

Berkeley moves forward with first-ever municipal market blockchain issuance

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The **City of Berkeley, California** released today a request for proposal (RFP) to advance its microbond proposal, seeking firms able to provide services for the establishment of the first municipal bond market issuance using blockchain technology.

The city is seeking a firm to manage “begin-to-end” services for the establishment and execution of the new financing program. A microbond or minibond is a smaller issuance of a traditional muni bond. The initial pilot financing is estimated to total between USD 2m and USD 5m to acquire “high-value city assets such as fire trucks, garbage trucks and other material well suited for this financing program.”

The securities will be sold in denominations as low as USD 100 to maximize investor participation, and it will be marketed to local investors keen to finance projects within their community, according to the RFP. Traditional munis allow for purchases in denominations of USD 5,000 or USD 10,000.

Blockchain technology, or a distributed digital ledger, will allow for cost-savings and increased disclosure of secondary market trades and ongoing bond administration. The city is looking for a firm to design and create a bond sale and administration platform, to manage pre-sale marketing, the eventual bond sale and ongoing bond administration.

Initial estimates suggested the city could save 48% on issuance costs but it is likely to be less than that given that the issuance will be an initial pilot test, said Councilmember Ben Bartlett. This issuance is the first step toward building a robust platform for blockchain in the municipal market, he said.

“It may cost more than a normal issuance, one or two points, but once the process is built out, you’ll see savings, just like anything,” Bartlett said. “This, of course, is intended to be foundational for a new way to address our deep, deep infrastructure deficit across a strata that communities are responsible for across the country and the world – ways to speed capital flow and increase access need to be embraced.”

Local investor engagement and being viewed as a pioneer in public finance could be beneficial to the city, although it is difficult to quantify those benefits and could be offset by myriad of unknown factors and staff resources associated

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with a microbond financing program, according to a report by NHA Advisors for the city.

Targeting the local community rather than the larger municipal bond market may help ensure the success of the issuance as there are many questions surrounding blockchain technology. Non-traditional investors, and investors purchasing lower-denomination securities are less likely to be concerned with ongoing disclosure issues.

“I think disclosure is less of an issue for a microbond – if someone is investing 25 dollars in a municipal bond will they be going out and looking for disclosure?” said Marc Joffe, senior policy analyst for the Reason Foundation.

Berkeley’s RFP says that the issuance will be marketed and sold through an “emerging” technology platform to crowdsource participation, sell bonds and administer the program. The city is seeking assistance in developing an “innovative, community-supported financing program utilizing emerging or established technology.

They’ll further require assistance to provide on-demand, real-time audit functionality, ensured continued regulatory compliance and the ability to re-issue bonds if lost or stolen.

“Governments are still figuring out how to treat this stuff, it’s untested and inherently risky because we don’t know how exactly it will be regulated,” said Julie Hamill, attorney at Harris Bricken. Hamill is the author of a white paper prepared for the International City/County Management Association and the Government Finance Officers Association.

“If there’s a regulatory framework, solid and in place and understood by everyone involved, that will change the game,” Hamill said. “But until that happens, I don’t see the municipal market being a pioneer using untested, unregulated systems. The risks and ramifications are just too great.”

Blockchain has the potential to improve local government processes by enhancing transparency, efficiency, integrity and data management, Hamill said. A private blockchain is collectively owned and operated by a group of identifiable and verifiable institutions, like businesses, universities or local governments.

The blockchain technology has applications beyond cryptocurrency. Blockchain has “innumerable” potential applications, including assuring data integrity, maintaining auditable records and creating self-executing smart contracts, Hamill said. For local governments, distributed ledgers can reduce transaction costs for the delivery of services, while also providing greater transparency and

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opportunity for participation by citizens, and none of these potential uses require cryptocurrency, she said.

Responses to the RFP are due 23 January 2020.

A handful of municipalities have used minibonds for decades to access a broader group of potential investors and avoid fees associated with a standard bond issuance, according to a City of Berkeley staff report. Dating back to 1990, issuers include Mission Viejo and Anaheim, California, New York City, the Los Angeles Department of Water and Power, and the City of Denver.

Maintaining the list of bond owners and facilitating transfers between bond owners has typically been managed by DTC Corporation, but there may be additional disclosure costs, which has the potential to result in an overall higher cost of issuance, according to the staff report. Further driving up costs is the unique nature of a microbond financing, which is likely to require a greater amount of staff attention for the financing process.

by [Maria Amante](#)

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