Research Article

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A Fiscal Comparison of Bond Ratings for Black and White Majority Municipalities in the United States

Hunter Bacot[i, c]

This research explores the fiscal disparities across majority Black and majority White municipalities in the United States. To assess whether racial differences exist in municipal fiscal conditions, this research compares the municipal bond ratings of large Black and White municipalities. Consistent with prior research, findings reveal significant funding and economic inequities across municipalities. Black majority municipalities face economic inequities, particularly bond rating discrimination, and expected relationships across traditional indicators of creditworthiness prove insignificant, all of which affect the financial capacity of Black majority municipalities. Rating inequities exacerbate existing economic challenges by limiting access to affordable capital and perpetuating fiscal disadvantage within Black-majority communities. As the nation moves toward majority-minority status, these results underscore the need for reforms to bond rating practices and municipal finance policies to ensure equitable treatment across all municipalities.

Keywords: Bond Ratings, Municipalities, Race

The literature on local government administration and city management is plentiful and well established across a host of local government management and administration topics, at least in majority terms (Nelson & Stenberg, 2018; Newell, 2008; Watson & Hassett, 2003). In the U.S., demographically diverse communities are an understudied aspect of urban governance. With U.S. demographics shifting from White majority to a minority majority population over the next decade, research into the minority municipal experience is warranted (Eldemire, Luchtenberg, & Wynter, 2022; Marschall & Ruhil, 2007; McDonald & McCandless, 2025; Nelson & Stenberg, 2018; Newell, 2008; Perry, 2017; Smith & Waldner, 2018; Troustine, 2018; Watson & Hassett, 2003). This research examines the dynamics of Black municipalities in an effort to understand whether Black majority municipalities vary fiscally compared to their White majority counterparts. Undertaking an analysis of Black majority cities provides a comparative lens

[i] Department of Political Science, University of North Carolina at Greensboro. https://orcid.org/0000-0001-7507-2154.
[c] Corresponding Author: ahbacot@uncg.edu.

through which to view these cities, at least initially, and understand how these majority Black cities compare across fiscal factors deemed important to sound municipal fiscal management. To do so, this research focuses on whether bond credit ratings for Black majority municipalities reflect their fiscal capacity, as is convention, or are based on their notable difference: being majority Black (Eldemire et al., 2022; Perry, 2017).

While there are a host of issues to investigate relative to regressive policies disproportionately affecting the Black community (e.g., education, disaster recovery, gentrification displacement/dispossession, environmental justice, etc.), this research focuses on municipalities' fiscal features to assess whether race affects the fiscal disposition of Black majority municipalities (Desmond, 2023; Kahrl, 2024; McDonald & McCandless, 2025). In doing so, the research offers a unique lens through which to examine fiscal standing and determine whether the majority Black municipal experience is similar or different from that of the Black experience individually. That is, do the same discriminatory practices experienced on an individual level percolate to community and institutional levels? In focusing on one aspect of the majority Black municipal experience – fiscal capacity – this research can uncover whether fiscal disparities exist for Black majority municipalities in the municipal bond market, especially when evaluated vis-à-vis their White municipal counterparts.

A Financial Comparison of Black & White Majority Municipalities

The literature establishes that municipal financial decisions affect the local economy and provide a setting in which its citizens prosper (or not) (Edwards, 2007; Hartwick, 2015; Heilbrun, 1987). Accordingly, how civic leaders manage budgets and assets plays an important role in the fiscal health of local governments, especially because local governments play a significant role in a community's overall economic condition and development. Amid a confluence of factors – political, economic, governmental, and demographic – local government leaders must determine an appropriate, fiscally responsible approach to managing their financial situation (Maher et al., 2023; McDonald & Maher, 2019), which is important to understanding the municipality's fiscal capacity. Hence, the conundrum for fiscal management at the local level: it is interdependent on factors managed by local decisions as well as market conditions and other factors exogenous to the local community (Maher et al., 2023).

Black majority municipalities in the United States grapple with distinctive fiscal and economic hurdles that act to impede, or at a minimum, suppress the community's economic condition. The fiscal plight of majority-minority municipalities is often characterized by a swarm of additional corollaries further distorted by racist and discriminatory practices (Golub, Marcantonio, & Sanchez, 2013; Phinney, 2018; Swanstrom, Dreier, & Mollenkopf, 2002; Wyly et al., 2007). In fact, as Swanstrom et al. (2002, p. 350) observe about localized issues that beget inequities, ". . . one's access to decent jobs, health care, and good quality food, one's exposure to environmental hazards, and one's opportunities to participate in voluntary groups, or even vote, is partly determined by the kind of place where one lives." These persistent challenges include limited tax bases, insufficient funding sources, and economic disparities worsened by historical legacies of discriminatory policies (Fields, Perry, & Donoghoe, 2023; Kahrl, 2024; Nelson, 2010; Phinney, 2018; Swanstrom et al., 2002; Wyly et al., 2007). These Black majority communities, long marred by exogenous and predatory actions, are often fraught with high poverty rates, leading to lower property values that directly affect municipal revenues (Kahrl,

2024). As Golub et al. (2013, p. 704) observe, "the cumulative effects of urban divestment and discrimination on household wealth and property values have brought with them a range of racially unequal outcomes" (also see Hirsch, 1993). Bound by discriminatory practices and challenged economic settings, examining whether such disadvantage seeps into the institutional practices of municipal bond ratings can further our understanding of challenges faced by Black majority municipalities.

The municipal financial literature delineates broadly across internal and external fiscal factors that influence a community's economic well-being (Berne, 1992; Finkler, Smith, & Calabrese, 2022; Groves & Valente, 1994; Maher et al., 2023). These local dynamics categorize across areas to comprise a portrayal of a municipality's overall financial condition, and include: the *community condition* (demographic characteristics); the *municipal condition* (fiscal characteristics); and the *local economic condition* (economic characteristics) (Finkler et al., 2022; Maher et al., 2023).

