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# **Florida Government Finance Officers Association**

## **School of Government Finance**

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# **Planning For and Issuing Municipal Debt**

*Presented by:*



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**Natalie Sidor, Senior Managing Director**  
**Public Resources Advisory Group**

*October 27, 2026*

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# Introduction



## **Matthew Sansbury, *Managing Director***

Mr. Sansbury joined PRAG in 2024 and currently has 24 years of municipal finance experience, a majority of which has been focused on providing municipal advisory or investment banking services to municipal issuers across Florida. Prior to joining PRAG, Mr. Sansbury worked with RBC Capital Markets, Hilltop Securities, Stifel Nicolaus, and Raymond James. Mr. Sansbury assists his clients with their various budgetary and capital financing needs, specifically helping with their issuance of debt, which may include public bond offerings, privately placed bank loans, letters/lines of credit, and other debt financing instruments.

Mr. Sansbury received a B.S. degree in Business Administration from the University of Florida and a M.B.A. degree from the University of South Florida. Mr. Sansbury is registered with his Series 50 (Municipal Advisor Representative) license.



## **Natalie Sidor, *Senior Managing Director***

Ms. Sidor joined PRAG in 2018 and offers Florida municipalities over 20 years of corporate and public finance experience. At PRAG, Ms. Sidor provides client support and transactional advisory services to Florida local governments, agencies, authorities, and special districts. Formerly with Raymond James, Ms. Sidor provided investment banking and municipal advisory services to clients throughout the Southeast and Florida. In addition to her extensive public finance experience, Ms. Sidor also has experience in real estate development and corporate finance.

Ms. Sidor is a founding member of the Florida Chapter of Women in Public Finance, served as the President in 2019 and currently serves as an ex-officio member of the Board. Ms. Sidor received a B.S. degree in Finance and Economics from the University of Tampa. Ms. Sidor also earned an M.B.A. degree from The Wharton School of the University of Pennsylvania. Ms. Sidor is registered with her Series 54 (Municipal Advisor Principal) and Series 50 (Municipal Advisor Representative) licenses.

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Section I:

**Market Update**



## Exactly 1 Year Later...

### October 27, 2025 (THEN)

#### ▪ Macroeconomic Environment

- Tariffs; inflation at 3.0% or below for 16 straight months; impact on long-term rates
- Economic uncertainty; immigration; A.I. advances

#### ▪ Federal Reserve

- Gradual approach to easing; 25 bp cut expected in late October 2025
- Political pressure to reshape Board for more cuts

#### ▪ Federal Budget and Tax Legislation

- Annual appropriations (discretionary spending) / shutdowns
- Budget reconciliation (mandatory spending) and risk of losing muni tax-exemption

#### ▪ Geopolitical Risks

- Continued conflicts in the Middle East and Ukraine; NATO tension

#### ▪ Muni Issuance Levels

- On pace to beat 2024 record (~\$48B/month YTD)
- Aging infrastructure; growth; expiring federal dollars

#### ▪ Investor Demand and Activity

- Attractiveness of yield curve and relative value of munis
- Heavy ETF inflows; SMA growth away from funds; A.I. driven trading platforms

### October 27, 2026 (NOW)

#### ▪ Macroeconomic Environment

- CPI fell to 2.4% in early 2026, now 3.4% (Sept. 2026; energy shocks, resilient demand, growth and A.I. capex
- A.I. moving fast but jobs fairly resilient (so far)

#### ▪ Federal Reserve

- Two 25 bp cuts since last year's conference (Oct. & Dec. 2025); "sticky" inflation; **25 bp hike in Sept. 2026**
- Chairman Warsh sworn in on May 22, 2026

#### ▪ Federal Budget and Tax Legislation

- Longest federal shutdown in history (42 days)
- **Muni tax-exemption preserved amid OBBBA**
- Large federal deficits and Treasury supply adding pressure to long-term rates

#### ▪ Geopolitical Risks

- Russia-Ukraine war persists; **U.S./Israel attacks on Iran began Feb. 2026; Strait of Hormuz impact**

#### ▪ Muni Issuance Levels

- Record \$580B in 2025; **up over 4.0% in 2026**
- Persistent infrastructure needs; project costs going up

#### ▪ Investor Demand and Activity

- 21 straight weeks of muni fund inflows (\$22.5B) before streak ended in mid-Sept
- SMA heavy demand < 10 years; ETFs still important

# Exactly 1 Year Later...

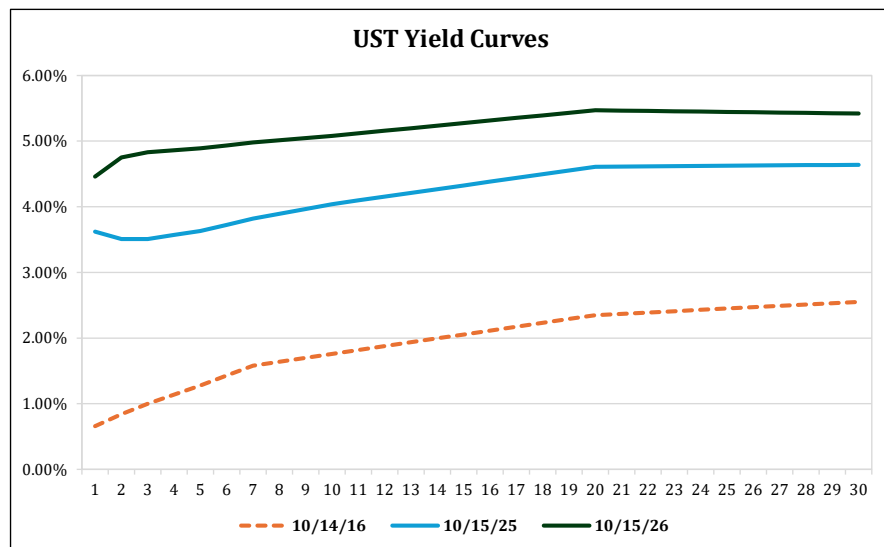
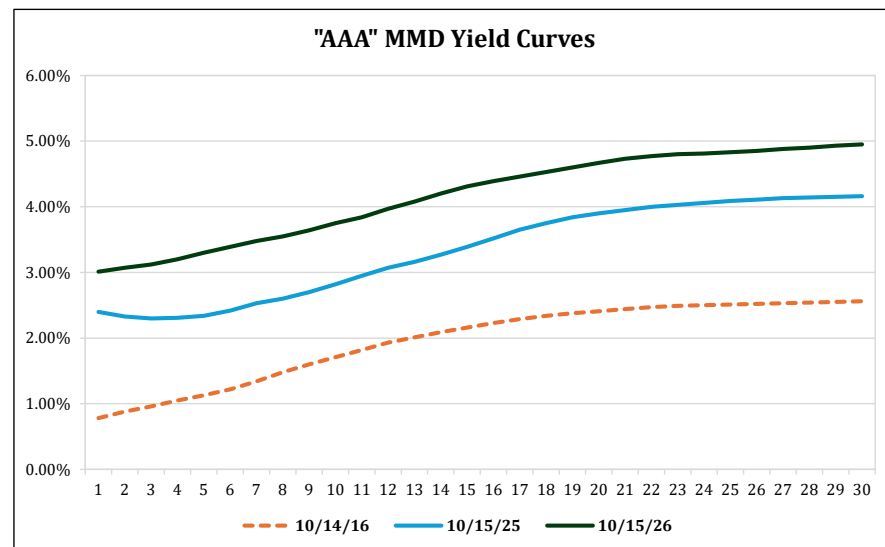
| Bloomberg Forecast (THEN) |                |       |       |       |       |       |       |       |       |       |
|---------------------------|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                           | 10/1/25 Actual | Q4 25 | Q1 26 | Q2 26 | Q3 26 | Q4 26 | Q1 27 | Q2 27 | Q3 27 | Q4 27 |
| UST 2-Yr                  | 3.55           | 3.60  | 3.51  | 3.45  | 3.40  | 3.38  | 3.40  | 3.41  | 3.41  | 3.40  |
| UST 5-Yr                  | 3.68           | 3.76  | 3.73  | 3.72  | 3.68  | 3.65  | 3.65  | 3.67  | 3.70  | 3.68  |
| UST 10-Yr                 | 4.12           | 4.20  | 4.16  | 4.15  | 4.14  | 4.09  | 4.09  | 4.09  | 4.09  | 4.07  |
| UST 30-Yr                 | 4.72           | 4.73  | 4.68  | 4.67  | 4.66  | 4.62  | 4.61  | 4.63  | 4.63  | 4.61  |
| UST 2-Yr to 10-Yr Spread  | 0.57           | 0.60  | 0.65  | 0.70  | 0.74  | 0.71  | 0.69  | 0.68  | 0.68  | 0.67  |
| 3-Month Term SOFR         | 4.35           | 3.88  | 3.66  | 3.49  | 3.35  | 3.29  | 3.31  | 3.32  | 3.32  | 3.31  |
| Fed Funds Rate (Lower)    | 4.00           | 3.66  | 3.45  | 3.28  | 3.18  | 3.11  | 3.00  | 3.01  | 3.01  | 3.00  |
| Fed Funds Rate (Upper)    | 4.25           | 3.91  | 3.70  | 3.53  | 3.43  | 3.36  | 3.25  | 3.26  | 3.26  | 3.25  |

| Bloomberg Forecast vs Actual |                  |                |            |
|------------------------------|------------------|----------------|------------|
|                              | 10/1/25 Forecast | 10/1/26 Actual | Difference |
| UST 2-Yr                     | 3.40             | 4.78           | 1.38       |
| UST 5-Yr                     | 3.68             | 5.01           | 1.33       |
| UST 10-Yr                    | 4.14             | 5.24           | 1.10       |
| UST 30-Yr                    | 4.66             | 5.61           | 0.95       |
| UST 2-Yr to 10-Yr Spread     | 0.74             | 0.46           | (0.28)     |
| 3-Month Term SOFR            | 3.35             | 4.10           | 0.75       |
| Fed Funds Rate (Lower)       | 3.18             | 3.75           | 0.57       |
| Fed Funds Rate (Upper)       | 3.43             | 4.00           | 0.57       |

