WSJ: How Your Town Can Feel the Weight of the National Debt.

Rising bond yields are lifting long-term interest rates for some local governments

Key Points

- House bill advancing increases deficits, unsettling debt market and pushing municipal borrowing costs higher.
- Treasury rates rose after House passed budget bill that would add nearly $3 trillion to national deficit.
- Federal policy has previously led to higher interest costs for local governments, such as after Trump's tariffs.

City and state borrowing costs edged up this past week when House lawmakers advanced a bill that would increase deficits. With concerns about federal spending pressuring the bond market, here is what to know about how U.S. borrowing may affect your state or local government.

The details

Yields crept upward on some long-dated municipal bonds after expectations of increased federal borrowing unsettled the debt market. Some Chicago airport bonds maturing in 2053 traded at 5.15% this week, the highest level since President Trump's tariff's broadside in early April. Yields also increased on bonds that raised money for Texas toll roads and student housing at the University of Tennessee.

The context

While local governments get some federal dollars such as grants toward education and policing, they mainly rely on revenue from local sources such as property and sales taxes. The amount they pay to borrow, however, is affected by longer-term Treasury rates. Those rose after the House passed a budget bill that would increase projected federal budget deficits by nearly $3 trillion through 2034. That is because the Treasury would likely sell bonds to fund all that spending and the flood of new debt might require them to offer higher rates to find enough buyers.

The big picture

It isn't the first time this year that federal policy has led to higher interest costs for local governments. Muni rates jumped after Trump first announced wide-ranging tariffs in early April, unsettling the market.

Muni fallout from an uptick in the national debt is more unusual. America's deficit spending rarely bothers investors much. And when federal dollars flow to highways or national parks, local economies often benefit. Plus the federal government helps cities and states secure lower rates from investors by not collecting income taxes on muni bond interest.

A few municipal borrowers are dependent on the federal government though, and they are hurting. For example, Moody's Ratings recently downgraded the credit of Washington, D.C., and the Smithsonian Institution.

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