The Community Condition is comprised of factors influencing the community's fiscal disposition based on general socio-demographic parameters, and includes such considerations as population, poverty, and income (see Eldemire et al., 2022; Finkler et al., 2022; Maher et al, 2023). For Black majority municipalities, poverty proves to be a challenge to a community's overall financial well-being. Communities with high poverty rates must expend more resources to combat the ill effects of poverty; for example, as Swanstrom et al. (2002, p. 358) observe, "[f]or every one-point increase in the poverty rate, cities spent $27.75 per capita more on nonpoverty-related services (Pack, 1998). This suggests that concentrated poverty carries a substantial fiscal burden." Thus, low incomes and high poverty are economic drags on a community's overall fiscal wherewithal. Taken together, these community factors provide a socio-demographic depiction of a municipality's economic capacity.

The Municipal Condition represents factors that denote the underlying financial dimensions of a municipality's fiscal well-being. These factors are represented by the level of property taxes available and raised, the overall municipal budget, the service complexity/diversity of the community (the number of services the municipality must provide), and the overall total fiscal holdings and assets of the municipality (see Eldemire et al., 2022; Finkler et al., 2022). About Black majority municipalities, the research is well established and documented, both historically and contemporaneously, for the challenges of property costs, access to capital, and home values for Blacks (see Kahrl, 2024; Kamin, 2022; Romo, 2023; Rothstein, 2017; Singletary, 2020; Trounstine, 2018). Obviously, home ownership and home values affect the tax base of local governments, which are dependent on property taxes as a primary source of revenue (along with sales and income taxes, see Maher et al. [2023]); this 'valuation effect' is significant because it directly affects a city's tax base. Lower tax revenue affects service allocation and local investment, which in turn can stimulate local spending. The tangible effect of increased spending is the capacity to provide services that enhance a community's quality of life (e.g., libraries, parks), as well as address community challenges (e.g., health, housing). Homeownership and vibrant local economies lead to the creation of wealth, which ultimately contributes to greater, sustained fiscal vitality.

The Local Economic Condition depicts the health of the local economy. One of the more obvious features of the local economy is unemployment. High unemployment indicates that the economy lacks jobs and wages to support those residing in the community, which in turn affects the local government's tax base. Another well-established method used to gauge the local economy is Gross Metropolitan Product (GMP), which denotes the health of the local economy.

GMP, like Gross Domestic Product nationally, measures the economic output for the immediate metropolitan area and is a barometer of economic activity "used to compare the size and growth of *county* economies across the nation" (emphasis added; see Aysheshim, Hinson, & Panek, 2020; Bureau of Economic Analysis, 2023; Panek, Rodriguez, & Baumgardner, 2019). Government competition, which begets fragmentation, also affects local economic performance. The number of governments present in a metropolitan area (other municipalities – cities, towns, villages, etc., special districts, and school districts) creates government competition (or fragmentation) within a proximate geographic space – too many units of government is a challenge economically, especially for those local governments unable to generate sufficient revenues vis-à-vis their proximate counterparts. The proliferation of governmental units leads to fragmentation and divided governments, which raises the costs of living and depresses employment opportunities (see Goodman, 2021; Hammond & Tosun, 2011) and suppresses local incomes in large metropolitan areas (Nelson & Foster, 1999). A fragmented service arena creates a 'squeezing out' effect that can suppress economic activity and employment opportunity, while increasing costs of living (see Goodman, 2021; Hammond & Tosun, 2011; Kahrl, 2024; Swanstrom et al., 2002). Finally, more recent literature shows that *racially* fragmented communities depredate local economies (Di Cataldo et al., 2023; Gallagher, 2021). These economic factors work together to shape the distribution of resources in local economies.

From the relevant literature for each condition, these community, municipal, and economic circumstances provide an accurate appraisal of municipal government fiscal features relevant to a municipality's capacity to engage the bond market.

The Municipal Bond Market

Municipal debt and community creditworthiness influence a municipality's capacity to provide services (and address community challenges). Being able to engage debt through conventional financing arrangements allows for the expansion of government capacity to address service needs and demands (Maher et al., 2023). Municipal growth and development require access to capital, which is provided through municipal bonds – the primary source for financing long-term debt for municipalities. Municipalities borrow money over longer time periods to fund high-cost services (e.g., a water system or road construction project); there is a cost for borrowing money, which is based on a host of factors, both internal to the municipality – type of bond, credit worthiness, and fiscal health – and external to the municipality – amount of funds borrowed, financing terms, market conditions, and bond ratings. One of the primary determinants of the cost of bonds is a municipality's financial wherewithal, which is a function of various factors that assess whether the borrower will default on repayment; this assessment is the bond rating, and it also affects the interest rate for borrowing funds (Berne, 1992; Finkler et al., 2022). A municipality's creditworthiness is established by bond rating organizations that evaluate creditworthiness across a few key areas: "financial operations, debt profile, economic indicators, and managerial ability" (Finkler et al., 2022, p. 584). These creditworthiness indicators assess a municipality's ability to borrow money (issue bonds) and are critical to determining whether a municipality participates in the bond market (Bluestein, 2014). Municipal bonds are also popular with investors because these debt instruments are tax-exempt.