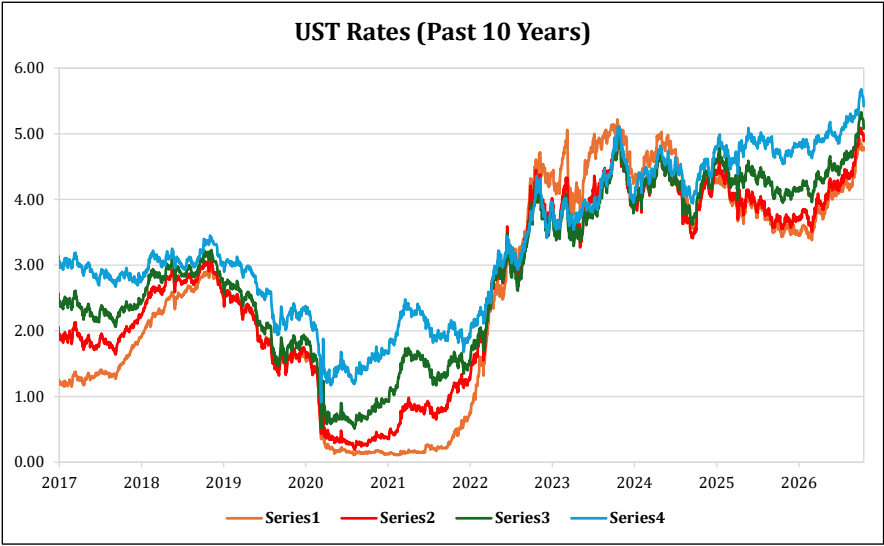
| Bloomberg Forecast (NOW) |                |       |       |       |       |       |       |       |       |       |
|--------------------------|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                          | 10/1/26 Actual | Q4 26 | Q1 27 | Q2 27 | Q3 27 | Q4 27 | Q1 28 | Q2 28 | Q3 28 | Q4 28 |
| UST 2-Yr                 | 4.78           | 4.46  | 4.38  | 4.28  | 4.19  | 4.08  | 3.99  | 3.91  | 3.83  | 3.79  |
| UST 5-Yr                 | 5.01           | 4.61  | 4.53  | 4.43  | 4.36  | 4.30  | 4.24  | 4.20  | 4.15  | 4.14  |
| UST 10-Yr                | 5.24           | 4.87  | 4.80  | 4.72  | 4.65  | 4.60  | 4.52  | 4.47  | 4.40  | 4.36  |
| UST 30-Yr                | 5.61           | 5.24  | 5.19  | 5.15  | 5.09  | 5.03  | 4.97  | 4.94  | 4.89  | 4.88  |
| UST 2-Yr to 10-Yr Spread | 0.74           | 0.41  | 0.42  | 0.44  | 0.46  | 0.52  | 0.53  | 0.56  | 0.57  | 0.57  |
| 3-Month Term SOFR        | 4.10           | 4.13  | 4.15  | 4.12  | 4.04  | 3.99  | 3.83  | 3.75  | 3.68  | 3.63  |
| Fed Funds Rate (Lower)   | 3.75           | 3.98  | 4.01  | 3.97  | 3.88  | 3.80  | 3.57  | 3.47  | 3.40  | 3.36  |
| Fed Funds Rate (Upper)   | 4.00           | 4.25  | 4.28  | 4.25  | 4.16  | 4.09  | 3.85  | 3.75  | 3.65  | 3.61  |

## Exactly 1 Year Later...

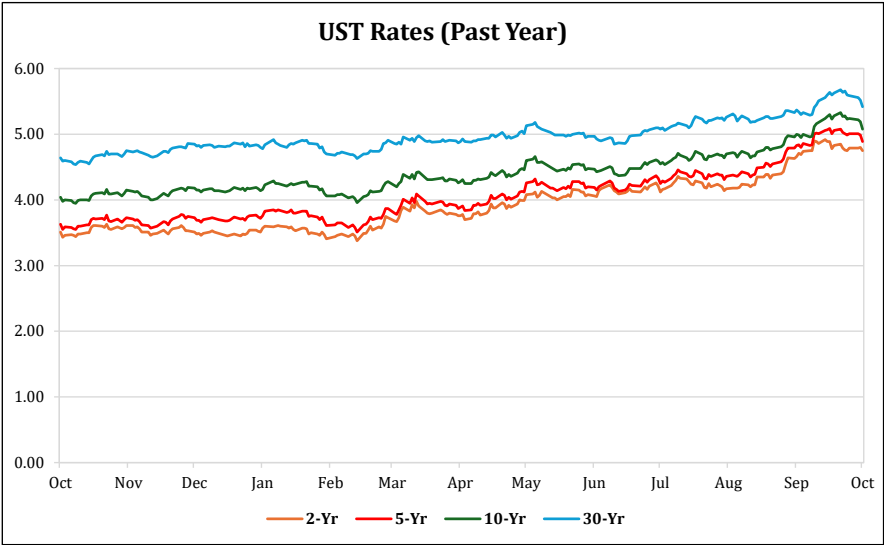
- Surprisingly, the Fed Funds rate is 25 basis points (0.25%) **lower** than its level at last year's conference; recently, the Fed hiked the Fed Funds rate for the first time since July 2023 amid "sticky" inflation
- Short-term UST yields reflect expectations for future Fed policy, not just today's target rates
- 1-year UST is up 84 bps (0.84%) since last year; 2-year UST up 124 bps (1.24%)
- Tax-exempt muni curve is considerably steeper than taxable UST curve (194 bps vs. 96 bps)
- Longer-term yields reflect a broader set of economic and market factors including federal borrowing and Treasury spending, growth / inflation expectations, competition for capital, economic and geopolitical uncertainty, etc.



