Freedom to Invest

The Cost of Restrictions:

How State Bills Are Driving Up Costs in the Municipal Bond Market

Since 2021, lawmakers in 39 states have introduced 469 bills aimed at restricting pension boards, state and municipal governments, and the private sector from considering all financial risks in their decision-making, including economic, geopolitical, or climate-related financial risks and opportunities. The overwhelming majority of these proposals have failed—largely due to private sector concern. Only six passed in 2024. But similar measures continue to be proposed in state legislatures in 2025.

These state laws impose rigid constraints on state and municipal governments in the $4 trillion municipal bond market, preventing them from accessing the most qualified financial and corporate partners, undermining financial decision-making, and reducing competition.

Economic Impact

State examples and research demonstrate the negative impact of these bills on the municipal bond market, including:

- Increasing interest rates on municipal debt offerings
- Increasing borrowing costs paid by taxpayers
- Increasing regulatory burdens and costs
- Undermining the free market by restricting market participation

Reduced Competition Drives up Costs for State and Local Municipalities

- In 2021, Texas enacted SB13, banning municipalities from doing business with banks over responsible investment practices. The immediate fallout was the exit of five major bond underwriters from the Texas market, reducing competition and driving up borrowing costs for local governments. In just the first eight months after the law took effect, Texas bond issuers paid an additional $267 million in interest on $31.8 billion of bonds, estimates the Federal Reserve Bank of Chicago and the Wharton School of Business

- The debt issuance transaction costs associated with Texas' restrictive laws are costing the state nearly **$700 million in lost economic activity and local and state tax revenue** and more than **3,000 jobs**, estimates the Texas Assocation of Business.

- In 2022, lawmakers in Oklahoma enacted similar legislation, the Energy Discrimination Elimination Act, to restrict municipalities' access to underwriters. An economic study found Oklahoma municipalities could have faced similar restrictions that would have raised borrowing costs more than 15%. The study estimated $184 million of additional expenses have already been locked in because of the law, which is currently under permanent injunction by state courts.

- A Bloomberg analysis revealed that there are additional costs from restricting competition, since these laws act as a hidden tax on state and local taxpayers. Texas is paying 19 basis points more than California to borrow in the bond market, while Florida is paying 43 basis points more due to similar restrictive legislation—a record-level deterioration in yield compared to California.

- Small municipalities have also felt the impact of these bills. In 2023, the city of Stillwater, Oklahoma had lined up a low-interest $13.5 million loan from Bank of America to install energy-efficient lighting and replace heating and cooling units in municipal buildings. Due to Oklahoma's Energy Discrimination Elimination Act, 13 financial institutions, including Bank of America, were prohibited from doing business with the state. Stillwater's new lender charged higher rates, costing Stillwater an extra $1.2 million on that deal.

Estimate of Economic Risks for Six States

Taxpayers across six states could face **up to $700 million in additional interest costs** if bond market restrictions similar to those enacted by Texas in 2021 were widely adopted by those states, according to a 2023 study by ESI Consult. The right-hand column below shows those estimated costs, while the left-hand column lists states that introduced or enacted comparable bills.

State	Impact on Municipal Bond Market
Florida H3/S302 [Enacted in 2023]	Restrictions similar to Texas could significantly raise borrowing costs, with interest expenses on Florida-issued bonds increasing by between **$97 million and $361 million annually** over the past 12 months.
Kentucky SB 205 [Enacted in 2022] and HB 123, HB 254, HB 533 [Did not pass]	If Kentucky were to enact legislation similar to Texas, the state could face an estimated **$26 million to $70 million** in additional interest costs on bonds issued over a year.
Louisiana SB 234 [Adopted in 2024] and HB 25 [Did not pass]	If Louisiana adopted restrictions similar to Texas, it could see an increase in bond interest costs over a year of between **$51 million and $131 million**.
Oklahoma HB 2034 [Enacted in 2022] and SB 1075, SB 842, SB15/HB 3144 [Did not pass]	Texas-style restrictions could cost Oklahoma issuers approximately **$49 million per year** in additional interest expenses.
West Virginia SB 262 [Enacted] and SB 272, SB 64 [Introduced in 2025]	West Virginia's bond interest costs could increase annually by an estimated **$9 million to $29 million** if the state adopted legislation similar to Texas.
Missouri SB 1397/HB 2778 [Did not pass]	Missouri could see **$32 million to $68 million** per year in extra interest costs on its bonds under Texas-like restrictions.

Freedom to Invest brings together investors, companies, and other stakeholders to champion the freedom to consider all material financial risks in their decision-making. Visit freedomtoinvest.org/get-involved.