Within the municipal bond industry, credit rating agencies are essential for understanding and establishing a municipality's capacity to afford and incur debt to finance expensive, capital-

Table 1. Bond Rating Systems

Moody's	S&P Global	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

Note: top to bottom, best to worst bond rating

intensive obligations (e.g., buildings, equipment, hospitals, land, etc.) (see Maher et al., 2023, p. 84-95). Issuing bonds is a complicated but rather routine process for securing funding for major projects (Bluestein, 2014; Finkler et al., 2022). A municipality's creditworthiness is established using evaluations by Moody, S&P, or Fitch, the major ratings organizations engaged in this process. These ratings reports establish whether a municipality's bonds are considered 'investment grade' (good) or 'junk status/high yield' (not good) (Finkler et al., 2022, p. 583). Although each organization has its own rating system, these rating systems use similar scales that vary little across the respective delineation of ratings. Ratings consist of a lettered system determining creditworthiness status, which ranges from the best, AAA, to the worst rating, BBB (see Table 1). In reality, ratings below A are considered risky and are essentially deemed unsuitable for investment, which prevents many investors from even considering these bonds as an investment option (Finkler et al., 2022, p. 584). As a result of these ratings (or a municipality's creditworthiness), a grade greater than A is considered "investment grade," while an evaluation lower than A is considered "junk status" or "high yield." A bond categorized as "junk status" is burdened with limited or no investor interest; thus, without a market, many investors are not permitted to invest in poorly rated bonds due to the greater risk of default. Municipalities receiving poor creditworthiness ratings face a higher bar to participate in bond markets. They are penalized with higher participation costs (e.g., bond insurance), a limited buyer pool, higher entry fees, etc., and obviously higher interest rates, all of which combine to increase the costs of borrowing money (Finkler et al., 2022). Bond markets and ratings by investment firms (e.g., Moody's, Fitch) are critical exogenous aspects for judging a municipality's fiscal health, thus their bond ratings, which determine a municipality's capacity to assume and afford debt.

Research on the consequences of a poor assessment by a rating agency leads to a bond rating that is lower or downgraded – deemed 'non-investment grade' – and more costly (Santos, [2007], see Figure 1 on p. 46 for an excellent ratings structure chart) which, in turn, increases interest rates (as well as bond insurance costs) that add to the city's overall indebtedness (Fisher, 2023; Hite & Warga, 1997; Saadaoui, Elammari, & Kriaa, 2022). Research on capital borrowing practices for municipalities uncovers discriminatory practices based on race that, as Eldemire et al. (2022, p. 2) find, penalize ". . . municipalities with higher proportions of Black residents

[who] pay higher borrowing costs." Smull et al. (2023, p. 1) corroborate this practice in capital markets and find that ". . . racial composition (the percent of a community that is Black) explains a statistically significant and meaningful portion of municipal credit spreads . . ." Finally, Eldemire et al. (2022, p. 12) emphasize that "cities and counties with higher percentages of Black residents pay significantly higher borrowing costs for bonds issued within the same state and year."

Of interest in this research is ascertaining whether Black majority municipalities endure 'racial penalties' when engaging capital bond markets, especially when compared to their White counterparts. Thus, the goal of this research is to distill whether racial discrimination has ascended to a systemic presence in institutional fiscal affairs across municipalities.

Data and Methodology for Assessing Municipalities

Accurately characterizing and comparing Black and White majority municipalities can inform how these municipalities compare fiscally. Initially, a list of the large Black majority municipalities and comparison municipalities is provided to contextualize the characterization of municipal settings in this research. Next, variables are identified using the literature on credit rating factors and fiscal conditions criteria and delineated with operationalizations, metrics, and data sources (see Finkler et al., 2022, p. 561-563). Finally, statistical analysis is conducted to assess whether there are temporal similarities, differences, and associations across variables that address municipal creditworthiness relative to the municipal bond market.

For these municipal characterizations, this research relies on census data and other sources to characterize the municipal condition. The analysis focuses on 47 large, Black majority municipalities across 19 states and the District of Columbia (see Table 2). To evaluate whether fiscal patterns observed among these municipalities are distinct, a comparison group of 31 White majority municipalities is selected from the same states to ensure consistency in legal, institutional, and policy environments. Comparison of municipalities' selections is guided by several criteria designed to maximize comparability. First, where states contain multiple Black majority municipalities, multiple White majority counterparts are identified; doing so allows for accurate within-state, parallel comparisons. Second, demographic and contextual factors – population size, municipal setting (urban, suburban, or rural), and political culture – are used to approximate comparisons in socioeconomic and governing settings. Third, where relevant, using within-state comparisons also addresses any unique institutional characteristics of these states and municipalities, for example, using consolidated governments in Georgia. This process for selecting comparison municipalities from the same states and matching them on key demographic, contextual, and institutional factors also addresses concerns with internal validity. Hopefully, it minimizes confounding influences not related to racial composition. Despite having selection protocols, data limitations, and variations in municipal characteristics, these constraints can limit the selection of perfectly matched comparison cases in some instances. Nonetheless, the group of White majority municipalities represents the closest practicable parallels to their within-state Black majority counterparts, especially given the availability and accessibility of the data. Table 2 reports the selected comparison municipalities and their respective percentages of Black populations.

Table 2. Percent Black Population of Black and White Majority Municipalities, 2022 & 2015