# Treasury Market Update

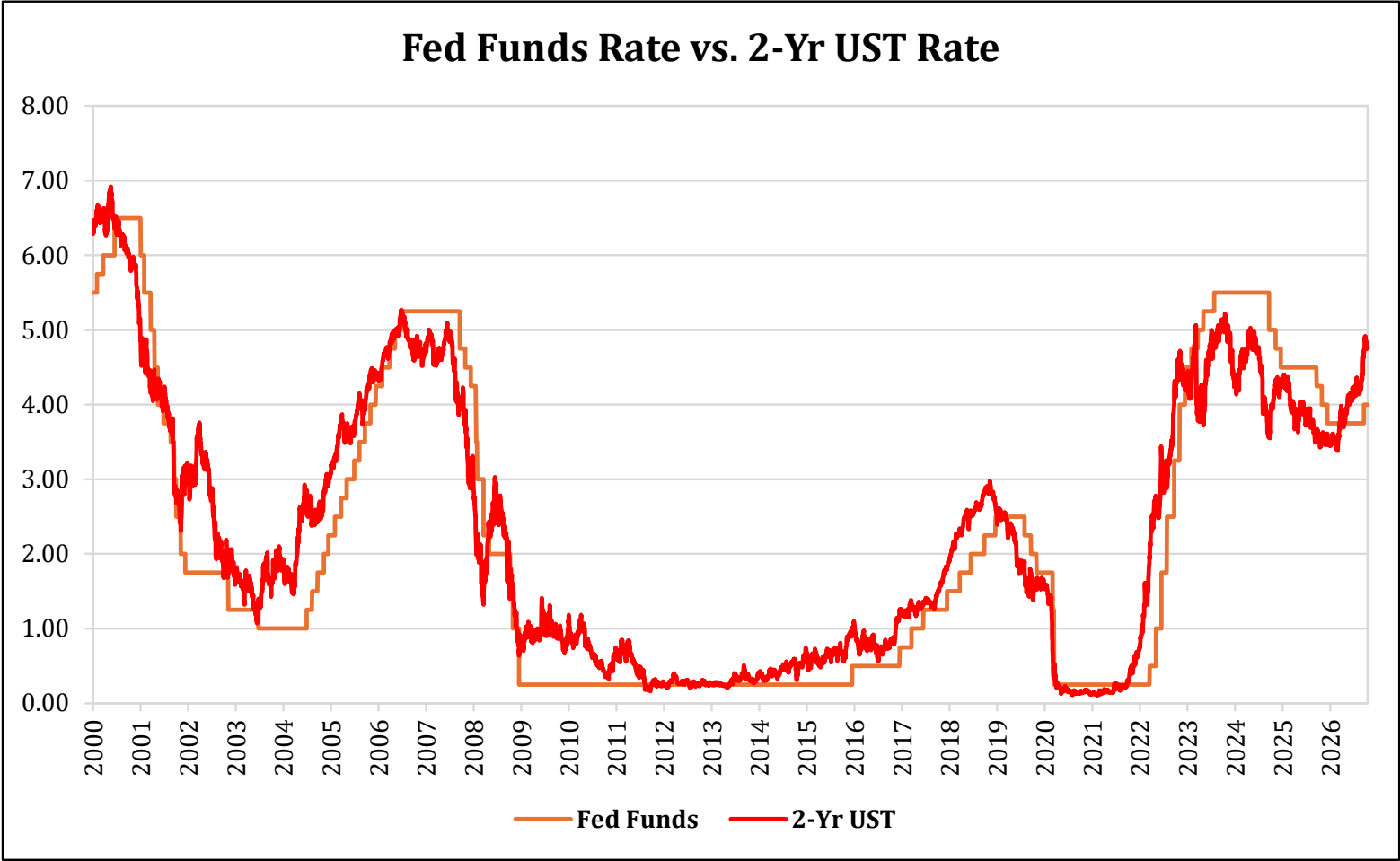


| UST Rates (Past 10 Years) |        |        |        |        |
|---------------------------|--------|--------|--------|--------|
| UST Rate                  | 2-Yr   | 5-Yr   | 10-Yr  | 30-Yr  |
| Current                   | 4.75   | 4.89   | 5.08   | 5.42   |
| 10-Yr Ago                 | 0.84   | 1.28   | 1.76   | 2.55   |
| Difference                | 3.91   | 3.61   | 3.32   | 2.87   |
| Current                   | 4.75   | 4.89   | 5.08   | 5.42   |
| High                      | 5.22   | 5.09   | 5.33   | 5.68   |
| Difference                | (0.47) | (0.20) | (0.25) | (0.26) |
| Current                   | 4.75   | 4.89   | 5.08   | 5.42   |
| Low                       | 0.11   | 0.19   | 0.51   | 0.91   |
| Difference                | 4.64   | 4.70   | 4.57   | 4.51   |

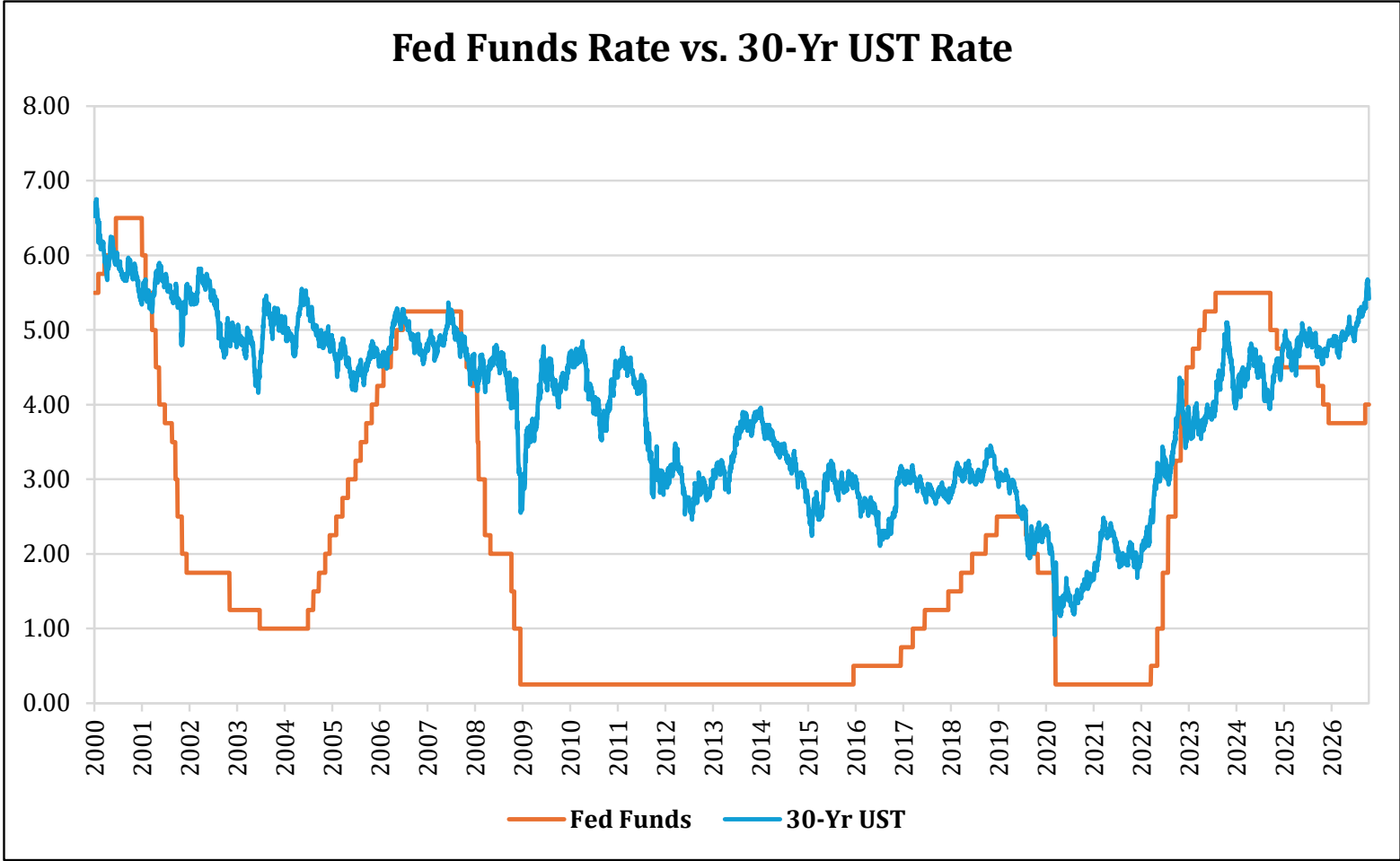


| UST Rates (Past Year) |        |        |        |        |
|-----------------------|--------|--------|--------|--------|
| UST Rate              | 2-Yr   | 5-Yr   | 10-Yr  | 30-Yr  |
| Current               | 4.75   | 4.89   | 5.08   | 5.42   |
| 1-Yr Ago              | 3.51   | 3.63   | 4.04   | 4.64   |
| Difference            | 1.24   | 1.26   | 1.04   | 0.78   |
| Current               | 4.75   | 4.89   | 5.08   | 5.42   |
| High                  | 4.92   | 5.09   | 5.33   | 5.68   |
| Difference            | (0.17) | (0.20) | (0.25) | (0.26) |
| Current               | 4.75   | 4.89   | 5.08   | 5.42   |
| Low                   | 3.38   | 3.51   | 3.95   | 4.54   |
| Difference            | 1.37   | 1.38   | 1.13   | 0.88   |

