A Toxic Inheritance: Municipal Consequences of PFAS Contamination Discovery*

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Abstract

Unaddressed environmental contamination in the past can have present adverse consequences. We examine the discovery of contamination of drinking-water systems of U.S. counties by discontinued per- and poly-fluoroalkyl substances (PFAS). Using a difference-in-differences approach, we find that municipal bonds from PFAS-contaminated counties experienced a 7 bps increase in yields compared to bordering, uncontaminated counties in the same state. This increase was more pronounced for non-general obligation, lower-rated, and shorter-maturity bonds, and for bankruptcy-allowed municipalities. Additionally, contaminated counties experienced increased out-migration and decreased municipal expenditure and public employment. Another approach utilizing airports as potential PFAS sources suggests the effect on yields was pervasive.

JEL Classification: G14, H72, H74, Q53, Q58.

Keywords: Municipal Bonds, Drinking Water Contamination, PFAS, Forever Chemicals.

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