Majority Black Cities (N=47)	State	2022	2015	Majority White Cities (N=29)	State	2022	2015
East Orange	NJ	86.0%	90.7%	Tuscaloosa	AL	44.2%	43.1%
Jackson	MS	83.2%	80.7%	Norfolk	VA	44.1%	44.4%
Lauderhill	FL	82.5%	79.1%	Columbia	SC	43.5%	42.9%
Gary	IN	81.1%	83.6%	Cincinnati	OH	43.0%	45.0%
Detroit	MI	80.1%	81.6%	Huntsville	AL	32.5%	31.7%
Pine Bluff	AR	78.6%	77.1%	Roanoke	VA	32.0%	30.7%
Albany	GA	77.3%	72.1%	Lafayette	LA	31.3%	31.9%
Pine Hills	FL	77.1%	73.0%	Bossier City	LA	29.9%	27.8%
Southfield	MI	70.7%	73.0%	Nashville-Davidson	TN	28.7%	29.3%
DeSoto	TX	70.5%	71.0%	Athens-Clarke County	GA	27.8%	27.8%
Birmingham	AL	69.9%	73.2%	Kannapolis	NC	25.3%	21.5%
Euclid	OH	69.3%	60.0%	Alexandria	VA	24.0%	23.3%
Miami Gardens	FL	68.5%	75.1%	Ocala	FL	23.3%	24.0%
Waldorf	MD	68.3%	59.9%	Taylor	MI	22.7%	17.9%
Mount Vernon	NY	66.3%	67.4%	Kentwood	MI	22.7%	21.3%
Memphis	TN	65.6%	63.9%	Utica	NY	21.3%	19.4%
Montgomery	AL	64.5%	59.5%	Erie City	PA	15.9%	14.9%
Rocky Mount	NC	63.9%	65.0%	Newark (DE)	DE	15.1%	6.7%
Baltimore	MD	63.6%	64.4%	Brookhaven	GA	14.0%	10.4%
Monroe	LA	61.8%	65.2%	Roswell	GA	13.9%	15.0%
Bowie	MD	60.9%	51.3%	Metairie	LA	12.6%	10.6%
Flint	MI	60.5%	57.8%	Ellicott City	MD	9.9%	10.6%
Augusta-Richmond County	GA	60.0%	57.1%	North Port	FL	7.8%	10.3%
New Orleans	LA	59.3%	60.4%	Boca Raton	FL	7.7%	5.9%
North Miami	FL	58.4%	59.9%	Fort Smith	AR	7.7%	8.7%
Shreveport	LA	58.2%	56.5%	Burleson	TX	7.5%	5.1%
Valdosta	GA	57.4%	52.0%	Clifton	NJ	7.0%	7.0%
Wilmington	DE	57.0%	57.7%	Bloomington	IN	6.0%	6.0%
Macon-Bibb County	GA	56.9%	53.9%	Port Orange	FL	5.8%	5.2%
Portsmouth	VA	55.9%	54.8%	Troy	MI	4.9%	4.9%
Baton Rouge	LA	55.1%	56.2%	Lakewood	NJ	3.0%	4.0%
Mobile	AL	54.6%	51.2%				
Savannah	GA	54.5%	55.2%				
Hattiesburg	MS	53.8%	54.1%				
Hampton	VA	53.5%	52.1%				
Cedar Hill	TX	53.4%	54.7%				
Pontiac	MI	52.8%	55.0%				
Cleveland	OH	51.2%	53.7%				
Harrisburg	PA	51.2%	53.2%				
Newark (NJ)	NJ	50.4%	52.3%				
Atlanta	GA	49.7%	53.9%				
Trenton	NJ	49.1%	51.6%				
Lake Charles	LA	48.4%	50.3%				
North Charleston	SC	47.4%	50.3%				
Washington	DC	47.1%	50.1%				
Richmond	VA	47.0%	50.9%				
Camden	NJ	47.0%	50.7%				

Table 3. Variables, Operationalization, Measurement, and Source

Indicator	Operationalization	Measurement	Source
Total Population	Total population of city	Figure	Census, ACS, 2017, 2022
Community Conditions			
Black Population	Total Black Population	Percent of population (Black population/total population)	Census, ACS, 2017, 2022
Poverty	percent of people with income below poverty level	Percent of population	Census, ACS, 2017, 2022
Median Household Income	Median annual household income	2018 figures (dollars)	Tax Foundation, 2018, using Census, ACS, 2017, 2022
Municipal Conditions			
Median Property Tax	Median property taxes paid per county	Taxes paid (dollars; uses five-year estimate)	Tax Foundation, 2015, 2022, using Census, ACS
Municipal Budget	Annual operating budget figures for local government	actual budget figures per capita (dollars; total budget/population)	author database; municipality website, FY 2014-15, 2022-23
Service Complexity	number of major service operations/areas provided (emergency services, recreation, roads, public works, water, sewer, education, solid waste, library, transportation, etc.)	actual number of major service areas identified	author database; municipality website; 2018, 2024
Capital Assets	Annual capital figures (e.g., institutional funds, assets, other fiscal holdings, and any investment income, as well as other similar funds)	actual figures (dollars)	ACFR (CAFR) Annual Comprehensive Financial Report, 2015-18, 2021-2
Local Economic Conditions			
Unemployed	Individuals in civilian labor force unemployed in metropolitan area	Percent of adult population	Census, ACS, 2017, 2022
Government Competition	The number of govt units providing services in county (districts, towns, cities, etc.)	actual number of government entities/ units in county	author database; municipality website; 2017 (no change for 2022)
GMP	GDP by metropolitan area	Figures per capita (dollars)	BEA 2017, 2022
Municipal Bonds			
Credit Rating	Government Bond Rating from credit rating agencies (Moody's, Fitch, or S&P)	bond rating; dichotomized: ≤A=0 ≥A=1)	author database; various sources (e.g., municipality web search, municipality website, etc.); 2015, 2024

Base data years are 2015 and 2022 unless otherwise noted.
U.S. Census. American FactFinder. "DP05: ACS Demographic and Housing Estimates." American Community Survey. U.S. Census Bureau's American Community Survey Office (various tables, various years).

The selection of variables from the literature that characterize the fiscal condition of Black and White majority cities is based on those features noted as key to assessing a municipality's fiscal wherewithal (or creditworthiness) (see Berne, 1992; Finkler et al., 2022; Governmental Accounting Standards Board, 2004; Groves & Valente, 1994; Maher et al., 2023); these features include: "economy and demographics, revenue base, revenues, current and capital

expenditures, debt, pensions, internal resources, management capabilities, infrastructure, willingness to raise revenues to provide necessary public services, and idiosyncratic factors" and are those that emerge from the literature as important for assessing municipal economic conditions (Berne, 1992, p. xvi). From among these features, representative fiscal factors are selected that portray the community's financial status and establish the local government's fiscal capacity to engage in debt service.