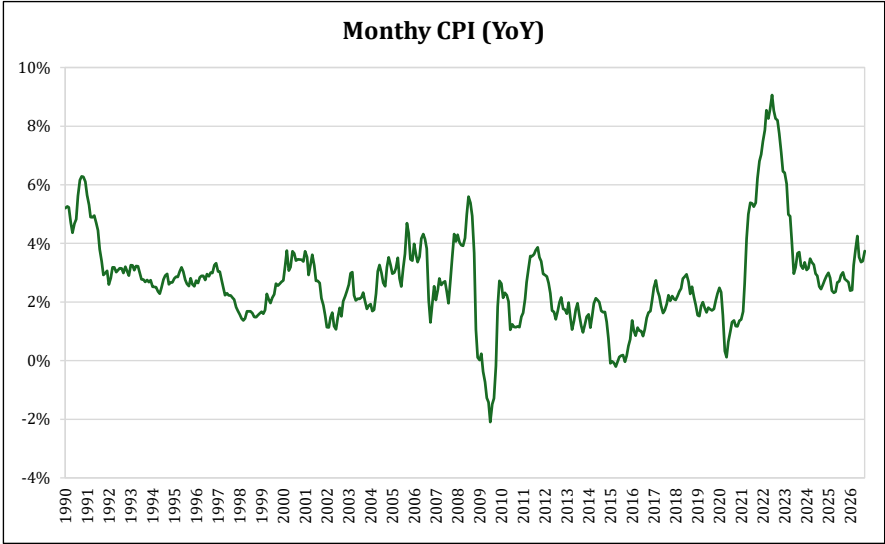
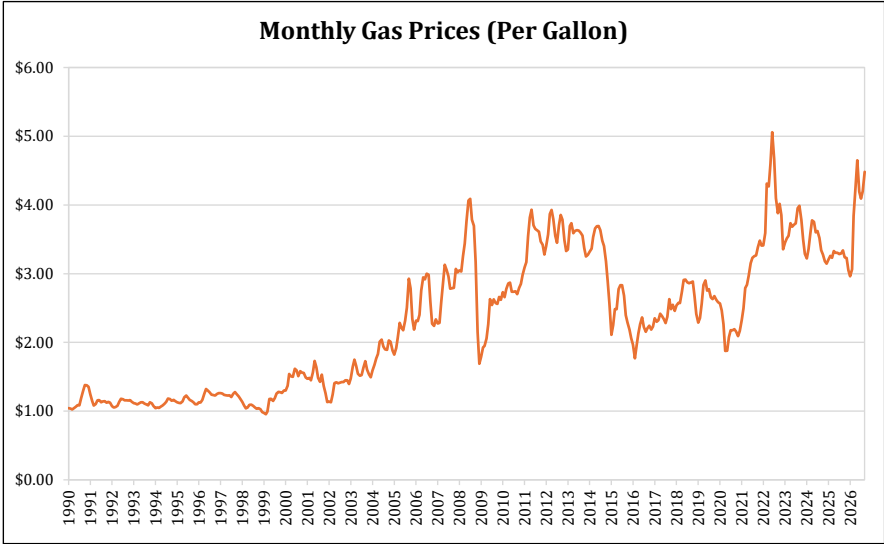
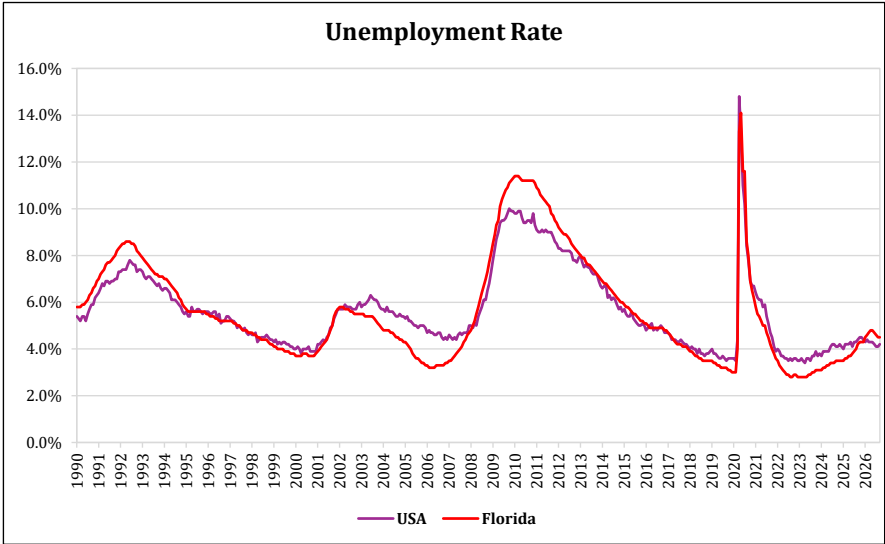
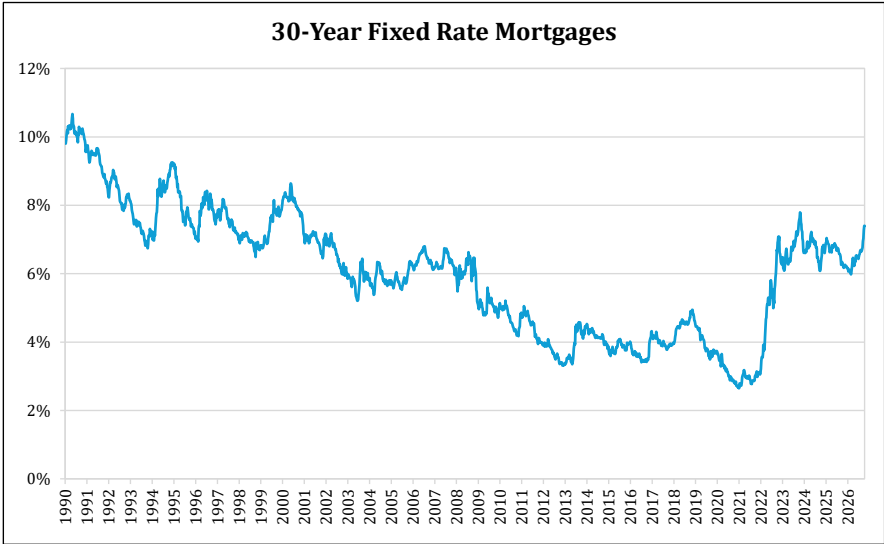
*The Fed Funds Rate IS a SHORT-TERM Rate!*



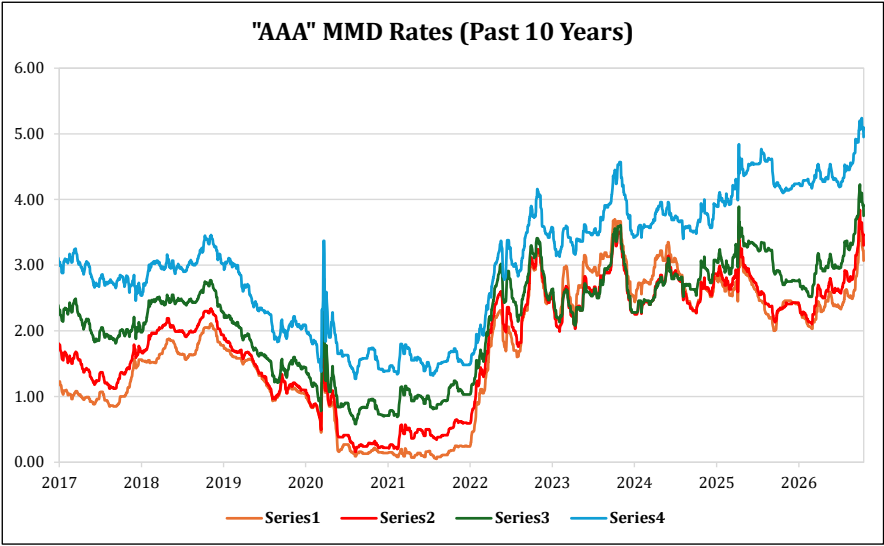
*The Fed Funds Rate IS NOT a LONG-TERM Rate!*



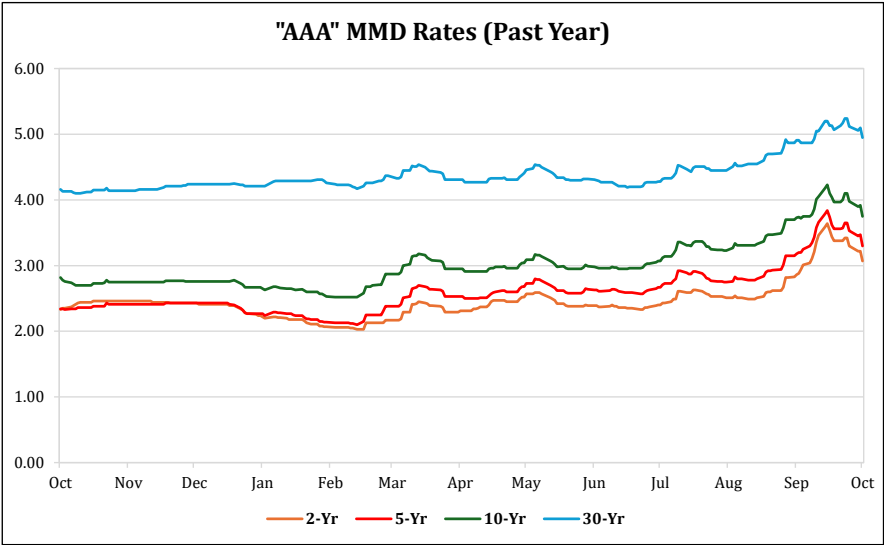
# Other Cool Charts



# Municipal Market Update

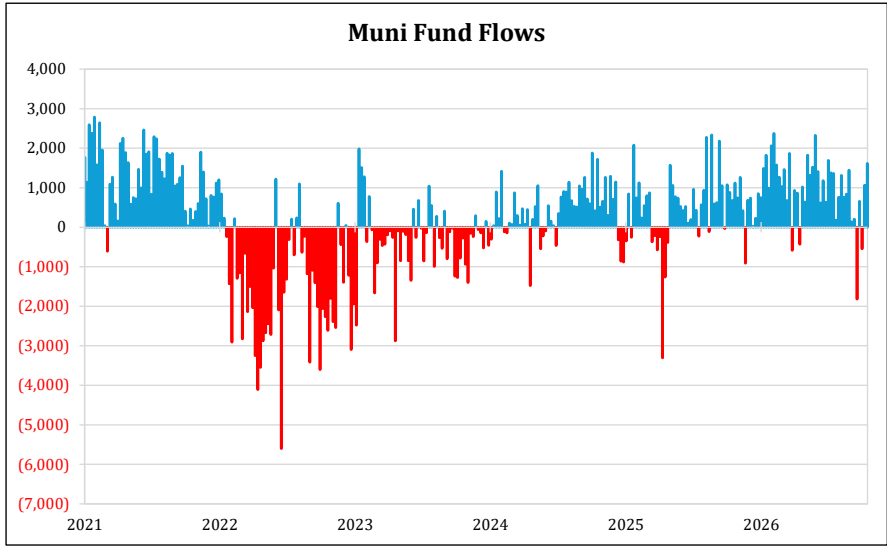


| "AAA" MMD Rates (Past 10 Years) |        |        |        |        |
|---------------------------------|--------|--------|--------|--------|
| MMD Rate                        | 2-Yr   | 5-Yr   | 10-Yr  | 30-Yr  |
| Current                         | 3.07   | 3.30   | 3.75   | 4.95   |
| 10-Yr Ago                       | 0.88   | 1.13   | 1.71   | 2.56   |
| Difference                      | 2.19   | 2.17   | 2.04   | 2.39   |
| Current                         | 3.07   | 3.30   | 3.75   | 4.95   |
| High                            | 3.70   | 3.84   | 4.23   | 5.24   |
| Difference                      | (0.63) | (0.54) | (0.48) | (0.29) |
| Current                         | 3.07   | 3.30   | 3.75   | 4.95   |
| Low                             | 0.05   | 0.16   | 0.58   | 1.27   |
| Difference                      | 3.02   | 3.14   | 3.17   | 3.68   |

