percentage points, researchers have found (pdf).

According to Daniel Garrett at the University of Pennsylvania's Wharton School and Ivan Ivanov of the Federal Reserve Bank of Chicago, Texas municipalities will be paying $300 million to $500 million in additional interest because of the tougher loan terms. And that's just on the $31.8 billion borrowed in the first eight months after the anti-ESG law went into affect.

Continue reading.

Quartz

By Nate DiCamillo

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