As established in the literature, several fiscal features of the community are central to understanding the municipality's fiscal capacity, on which its bond rating is predicated (Berne, 1992; Finkler et al., 2022; Groves, 1994; Maher et al., 2023). As such, the following empirical proxies depict municipal economic conditions based on the relevant literature for each area:

- *The Community Condition* includes: 1) Black population percentage, 2) poverty percentage, and 3) median household income (see Eldemire et al., 2022; Finkler et al., 2022; Maher et al., 2023).
- *The Municipal Condition* includes: 1) property taxes (median), 2) the overall budget (per capita), 3) service complexity (number of services provided by the municipality), and 4) the overall total capital assets (total value of fiscal holdings and assets) (see Eldemire et al., 2022; Finkler et al., 2022).
- *The Local Economic Condition* includes: 1) unemployment percentage in the community, 2) gross metropolitan product, and 3) government competition (measured by counting the number of governments present: other municipalities – cities, towns, villages, etc. – special districts, and school districts) (see Aysheshim et al., 2020; Bureau of Economic Analysis, 2023; Goodman, 2021; Hammond & Tosun, 2011; Kahrl, 2024; Panek et al., 2019; Swanstrom et al., 2002).

Data availability or accessibility considerations affect the choice of factors selected for use in this research. Also, a municipality's total population is used to standardize factors as appropriate. Variables used in this research are depicted, defined, sourced, and organized by category – community conditions, municipal conditions, and local economic conditions – in Table 3.

Finally, a municipality's bond rating is the primary indicator of fiscal capacity, as it approximates its ability to afford and carry debt. Guided by Santos (2007), bond ratings are categorized into two groups: investment grade and non-investment grade. For this research, these categories are dichotomized as "A and above" versus "below A," with the latter, including ratings of BBB or lower, classified as non-investment grade or "junk" status. This fiscal distinction identifies ratings below A as indicative of the most severe financial constraints and associated costs (see Peppe & Unal, 2022). This analysis employs this investment versus non-investment rating threshold as a key comparative measure of municipal fiscal capacity; if disparities emerge with a strict rating dichotomy, confidence in these findings is unambiguous.

These variables are evaluated across the two years used for this analysis, 2015 and 2022. This research effort assesses, for bond ratings and municipal economic conditions, whether:

- There are temporal differences across all factors for these two periods between Black and White majority municipalities (using t-tests);
- There are correlations between bond rating evaluations for these two periods for Black and White majority municipalities (using Pearson's correlation coefficients); and,

- There are racial differences across economic condition factors for these two periods for bond ratings of Black and White majority municipalities (using Pearson's correlation coefficients).

Assessing temporal and racial differences or alignments in economic conditions helps identify those factors statistically significant for understanding municipal bond ratings and determining whether these results are influenced by race. In doing so, these findings confirm other research on racial discrimination in municipal creditworthiness. Finally, this preliminary analysis provides broader guidance for future research that can more fully appreciate and distill the plight of Black majority municipalities in the U.S.

This research comprises the universe of large Black majority municipalities in the United States, but is bound by its subjective elements; therefore, there are definite limitations to this study. Foremost, the study is cross-sectional at two different time intervals (2022 and 2015) and can only offer a snapshot of what is observed across those two time periods. Also, research depending on municipal-level data presents challenges for accessing data that is comparable over time; data for some municipalities could not be located for both time frames or at all, thus those entities are excluded from analysis. Selecting comparison municipalities is subjective and limited to those that parallel their within-state Black municipal counterparts, which is not always possible, especially in more rural states with few, if any, large metropolitan areas. Though limited, the research explores a unique aspect of municipal governance in the United States.

Based on the literature, we expect statistically significant differences to emerge between Black and White majority municipalities per year for most of these social and fiscal variables; the exceptions to these differences are two variables within the Local Economic Condition: GMP – much of an area's economy benefits all municipalities, albeit the benefit is not ubiquitous – and 'Government Competition' – due to proximity-based squeezing-out and spillover. In other words, there should be no statistically significant differences observed between Black and White municipalities for the GMP and Government Competition variables. Finally, as the creditworthiness of these governments is paramount for understanding the racial effect, we assess correlations with Bond Ratings. The following relationships are expected to emerge across economic conditions and bond ratings for Black and White majority municipalities (see Table 4).

Findings

In reviewing the results across these three categories that comprise the municipal economic condition – Community Conditions, Municipal Conditions, and Local Economic Conditions – the descriptive characterization of fiscal factors for majority Black cities generally follows the literature. First, for the Community Conditions variables (noted in Table 5), Black majority municipalities are, on average, comparatively lacking in these areas with higher poverty rates (differences of 5.6% and 6.3% for 2022 and 2015, respectively) and lower household incomes (differences of $17,927 and $13,640 for 2022 and 2015, respectively). Black majority cities are substantially depressed comparatively to each category. This Community Condition category demonstrates differences throughout these findings and, as shown, poses negative consequences for Black majority municipalities' creditworthiness.

