Bond Case Briefs

Municipal Finance Law Since 1971

Bond Villains: How a Little-Understood Feature of Urban Finance - Municipal Bonds - Fuels Racial Inequality.

Municipal governments today hold around $4 trillion in outstanding debt. For many cities, the growing costs of simply servicing their debt is cannibalizing their annual budgets. When municipalities get in trouble, it's not uncommon for around a fifth of a big city budget to go to debt service alone. This is far from a new development. Since the birth of the modern city in the nineteenth century, cities have turned to the private sector to fulfill their immediate cash needs by issuing what are known as municipal bonds.

The bond market, despite its invisibility to the public, has long been the oil in the gears of our society. If a city needs a dilapidated bridge secured, a school building updated, a transit expansion funded, or, in the case of Flint, Michigan, in 2013, a new water pipeline built, they issue a bond. The bond—a kind of loan, in essence—is bought from the municipality by a bank or a syndicate of banks and bond dealers. Together they raise the money necessary for the project through a process called underwriting, offering shares to investors and in turn making money from transaction fees and interest rate spreads—the difference between the price they paid and the premium they will charge.

In most cases, the bond itself is guaranteed by the taxation of residents, or the fees they will pay to access the service. The conveyor belt of highway toll stations to get from New York to New Jersey is one such example: residents bear the financial burdens of the municipal debt taken on in the construction of the city's streets, parks, schools, and hospitals.

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Boston Review

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August 16, 2023