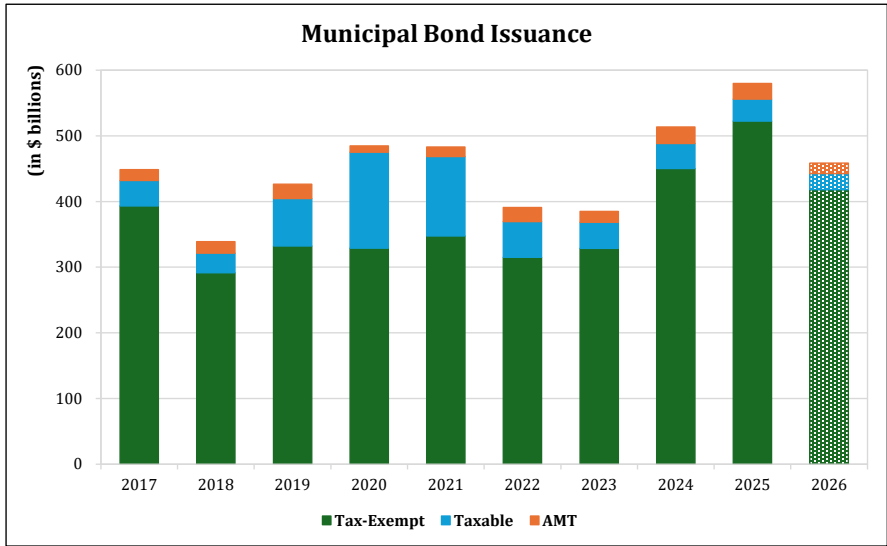


| "AAA" MMD Rates (Past Year) |        |        |        |        |
|-----------------------------|--------|--------|--------|--------|
| MMD Rate                    | 2-Yr   | 5-Yr   | 10-Yr  | 30-Yr  |
| Current                     | 3.07   | 3.30   | 3.75   | 4.95   |
| 1-Yr Ago                    | 2.33   | 2.34   | 2.82   | 4.16   |
| Difference                  | 0.74   | 0.96   | 0.93   | 0.79   |
| Current                     | 3.07   | 3.30   | 3.75   | 4.95   |
| High                        | 3.64   | 3.84   | 4.23   | 5.24   |
| Difference                  | (0.57) | (0.54) | (0.48) | (0.29) |
| Current                     | 3.07   | 3.30   | 3.75   | 4.95   |
| Low                         | 2.03   | 2.10   | 2.52   | 4.10   |
| Difference                  | 1.04   | 1.20   | 1.23   | 0.85   |

# Municipal Market Update



*Muni funds had 21-straight weeks of inflows until mid-September 2026*



*2026 municipal bond issuance is on pace to eclipse 2025's record issuance volume*

## Section II:

# **Financial Policies**

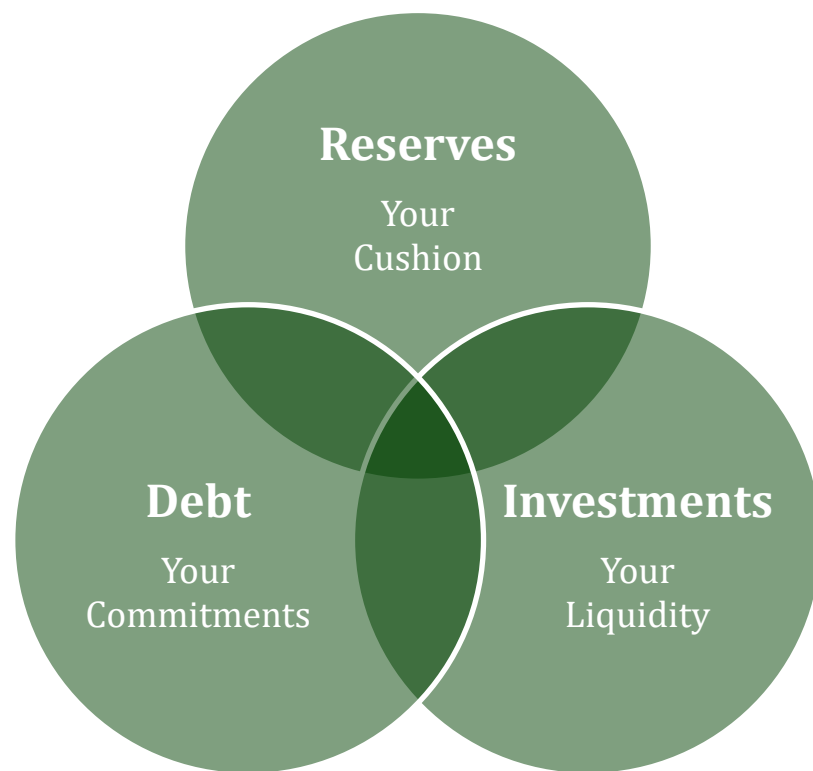
## Why Are Financial Policies Important?

- **Decisions made in calm, not crisis** – financial policies set the framework and rules before the budget shortfall, the storm, or the big ask arrives; they allow you to respond deliberately versus in a panic
- **Continuity through turnover** – staff, managers, and elected officials change; financial policies keep discipline in place, providing consistency in financial practices
- **Credibility with rating agencies and investors** – the rating agencies consider management and governance practices, including formal policies, in credit analysis; formal, followed policies are evidence of strong financial management
- **Accountability and transparency** – financial policies give the governing body, auditors, and the public a clear standard to measure performance against
- **Protection from short-term pressure** – reserves, debt management, and investment safety are the first things to erode when there's no written line to defend
- **Foundation for long-term planning** – reserves, debt, and investments are managed as one system, not as one-off decisions
- **Best practices or statutory requirements** – GFOA has established best practices for certain financial policies and, in some cases, Florida local governments must meet State requirements

***Policies are boring...right up until the day you need them the most!***

## The Starting Point: Three Key Policies

- These three key financial policies interconnect and can be used as a starting point:
  - **Reserves:** *Cushion*. How much cash you hold and when and how you can use it
  - **Debt:** *Commitments*. How much you borrow and what you pledge to repay it
  - **Investments:** *Liquidity*. Whether the cushion is safe and available when needed
- Reserve levels, debt management, and investment liquidity must work together as one system
- One revenue shock can test all three of these at once; weakness in one shows up in others
  - Thin reserves can raise borrowing costs
  - Significant debt can shrink your ability to build reserves
  - Reserve balances locked in the wrong investments may not be available when needed
- These three policies are the foundation, but other policies can build upon or supplement these



# Reserve Policy: A Floor, Not a Target

## 1 Purpose & Objectives

- Absorb shocks without abrupt cuts
- Preserve financial flexibility
- Protect credit quality
- Set the rules before the crisis

## 2 Standards & Requirements

- GFOA: formal written policy
- GFOA: minimum two months of operating revenues or expenditures
- GASB 54: fund balance classification

## 3 Elements

- Fund and measure
- Minimum, target, and excess
- Allowable and restricted uses
- Replenishment timeline

## 4 Metrics

- Unrestricted fund balance
- Unrestricted cash and investments
- Months of revenues or expenditures

# Debt Policy: Borrow Within Your Means

## 1 Purpose & Objectives

- Borrow only for approved purposes
- Minimize long-term borrowing costs
- Maintain financing flexibility
- Protect credit quality

## 2 Standards & Requirements

- GFOA: board-approved written policy
- GFOA: limits, structuring, issuance, management
- FL Const.: voter approved (Art. VII, Sect. 12)
- FL Stat.: reporting and sale rules (Ch. 218)

## 3 Elements

- Purposes and types of debt allowed
- Structure, term, and refunding rules
- Method of sale
- Post-issuance compliance

## 4 Metrics

- Debt service % of operating revenues
- Debt per capita; debt-to-taxable value
- Coverage on pledged revenues
- Refunding thresholds

# Investment Policy: Safety First, Yield Last

## 1 Purpose & Objectives

- Safety of principal first and foremost
- Liquidity to pay obligations when due
- Investment income last
- Prevent unauthorized or risky investments

## 2 Standards & Requirements

- GFOA: board-adopted written policy
- GFOA: market-value reporting, at least quarterly
- FL Stat.: requires a written plan; safety, liquidity, income (Ch. 218)

## 3 Elements

- Authorized investments only
- Maturity and liquidity requirements
- Custody and diversification
- Benchmark and reporting

## 4 Metrics

- Yield vs. benchmark
- Weighted average maturity
- Liquid share of portfolio
- Compliance with policy limits