Table 4. Expected Relationships for Economic Conditions and Bond Ratings for Black and White Majority Municipalities, 2015 & 2022

Indicator	Expected Relationship w/ Bond Rating	BMM Expected Relationship w/ Bond Rating		WMM Expected Relationship w/ Bond Rating	
	2022 & 2015	2015	2022	2015	2022
Community Conditions					
Black Population	-				
Poverty	-	-	-	-	-
Median Household Income	+	+	+	+	+
Municipal Conditions					
Median Property Tax	+	+	+	+	+
Municipal Budget	+	+	+	+	+
Service Complexity	-	-	-	-	-
Capital Assets	+	+	+	+	+
Local Economic Conditions					
Unemployed	-	-	-	-	-
Government Competition	-	-	-	-	-
GMP	+	+	+	+	+

GMP=Gross Metropolitan Product; BMM=Black Majority Municipality; WMM=White Majority Municipality

Table 5. Characterization Across Municipal Economic Conditions

Municipal Economic Conditions	2022 Averages		2015 Averages	
	Black Majority Municipalities	White Majority Municipalities	Black Majority Municipalities	White Majority Municipalities
Bond Ratings	0.868 ≥A=33, ≤A=5	0.965 ≥A =28, ≤A=1	0.875 ≥A =35, ≤A=5	0.896 ≥A =26, ≤A=3
Community Conditions				
Black Population	61.7%	20.5%	61.5%	19.6%
Poverty	21.73%	16.16%	25.85%	19.57%
Median Household Income	$55,121.49	$73,048.13	$40,319.98	$53,960.68
Municipal Conditions				
Median Property Tax	$3,180.49	$2,926.39	$2,570.55	$2,243.35
Municipal Budget	$5,050.89	$3,410.96	$2,538.18	$1,893.36
Service Complexity	7.6	7.4	7.6	7.4
Capital Assets	$2,087,746,479.61	$956,311,588.76	$1,742,283,487.00	$719,696,507.96
Local Economic Conditions				
Unemployed	5.27%	3.53%	8.15%	4.87%
Government Competition	18.1	18.6	18.0	17.7
GMP	$840.10	$903.79	$657.57	$799.78

GMP=Gross Metropolitan Product

Table 6. Difference of Means Test between Black and White Majority Municipalities

Municipal Economic Conditions	2022	2015
	t-test (p)	t-test (p)
Bond Ratings	**-1.38**	-0.27
	(.086)	(.393)
Community Conditions		
Poverty	**3.18**	**3.07**
	(.001)	**(.001)**
Median Household Income	**-3.28**	**-3.35**
	(.000)	**(.000)**
Municipal Conditions		
Median Property Tax	0.48	0.68
	(.314)	(.250)
Municipal Budget	0.89	**1.69**
	(.188)	**(.047)**
Service Complexity	0.36	0.32
	(.361)	(.374)
Capital Assets	**1.43**	**1.39**
	(.078)	**(.085)**
Local Economic Conditions		
Unemployed	**5.39**	**7.15**
	(.000)	**(000)**
Government Competition	-0.11	0.09
	(.456)	(.463)
GMP	-0.14	-0.35
	(.445)	(.363)

Notes: **Bold** denotes a statistically significant difference between these means.
Source: author.

Similar differences emerge for Municipal Condition factors. Differences exist between Black-majority municipalities and White-majority municipalities across various monetary measures, but these differences are mixed. Compared to their White counterparts, Black majority municipalities have higher property taxes and larger budgets. Black majority municipalities also have greater capital assets amid similar service obligations (service complexity). For this condition, differences appear to exist, but these are not vast. If these differences subside for this condition, it would suggest more similarities than differences for this key condition regarding creditworthiness, including bond ratings.

Finally, for the Local Economic Condition, similar mixed results emerge for differences between Black and White majority municipalities in terms of government competition, GMP, and unemployment. There are negligible differences in government competition and GMP, which reveal that White majority municipalities enjoy more gains per capita than Black majority municipalities. For unemployment, Black majority municipalities are, on average, comparatively

lacking in this area. This distinction in unemployment, though expected, offers the greatest disparity among the factors of the Local Economic Condition.

Turning to assessing whether mean differences exist between Black and White majority municipalities between these times under study provides insights into the municipal economic conditions driving these differences. Upon reviewing these results initially (see Table 6), several observations of interest are noted. First, statistically significant mean differences in bond ratings exist for Black and White majority municipalities in 2022 but not in 2015. For the various overall municipal economic conditions under study, Community Conditions and Municipal Conditions demonstrate statistically significant mean differences temporally. Community Conditions prove consistent temporally, as both factors demonstrate statistically significant mean differences between Black and White majority municipalities per year. When compared to White majority municipalities, these findings align with expectations; poverty shows statistically significant positive differences, while household income is lower in Black majority municipalities. Findings for Municipal Conditions are again mixed. These findings vary across factors and show statistically significant differences for the two monetary indicators – municipal budget and capital assets in 2015. Capital assets are statistically significant across both years; yet, that Black majority municipalities enjoy an advantage in mean per capita capital assets is not expected (as noted in Table 5). The municipal budget factor is statistically significant for 2015. The other factors within Municipal Conditions do not demonstrate statistically significant differences temporally. As expected for the Local Condition, there are statistically significant differences for unemployment in Black majority municipalities, but not for the other two Local Economic Conditions factors. Neither government competition nor GMP exhibits differences between Black and White majority municipalities. These results show that those factors considered important to municipal creditworthiness – municipal conditions and local economic conditions – largely do not find support in this analysis, while community conditions do.

To assess relationships across these factors, Pearson's correlations examine overall differences in relationships, both temporally, for 2022 and 2015. Evaluating Black and White majority municipalities per year assesses whether these factors hold in isolation, which can reveal intra-municipality relationship differences, if any, per year. Pearson's correlation coefficients further enlighten us about Black majority municipalities' bond ratings and whether these differ from their White counterparts. Again, according to the literature, the creditworthiness of municipalities, and thus their bond rating, should be more influenced by Municipal and Local Economic Conditions (fiscal and economic conditions) rather than Community Conditions (or socio-demographics).

