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How Political Alignment Between Cities and Governors Shapes Municipal Borrowing Costs.

In new research, Ramona Dagostino and Anya Nakhmurina discuss how political misalignment between state governors and city leadership can affect how cities access financing, particularly in municipal bond pricing and crisis prevention investment.

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When Hurricane Harvey devastated Houston in 2017, the city confronted first a humanitarian crisis, then a political one. As the Democratic mayor of Texas's largest city sought billions in recovery aid, Republican Governor Greg Abbott was loath to open the state's purse, igniting weeks of tension about accessing the rainy day fund for Houston's reconstruction. The state eventually did release some funds, but not at the scale or speed Houston requested. The disagreements were prolonged and ultimately delayed Houston's reconstruction. A 2022 audit by the United States Department of Housing and Urban Development found that additional dispute between the city and the Texas General Land Office had put recovery grant funds at risk and introduced further delays in their distribution.

In Huntington Beach, California, the conservative-majority city council has enacted policies that frequently conflict with the state's progressive policies. For example, the city refused to comply with Governor Gavin Newsom's agenda to build more affordable housing. In September 2025, a California appeals court ruled that Huntington Beach must comply with state law planning its proportional share of residential development. The judge is considering imposing fines that could range from $10,000 to $100,000 per month, and—under certain conditions—be "multiplied by a factor of six," potentially reaching $600,000 per month. This is in addition to a previous $3.5 million in legal fees that would ultimately be funded by taxpayers.

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