## From Paper to Practice: Making Policies Stick

***Adoption is not compliance. A policy that's adopted and ignored may hurt you more than not having policies at all. You must follow your own rules!***

### 1 Develop

- Start with GFOA and Florida law
- Name responsible parties
- Stress test limits against a revenue shock
- Build in exceptions and remedies

### 2 Approve

- Brief the governing body before the vote
- Formal adoption by the governing body
- Share with staff, advisors, auditors, rating agencies

### 3 Monitor

- Report results to the governing body on a scheduled basis
- Track metrics and exceptions
- Require a corrective plan when out of compliance
- Review alongside the annual budget process

***Rinse & Repeat!***  
***Review policies on a set schedule and after major events.***

## Case Study: City of Pinellas Park, Florida

| City of Pinellas Park      |                                                                                                             |                                                                                                                         |                                                                                                                     |
|----------------------------|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| Policy                     | Reserve / Fund Balance                                                                                      | Debt Management                                                                                                         | Investments                                                                                                         |
| <b>Purpose</b>             | Set adequate unrestricted fund balance and reserve levels for stability and flexibility                     | Framework to evaluate, issue, and manage debt under FL law and City Charter                                             | Set investment objectives and parameters for City public funds under FL Statutes                                    |
| <b>Objectives</b>          | Cover revenue shortfalls, emergencies, and cash flow timing; protect credit quality                         | Match debt to asset life; lowest practical cost; strong credit; affordability                                           | Safety of principal; liquidity; return                                                                              |
| <b>Responsible Parties</b> | Finance Administrator; OMB Administrator                                                                    | Finance Administrator; Council approves each issuance; Municipal Advisor                                                | Finance Administrator (Investment Officer) under City Manager; optional Investment Manager                          |
| <b>Elements</b>            | Minimums by fund; fund balance classifications; spending order; replenishment plan; excess review           | Purposes, types, and security; method of sale; variable rate, derivative, and refunding rules; post-issuance compliance | Authorized investments with sector limits; maturity and liquidity rules; competitive bids; custody; diversification |
| <b>Metrics</b>             | General Fund: 60 days of expenses; W&S: 90 days of unrestricted cash; 10% off for two years triggers review | No single debt limit; variable rate $\leq 20\%$ ; term $\leq 30$ yrs; refunding NPV savings $\geq 3\%$                  | 5-year max maturity; 3 months of expenses liquid; sector and issuer limits; benchmarks; quarterly report            |
| <b>Periodic Review</b>     | Annually with the budget; Council may amend                                                                 | Periodic review; Council may amend                                                                                      | Administrator proposes amendments to City Council                                                                   |

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Section III:

**Developing a  
Capital Improvement Program**

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## Overview of a Capital Improvement Program (“CIP”)

- Governments are tasked with providing various essential public sector services
- Capital assets are government facilities, infrastructure, equipment, networks, etc., that enable the delivery of these essential services
- A CIP is a planning tool used by governments to maintain and replace its capital assets
  - Usually 5-to-7 year time horizon
  - Prioritizes projects
  - Identifies funding sources
- Without a CIP, capital spending can become reactive, politically driven, and fiscally destabilizing
- With a CIP, a municipality can turn infrequent, lumpy, expensive decisions into a disciplined, multi-year process that can be defended to a council/commission, rating agency, or taxpayers
- A CIP is the outcome of a government’s strategic planning process and can ultimately help governments to effectively deliver essential services

## What if you Didn't Have a Capital Improvement Program?

- **Crisis-Driven Spending** – financing under distress at worst time versus if you planned ahead
- **Political Capture of Capital Decisions** – whomever yells the loudest or has the best relationship with council/commission gets their project funded
- **No Link Between Capital and Operating Budgets** – build a new fire station without budgeting for the staffing or utility costs it requires to run it
- **Debt Mismanagement** – borrowing without a forward view of debt capacity
- **Deferred Maintenance Debt** – every year you don't do routine maintenance, the costs go up; a CIP holds your "feet to the fire" to do routine maintenance
- **Credit Rating Exposure** – rating agencies explicitly look for long-term capital planning as a sign of institutional capacity

## 10 Steps to Establishing an Effective CIP

- 1** Inventory and assess condition of your existing capital assets
- 2** Define what counts as “capital” (dollar threshold and useful life threshold)
- 3** Establish prioritization criteria before you see the project list
- 4** Solicit project requests from departments
- 5** Forecast revenue and debt capacity for the planning horizon
- 6** Match funded projects to funding sources explicitly
- 7** Model the operating budget impact of each capital project
- 8** Adopt first year as part of annual budget and the remaining years as planning guide
- 9** Build in formal annual update cycle
- 10** Tie CIP to public engagement and formal council/commission adoption

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Section IV:

**Financing a  
Capital Improvement Program**

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# Conditions for Financing a CIP

- In a perfect world, we would use PAYGO to finance all capital projects
- In reality, municipalities finance large capital projects that:
  - Cannot be paid for upfront or on a PAYGO basis
  - Lend themselves to long-term financing given longer useful life (i.e., utility system projects, road improvements, government facilities, parks and recreation)
  - Have associated revenues which can be used to support debt service payments
- Municipal debt is not used to:
  - Fund ongoing operating expenses
  - Fund operating reserves (except for debt required reserve funds)

|               | Project Type                                                                                                                                        | Revenues Used                                                                                                                                 | Advantages                                                                                                                                             | Disadvantages                                                                                                                                                 |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PAYGO         | <ul style="list-style-type: none"><li>• Smaller projects</li><li>• Shorter term assets replaced more often (i.e., vehicles, IT equipment)</li></ul> | <ul style="list-style-type: none"><li>• Current revenues (i.e., local discretionary sales surtax, state revenue sharing, gas taxes)</li></ul> | <ul style="list-style-type: none"><li>• Interest free</li></ul>                                                                                        | <ul style="list-style-type: none"><li>• High upfront cost</li><li>• Cost borne by current taxpayers; benefit may go to current and future taxpayers</li></ul> |
| Debt Financed | <ul style="list-style-type: none"><li>• Larger projects</li><li>• Assets with a long useful life (i.e., water and sewer system assets)</li></ul>    | <ul style="list-style-type: none"><li>• Debt proceeds, with specific revenues pledged to make periodic debt payments</li></ul>                | <ul style="list-style-type: none"><li>• Lower Upfront Cost</li><li>• Preserves reserves</li><li>• Cost borne by current and future taxpayers</li></ul> | <ul style="list-style-type: none"><li>• Financing Costs</li><li>• Reduces Future Financial Flexibility</li></ul>                                              |

## What is a Municipal Bond?

- A municipal bond is a debt instrument issued by a state, local government, agency or special district
- The terms “bond” and “bank loan” are often used interchangeably, although there can be some legal differences
- Municipal bonds can be issued as tax-exempt, taxable, or subject to AMT (private activity bonds)
- Interest earned on ***tax-exempt municipal bonds*** is exempt from federal income tax and, in some cases, state and local income tax; hence, resulting in lower interest rates for state and local government borrowers
- For bonds, interest is traditionally paid semi-annually and principal is traditionally paid annually
- For bank loans, interest and principal payments can be structured in multiple ways (monthly, quarterly, semi-annual, annual, etc.)
- Municipal bonds are typically secured and paid from taxes (ad valorem taxes, sales tax, gas tax) or user fees (water and sewer, electric, tolls)

# Why Would an Investor Buy Municipal Bonds?

## ▪ Tax Advantage of U.S. Municipal Bonds:

- Most municipal bonds are issued as tax-exempt; meaning that investors don't pay federal income tax (and state/local income tax in some cases) on the interest earned from holding these bonds
- At a 21% corporate tax bracket, a 5.00% tax-exempt bond yields the same as a 6.33% taxable bond

$$\text{Tax Equivalent Yield} = \frac{\text{Tax-Exempt Yield}}{(1 - \text{Tax Bracket})}$$

$$\text{Tax Equivalent Yield} = \frac{5.00\%}{[(1 - (0.21))]}$$

$$\text{Tax Equivalent Yield} = 6.33\%$$

## ▪ Risk Profile:

- As an investor or lender, the most important consideration before investing or lending is how likely are you to get your interest and principal back
- Municipal bonds have historically had a very low level of default
- 10- and 20-year cumulative default rates for investment grade munis are 0.09% and 0.18%, respectively
- For investment grade corporate bonds, those same 10- and 20-year cumulative default rates jump to 2.23% and 5.42%, respectively

## Funding Process is Dependent on Type & Structure of Debt Issued

- Bonds vs. Bank Loans:
  - **Bonds** – offered through an underwriter acting on behalf of the issuer; referred to as "publicly offered"; involve the preparation and distribution of a marketing document to prospective purchasers
  - **Bank Loans** – unlike a public offering, a bank loan involves one bank or financial institution lending funds to the borrower for a specific project(s)
- Long-Term vs. Short-Term (aka Interim Financing):
  - **Long-Term** – can be issued in either bonds or a bank loan; the public markets will generally allow for 30-year debt (and longer for some credits), while bank loans are generally shorter (10-15 years, sometimes 20 years)
  - **Short-Term** – likewise, can be issued as either a bank loan or a public offering; interim financings are typically "taken out" with long-term debt
- Fixed Rate vs. Variable Rate:
  - Any of the structures above may be issued as fixed or variable rate
- Tax-Exempt vs. Taxable:
  - Any of the structures above may be issued as tax-exempt or taxable