Upon reviewing the results from the correlations (see Table 7), several key findings emerge immediately: Community Conditions are important, while the other conditions are not. Foremost, in assessing those factors associated with a municipality's bond rating for 2022 overall, two of three Community Conditions factors emerge as statistically significant, with the exception being household income. As shown, the Black population (-0.22) and poverty (-0.19) are statistically significant factors that show weak to moderate negative relationships with bond ratings. Interestingly, as expected from the literature, these factors, although important for understanding municipal creditworthiness, should not be the primary drivers of bond rating evaluations. Of the Municipal Condition (fiscal) factors, property tax (-0.23), service complexity (-0.23), and unemployment (-0.34) correlate with bond ratings. Yet, the property tax result is confounded by a negative relationship, which is contrary to the expectation that property taxes are positively associated with municipal bond ratings (see Fields et al., 2023; Lipnick, Rattner, &

Table 7. Correlation Coefficients for Bond Rating and Municipal Economic Conditions

Municipal Economic Conditions	2022	2015	2022 BMM	2022 WMM	2015 BMM	2015 WMM
	Bond Rating >A=1 | <A=0	Bond Rating >A=1 | <A=0	Bond Rating >A=1 | <A=0	Bond Rating >A=1 | <A=0	Bond Rating >A=1 | <A=0	Bond Rating >A=1 | <A=0
Community Conditions						
Black Population	**-0.22****	-0.17	**--**	--	**--**	**--**
Poverty	**-0.19***	-0.18	-0.21	-0.03	-0.17	-0.18
Median Household Income	0.17	**0.19***	0.13	0.15	0.12	0.30
Municipal Conditions						
Median Property Tax	**-0.23****	**-0.308****	**-0.34***	0.13	**-0.49****	0.04
Municipal Budget	-0.06	-0.08	0.13	**-0.73****	-0.08	-0.09
Service Complexity	**-0.23****	**-0.202***	-0.18	**-0.37****	-0.19	-0.23
Capital Assets	0.01	-0.07	0.03	0.09	-0.15	0.15
Local Economic Conditions						
Unemployed	**-0.34****	**-0.38****	**-0.35****	-0.18	**-0.39****	**-0.56****
Government Competition	0.02	-0.11	-0.03	0.13	-0.01	-0.27
GMP	0.07	0.05	0.09	0.05	0.10	0.02
	N=78	N=78	N=47	N=31	N=47	N=31

**p=≤.05 | *p=≤.10
GMP=Gross Metropolitan Product; BMM=Black Majority Municipality; WMM=White Majority Municipality

Ebrahim, 1999; Palumbo, Shick, & Zaporowski, 2006). For the Local Government Condition, unemployment is the only factor with statistical significance (-0.34 and -0.38, for 2022 and 2015 respectively). When compared to Municipal and Local Economic Condition factors, these statistically significant relationships for Community Conditions further confirm these exceptional findings, especially because fiscal factors are presumed to be the foundation of a municipality's bond rating.

In assessing the same factors for 2015 overall, similar findings hold – Community and Municipal Conditions are associated, and Local Economic Conditions are not – but many different outcomes surface. Among these dissimilarities is a change in Community Conditions factors, as household income emerges a statistically significant correlation, while Black population and poverty are no longer correlated. Moreover, the Municipal Conditions factors remain the same, though property tax exhibits a stronger correlation, albeit negative (-0.31). Finally, the results surrounding the Local Condition persevere; as in 2022, unemployment is correlated with bond ratings, while the other factors are not.

Overall, these correlations with bond ratings across Black and White majority municipalities reveal that Community Conditions factors stand out for understanding municipal creditworthiness, when these should not. Quite noteworthy among these findings is the race factor (Black population); that race is associated with a municipality's bond ratings raises questions about the fairness of bond ratings, as race should never enter into the equation of a community's creditworthiness.

Turning to assessing relationships across factors for Black and White municipalities separately by year can provide insight into how these factors rate in isolation (by race). Across both years, neither poverty nor income are statistically significant, while property taxes (-0.34

and -0.49, 2022 and 2015 respectively) and unemployment (-0.35 and -0.39, 2022 and 2015 respectively) are associated with bond ratings. In reviewing these findings for Black majority municipalities only, these correlations become even more intriguing. For Black municipalities, the same factors exhibit statistically significant correlations with bond ratings and do so at moderate to high levels, while the community conditions (sans race) drop out. Thus, for Black communities, property tax and unemployment factors are consistent factors affecting their bond ratings.

To the contrary, White municipalities exhibit different relationships across all factors. For 2022, when assessed in isolation, White majority municipalities follow expected correlations for bond ratings, as the municipal budget (-0.73) demonstrates a strong, statistically significant correlation with bond ratings. As well, service complexity (-0.37) also proves to have a moderate to strong, statistically significant correlation with bond ratings. For 2015, there is only one statistically significant correlation with bond ratings for White municipalities – unemployment, and this relationship is quite robust with a -0.56 coefficient.

In reviewing these results in total, what does not emerge from these findings are expectations based on the literature. Foremost, GMP, government competition, or capital assets are not of consequence in the bond ratings systems; that these fiscal and economic factors are not relevant indicate that other factors are drivers of municipal creditworthiness. Further, when viewed in isolation, factors affecting White majority municipalities focus on Municipal Conditions at the expense of Community and Local Economic Conditions, while Black majority municipalities see distinct factors judged relevant – this should not be the case if evaluations are consistent across municipalities.

Discussion and Implications

In this exploration of Black majority municipalities' creditworthiness, one of the first attempts to isolate Black majority municipalities and characterize their fiscal situations vis-à-vis White municipalities for bond ratings, much is revealed about their standing in the U.S. municipal bond market. Given the objective of this research, i.e., to understand the factors influencing a community's fiscal standing relative to its bond rating, these findings suggest that the greater metropolitan economic environment differs markedly between Black and White municipalities. At the same time, others have highlighted discriminatory practices against Black municipalities (Eldemire et al., 2022; Fields et al., 2023; Pack, 1998; Perry, 2017; Peterson & Mann, 2020; Smull et al., 2023). This research builds upon these findings. Not only does this research distill factors affecting the financial wherewithal of Black majority municipalities, but it also further underscores the need for continued scholarly inquiry about policy interventions that can dismantle systemic barriers, foster equitable development, and empower Black majority municipalities to thrive economically.

Evidence from this research suggests that fewer Black-majority municipalities enjoy higher bond ratings compared to White cities. The most obvious outcome driving the disparity lies with socio-demographic conditions – namely Black population, not fiscal conditions, as is expected. This lone finding –Black population – underscores the challenge Black majority municipalities face in a quest to achieve creditworthiness; this result is consistent with the research of Smull et al. (2023), Eldemire et al. (2022), Norris (2023), and Swanstrom et al. (2002) that confirm inequities across Black communities that are marked by discrimination

against the Black municipality in municipal bond market (specifically noted by Pack [1998] and Smull et al. [2023]). In fact, Eldemire et al. point to this inequity as a 'Black Tax' (as does Kahrl [2024], but for other systemic racist practices). Race should never be a factor in municipal creditworthiness evaluations.

Comparisons between Black and White majority municipalities over time reveal areas of similarity and key differences. Median property tax levels, for example, do not differ significantly between Black and White majority municipalities, indicating comparable property value-based fiscal capacity. However, among Black-majority municipalities, higher median property taxes are associated with a statistically significant decrease in the likelihood of receiving a higher, more favorable bond rating – a relationship not observed for White majority municipalities. Despite the well-established role of property tax revenues in municipal fiscal health, this factor does not achieve statistical significance for White majority municipalities. These contrasting findings raise questions about how creditworthiness is assessed for municipal governments, i.e., if fiscal conditions are comparable, why do bond rating evaluations differ?

Consistent with the literature and as observed here, there is evidence that Black majority municipalities suffer funding and economic disparities based on race (Fields et al., 2023; Nelson, 2010; Phinney, 2018; Swanstrom et al., 2002; Wyly, Atia, & Hammel, 2004). These Black majority municipalities are comparatively marked by higher poverty rates, lower household incomes, lower property tax base, greater service demands, and higher unemployment; such consistent distress is not by happenstance, especially when these communities are often located within vibrant economic locales (as indicated by county-level GMP). Such economic contradictions suggest that economic dividends captured locally are, along with jobs, being reapportioned in some manner that does not yield greater per capita prosperity across Black majority municipalities located within these areas. Redlining and discrimination in access to capital, likely systematized across these geographic areas, sustains economic inequities that contribute to creating a 'valuation effect' in which lower values yield lower resources that, in turn, constrict funds available for providing more services or engaging in capital projects than are typical of a comparable city's portfolio. Though challenges persist for all local governments, there is no doubt that there are systemic processes and mechanisms that prejudicially differentiate Black-majority municipalities. Ultimately, these results provide evidence of fiscal racism being practices across municipal America.

These circumstances further penalize the Black majority municipality and corroborate 'inter-racial' municipal differences in economic conditions observed by Peterson and Mann (2020) and Eldemire et al. (2022), both of whom prove the need for reforms to the municipal bond rating system due to racial inequities. Equally egregious is the fiscal burden borne by these communities because of these discriminatory practices that work to stifle economic development and further suppress Black communities. Blacks in these communities already experience discrimination on an individual level, and, as these results show, such discrimination pervades institutionally at the municipal level as well. As Golub et al. (2013, p. 704) observe, "the cumulative effects of urban divestment and discrimination on household wealth and property values have brought with them a range of racially unequal outcomes" (also see Hirsch, 1993); among these outcomes is the impact on municipal bond ratings.

Finally, Black-majority municipalities occupy an essential place in the nation's urban landscape, particularly as the United States moves toward majority-minority demographics. Persistent patterns of racially inequitable outcomes and systemic practices continue to constrain the Black majority municipality's fiscal capacity and economic growth relative to White-

majority counterparts. The financial consequences of this neglect are substantial for communities throughout the U.S. Peterson and Mann (2020) estimate that the cumulative fiscal impact of racism ranges from over $5 trillion to as much as $20 trillion. Most concerning, these inequitable practices are well-documented yet remain largely unaddressed. Without meaningful policy and institutional reforms, "business as usual" will continue to perpetuate economic disparities in Black-majority communities that ultimately undermine the fiscal health of all municipalities.

Endnotes

[1] For this research, the measure of Black population is "Black or African American alone or in combination with one or more other races." (US Census, 2017, 2022); the Census included a "two or more races" category in 2000 and 2020. Black majority municipalities with populations of 50,000 or more and a percentage of the Black population greater than 50% in 2017, the baseline year, which increased to more than 47% in 2022.

[2] There are several states (8) with at least one Black majority city, while 11 have multiple Black majority cities. Most of these majority Black cities are located in the south (29), while the others are spread across states in the northern and midwestern US (17); in southern states, there are multiple Black majority cities in Alabama (3), Florida (4), Georgia (6), Louisiana (5), Mississippi (2), Texas (2), and Virginia (3); the other states with multiple Black majority municipalities are Maryland (3), Michigan (4), New Jersey (4), and Ohio (2). There are a total of 78 municipalities in this study, 47 Black majority municipalities with 31 comparative White majority municipalities. While every effort is made for each Black majority municipality to have a within-state comparison municipality of similar characteristics, this is not possible for every state. Due to challenges in identifying comparable White majority municipalities with complete, accessible data, there is no state-specific city identified as a counterpart to the two Black majority municipalities in Mississippi. See Table 2.

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Author Biography

Hunter Bacot is a professor in the Department of Political Science and Director of the MPA program at the University of North Carolina at Greensboro. He received his B.A. in political science from the University of North Carolina at Chapel Hill, his MPA from the University of North Carolina at Charlotte, and his Ph.D. in political science from the University of Tennessee. His research focuses on state & local government and public policy (environmental policy). He

also serves on the editorial boards of the *Journal of Public Administration Education* and *Public Integrity*.