# Types of Municipal Debt

| Type of Bond                                                | Security Source                                                                           | Typical Issuers                                                   | Key Advantages                                                                                                     | Key Considerations                                                                           |
|-------------------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| <b>General Obligation ("GO")</b>                            | Full faith and credit; ad valorem taxes                                                   | States, local governments, special districts                      | Broad-based tax; full faith and credit                                                                             | Typically require voter approval                                                             |
| <b>Revenue</b>                                              | Anything other than ad valorem taxes (sales taxes, user fees)                             | States, local governments, special districts, interlocal agencies | Specific revenues legally pledged; self-supporting                                                                 | "Tie up" specific revenue source and limit future financing flexibility; revenue volatility  |
| <b>Covenant to Budget &amp; Appropriate ("CB&amp;A")</b>    | Revenue bonds secured by basket of non-ad valorem revenues                                | Local governments, special districts                              | Broad basket of non-ad valorem revenues after paying essential services                                            | Florida concept requires market education; appropriation risk                                |
| <b>Certificates of Participation ("COPS")</b>               | Revenue bonds secured by an undivided interest in lease payments from a governmental unit | School districts                                                  | Does not require voter approval; may be paid from any revenues of the local government, including ad valorem taxes | Appropriation risk                                                                           |
| <b>Community Redevelopment Agency/Tax Increment ("TIF")</b> | Tax increment (difference in assessed value)                                              | Special districts                                                 | Can be done for community development without voter referendum                                                     | Significant up-front structuring; often unrated or non-investment grade; need strong history |
| <b>Special Assessment</b>                                   | "Special assessment" charged against a property                                           | Local governments                                                 | Can be done without voter referendum                                                                               | Significant up-front structuring; often unrated or non-investment grade                      |
| <b>Conduit</b>                                              | Collateral and security of conduit borrower                                               | States, local governments, special districts, interlocal agencies | Provide for projects that serve a public purpose, but not "debt" of the conduit issuer                             | Staff resources; audit; headline risk                                                        |

# Summary of Debt Issuance Process

## Planning/ Initial Steps

Issuer / borrower develops its CIP and determines the need for capital financing

Engage municipal advisor

Evaluate CIP/ project needs, cash flow capacity, budget impacts, sources and uses of funds, debt funding options

Engage other financing team and assign responsibilities

Develop preliminary plan of finance and timetable

## Debt Structuring & Sale

Finalize plan of finance, including type of debt, structure, estimated debt service, associated tax/ rate increases

Develop legal documents

Receive credit ratings  
*(if applicable)*

Receive governing body approvals

Marketing  
*(if applicable)*

Pricing

## Closing & Post-Issuance

Preparation of closing documents

Execute closing documents (pre-closing)

Receive funds (closing)

Invest / spend bond proceeds

Continuing disclosure

Arbitrage rebate

# Debt Issuance Participants

## Working Group Members (Any Debt Issuance)

- Issuer
  - ✓ Governing Body
  - ✓ City Manager, County Administrator, County Clerk
  - ✓ CFO, Director of Finance, Budget Director
  - ✓ Issuer's Counsel
  - ✓ Other (i.e., Director of Utilities)
- Municipal Advisor
- Bond Counsel



## + Other Working Group Members (Bond Issues)

- Disclosure Counsel
- Underwriters
- Underwriter's Counsel
- Registrar / Paying Agent / Trustee
- POS / OS Electronic Publisher
- Disclosure Dissemination Agent (i.e. DAC)
- Bond Insurer (if needed)



## + Other Working Group Members (Bank Loans)

- Lender
- Lenders Counsel

## + Other Participants (For Select Debt Issuances)

- Refundings – Escrow Agent, Verification Agent
- Utility Debt – Engineer; Rate Consultant
- Project Based Debt – Feasibility Consultant
- Complex / Special Use Debt – Special Tax Counsel



Section V:

**Short-Term Financings**



## Short-Term Financings

- Short-term financings of capital improvement projects, also known as interim financings, are typically used in the following situations:
  - Project funding / construction may occur over several years, in separate phases
  - Elements of the project are not all financed at the same time and issuer needs access to the funds while the project is being built
  - Need short-term funding to meet certain requirements (i.e., let contracts, grant matching funds)
  - Additional funding is anticipated, but has not come in yet (i.e., federal/state grants, FEMA reimbursement)
  - Market conditions are not favorable for long-term debt, but project needs to begin or continue (i.e., interest rates are currently high but expected to fall in the fairly near-term)
  - Financing plans and/or amounts for all phases of the project are not known at the outset
- Generally variable rate, but some options allow for fixed rate debt
- Generally tax-exempt, unless there is a reason they need to be taxable
- Standard short-term financing structures include:
  - Cash-on-hand / reserves
  - Bank facilities (line of credit, short-term bank loan)
  - Capital markets facilities (commercial paper, notes)



## Determining Need / Evaluating Available Short-Term Debt Structures

- Identify the situation (i.e., timing, cost estimates, project status, market conditions)
- Determine whether interim financing is preferable to long-term financing
- Determine whether cash-on-hand or reserves are available to pay initial project costs and what “side effects” could there be from using that cash
- Evaluate available interim debt structures based on:
  - Size
  - Target maturity
  - Prepayment option
  - Fixed vs. variable rate
  - Refinancing / take-out plan
- Identify structure best suited to meet your current need
  - Bank facility – somewhat size constrained; shorter execution; less documentation; no rating; less costs of issuance
  - Capital markets facility – no size constraint; longer execution; more documentation; may require rating; most costs of issuance

## Key Elements of Executing Interim Financing

- Identify the internal financing team and timing requirements
- Identify the financing structure
- Selection of underwriter(s) (and underwriter's counsel) (RFP / other selection process)
- Document preparation
  - Bond / loan documents
  - Disclosure document
- Ratings
- Governing body approvals
- Execution of documents / funding / closing
- Compliance with post-closing requirements
- Refinance to long-term fixed rate when ready
- Identify structure best suited to meet your current need

# Comparison of Interim Financing Options

| Facility                                             | Method of Sale                                          | Disclosure Required | Rating Required                               | Documentation                                                             | Pricing Structure / Benchmarks                                                                                  | Prepayment Flexibility                                                                   |
|------------------------------------------------------|---------------------------------------------------------|---------------------|-----------------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| <b>Line of Credit</b>                                | Negotiated with a bank or bank RFP process (2-3 months) | Limited             | No                                            | Resolution / Note                                                         | <b>Variable</b> rate based on index (% SOFR) + credit spread                                                    | Yes, typically callable anytime with no penalty; may be non-prepayable first 6-12 months |
| <b>Direct Placement Bank Loan</b>                    | Negotiated with a bank or bank RFP process (2-3 months) | Limited             | No                                            | Resolution / Note                                                         | <b>Variable</b> rate based on index (% SOFR) + credit spread; pricing can be influenced by banking relationship | Possible at a cost                                                                       |
| <b>Direct Placement Bond Anticipation Note (BAN)</b> | Negotiated with a bank or bank RFP process (2-3 months) | Limited             | No                                            | Resolution / Note                                                         | <b>Fixed</b> rate based on credit and market conditions; pricing can be influenced by banking relationship      | Possible at a cost                                                                       |
| <b>Capital Markets Bond Anticipation Note (BAN)</b>  | Negotiated or competitive                               | Yes                 | Yes                                           | Resolution / Note / OS / Notice of Sale                                   | <b>Fixed</b> rate based on credit and market conditions                                                         | Generally not                                                                            |
| <b>Commercial Paper</b>                              | Negotiated                                              | Yes                 | Yes (primarily legal review of LOC structure) | Resolution / Note / OS / LOC / Reimbursement Agreement / Dealer Agreement | <b>Variable</b> rate based on index (SIFMA) + credit spread + dealer fees + LOC fees                            | No, but can set short maturities (~30 days) and roll over CP at maturity                 |

# Advantages / Considerations of Short-Term Financings

## Advantages

- **Short-Term Advantage** – in a typical upward sloping yield curve environment, short-term rates are lower than long-term rates
- **Prepayment Provisions** – variable rate debt typically provides more flexible prepayment options with no penalty
- **Draw-Down Ability** – many short-term funding options include the ability to draw down funds as needed; interest accrues only on the drawn amount (although the undrawn portion may be subject to unused fees)
- **Interest Only through Maturity** – interest only is due from closing through maturity; a balloon principal payment is due at maturity and repaid with proceeds of a long-term financing
- **Faster Execution** – can execute in ~2-3 months; no ratings and limited disclosure on bank products

## Considerations

- **Interest Rate Risk** – issuer carries the risk of interest rates rising in the future; in a rising interest rate environment, variable rate options could prove costly
- **Market Access / Refinancing Risk** – issuer carries the risk of market access to refinance or take-out the short-term financing with long-term debt in the future
- **Balloon Maturity** – issuer must consider how a balloon maturity impacts existing bond covenants (i.e. rate covenant, additional bonds test, senior/ subordinate lien)
- **Size / Structure** – certain banks will not offer these products based on size, credit and/or security structure (i.e. subordinate lien)
- **Budgeting Uncertainty** – more uncertainty with budgeting annual debt service
- **Other Fees** – certain short-term products include additional fees (i.e. unused fees)

## Why Are We Seeing Increased Use of Interim Financings?

- Uncertainty about **project costs**
  - Trend of rapidly increasing project costs during planning phase
  - Inconvenience and cost of having to issue “completion bonds”
- Uncertainty about **project timing**
  - Long-term fixed rate cost of carry begins from day one, whether or not the project is ready to begin
  - “Reasonable expectation” of 3-year spend down for long-term tax-exempt bonds
  - Project timing uncertainty not as bad as it was post-COVID when there was significant difficulty in getting necessary materials and labor
- Uncertainty about **market conditions**
  - Economists believe that Fed Funds rate will be increased one more time in 2026 (in December) and then “who knows” what might happen in 2027 and beyond
  - Recent interest rates are at or near pre-Great Recession highs
  - There is an expectation for future reductions in interest rates, but when?

## Case Study: Short-Term Financing



### City of Tampa, Florida

**\$120,500,000**

Non-Ad Valorem Revenue Note  
(Waste-to-Energy Retrofit Project),  
Series 2024

*Closed: June 11, 2024*

**\$130,000,000**

Solid Waste System Revenue Note  
(BANA Line of Credit),  
Series 2025

*Closed: January 21, 2025*



- In 2023, the City of Tampa notified PRAG of upcoming Solid Waste Department capital needs:
  - ~\$120MM to upgrade its waste-to-energy plant
  - ~\$130MM to relocate administration building
- The appropriate revenue source to secure long-term debt would have been net revenues of the Solid Waste Department; however, the solid waste rate structure was not sufficient to support the necessary financing amount (or either project individually)
- At the same time, the City did not want to use its CB&A pledge as long-term security for an enterprise fund project
- PRAG and the City developed the following phased plan of finance:
  - **June 2024:** Short-term direct placement note to finance WTE plant retrofit (urgent need); backed by CB&A pledge
  - **June 2024:** New solid waste rate structure adopted by City Council; revenues generated by new rate structure sufficient to support \$250MM in long-term debt
  - **January 2025:** Line of credit to finance relocation of administration building; backed by solid waste revenues; at closing, the City drew 50% of the line and invested the proceeds until needed thus earning interest and avoiding undrawn fees
  - **TBD (est. October 2027):** Long-term bonds to refinance the CB&A note and solid waste line of credit; backed by solid waste revenues

# Section VI:

## **Long-Term Financings**

# Long-Term Financings

- Long-term financings of capital improvement projects are typically used in the following situations:
  - Certainty on project amount and timing
  - Funding long-term assets (matching long-term assets with long-term debt)
  - Market conditions are favorable for long-term issuance
  - Issuer feels comfortable certifying spend-down requirements associated with long-term tax-exempt debt
- Generally fixed rate, but some options allow for variable rate debt
- Generally tax-exempt, unless there is a reason they need to be taxable
- Standard long-term financing structures include:
  - Bond issue
  - Bank loan / direct placement

## Bond Issuance (Public Offering)

- **In general, bonds are best for large projects, longer financings, and complex credits**
- **Term** – up to 30 years or more depending on the useful life of the asset being financed; can be structured any number of ways
- **Documentation** – requires an offering document / official statement (“OS”); may require feasibility study and engineer’s report for new money utility projects
- **Ongoing Annual Disclosure** – requirements typically include ACFR and annual financial operating data as described in the OS (uploaded onto EMMA)
- **Prepayment Provisions** – standard is 10-year optional call (can be shorter for a price)
- **Ratings / Insurance** – generally requires at least one credit rating and/or bond insurance, depending on the credit rating(s)
- **Pricing** – reflects the shape of the yield curve, allowing the Issuer to take advantage of rates throughout the yield curve; pricing is very transparent
- **Timeline to Close** – typically 90 to 150 days depending on procurement process, documentation, and approval requirements / timing (including feasibility study, engineer’s report, workshops / meetings, agenda deadlines, etc.)
- **Costs of Issuance** - higher than a bank loan (rating, offering documents, paying agent / registrar)

## Bank Loan (Direct Placement)

- In general, bank loans are best for projects that require funding quickly, “smaller” projects, shorter-to-medium term financings, and straightforward credits
- **Term** – up to 10 years is most common, but can go up to 20 years or even longer; after 10-15 years, certain banks may require a “put” option during the term of the loan which subjects the issuer to interest rate and refinancing risk; typically structured with level debt service
- **Documentation** – no offering document; may require feasibility study and engineer’s report for new money utility projects
- **Ongoing Annual Disclosure** – requirements typically include ACFR and budget (sent to bank)
- **Prepayment Provisions** – range from a make-whole call with a prepayment penalty to a par call any time without penalty; more flexible prepayment provisions are more costly
- **Ratings / Insurance** – does not require that the transaction be rated or insured
- **Pricing** – reflects the bank’s costs of funds plus a spread; pricing is less transparent than with a public bond offering
- **Timeline to Close** – typically 60 to 90 days depending on procurement process
- **Costs of Issuance** – lower than a public bond offering

# Advantages / Considerations of Long-Term Financings

## Advantages

- **Budgeting Certainty / Elimination of Interest Rate Risk** – lock-in long-term fixed rate for the life of the debt, offering budgeting certainty and eliminating future interest rate risk for the issuer
- **Credit** – rating agencies view fixed-rate debt more favorably than variable rate
- **Structuring** – structuring can take existing debt and future borrowing needs into account
- **Asset / Liability Match** – term of the debt based on the assets being financed is matched with the repayment amortized over the assets' useful lives

## Considerations

- **Short-Term Cost** – in a typical upward sloping yield curve environment, mid-to-long term fixed rates are higher than short-term variable rates
- **Prepayment Provisions** – most banks require prepayment provisions that include a penalty or higher interest rates to add prepayment flexibility; bond issues typically include a 10-year par call but shorter call options are available at a cost
- **Interest Expense / Carrying Costs** – all funds are taken up-front with no ability to draw when needed; interest expense on total borrowing incurred and payable from day one
- **Disclosure / Reporting Requirements** – public bond issues require a primary offering document, engineering / feasibility reports, and have continuing disclosure responsibilities
- **Costs of Issuance** – public bond issues typically have the highest cost of issuance compared to bank loans and interim financing options

## Case Study: Long-Term Financing



### City of Wildwood, Florida

**\$83,730,000**  
Utility System Revenue Bonds,  
Series 2026A

*Closed: February 12, 2026*



- In early 2026, the City of Wildwood issued its inaugural series of publicly offered bonds to finance wastewater projects.
- **Multi-Year Planning:** PRAG worked closely with the City over a two-year period to evaluate funding options, develop a comprehensive financing plan and manage the bond issuance process, including approvals, documentation, underwriter selection, ratings and bond pricing/closing activities.
- **Plan of Finance:** The City had multiple sources of funding for the project, including internal cash, SRF loans, grants, the Series 2026A Bonds and potential future bonds.
- **Security Structure, Documents and Consents:** PRAG reviewed the City's existing Master Bond Resolution and provided suggested amendments, while taking the lead on obtaining consents from the existing lender and FDEP.
- **Rating Strategy:** PRAG developed and executed a customized rating agency strategy for obtaining the City's first public credit rating of A+ from S&P.
- **Pricing Strategy and Results:** Prior to pricing, PRAG worked with the underwriting team to develop a pricing strategy and timeline to maximize investor interest and meet the City's cash flow needs. On the day of pricing, PRAG monitored the pricing in person at the City's offices to educate City staff on the process, order flow and the final pricing proposal.

# Section VII:

## **Closing Remarks**

## Case Study: One City, a Full Financing Toolkit

### City of Fort Myers, Florida

#### 1. Short-Term, Variable, TE, Taxable

- Variable rate, line of credit to provide interim funding for general fund projects
- 3 -year term; CB&A NAV revenues
- Evolved over time – increases in amount, addition of taxable piece, benchmark rates
- Repay line draws with long-term financing

#### 2. Long-Term, Bank Loan, Fixed, TE, Taxable

- Fixed rate, bank loan to repay draws on line of credit
- 14-year term; CB&A NAV revenues
- Two series; tax-exempt and taxable
- Quick and efficient execution to free up capacity on line of credit

#### 3. Long-Term, Competitive Bonds, Fixed, TE

- Fixed rate, competitive bonds to fund parks/rec projects
- 30-year term; ad-valorem taxes
- First competitive deal; first GO deal
- Expect future GO issuance based on referendum

#### 4. Long-Term, Negotiated Bonds, Fixed, TE

- Fixed rate, negotiated bonds to finance utility projects and refund debt
- 30-year term; utility revenues
- Combined new money and refunding/restructuring of existing bonds
- DSRF release to eliminate future risk

## Closing Remarks

The debt issuance process is involved and includes many different parties...some suggestions:

### Don't

- Become overwhelmed
- Delay

### Do

- Develop clear objectives
- Communicate with elected officials
- Engage a team of professionals early and use your hired professionals for guidance...ask questions!!
  - Municipal advisor
  - Bond counsel
  - Disclosure counsel
  - Rate consultants / engineer (if needed, project dependent)
- Finalize financing plan and execute



**BEFORE HIRING MA**



**AFTER HIRING MA**