



# How Government Bonding Affects Your Life

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TODAY'S


## Agenda

- Bonding 101 – Pros/Cons/Whys
- State of Wisconsin Experiences
- Market Update/Perspectives
- Hot topics in Public Finance
- Ways For Governments/Staff To Improve Experience With Bonding

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BONDING 101

### What Is Bonding/Debt

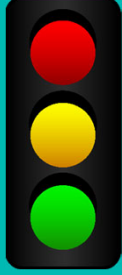


- Governments issue a bond/evidence of obligation to borrow money
- Wisconsin Statutes – Chapters 66, 67, and Others
- Tax-Exemption – Federal Government Subsidy

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BONDING 101

### Rationale and Concerns



- Pro: Wisconsin law realities
- Pro: Spread cost of asset over useful life (multi-generational use)
- Pro: Opportunity/multiplier
- Con: Future debt service payments impact future budgets/tax levies
- Con: Complying with additional regulatory requirements
- Con: Ratings

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STATE OF WISCONSIN EXPERIENCES

### Reflections and memorable financings (1994-2022)

- Copy machine financing to \$1.5 billion deficit financing
- Roads, prisons, office buildings, grants and other 'essential' items
- High profile projects – Kohl Center, Lambeau Field and Fiserv Forum
- Policy analysis, decisions and reactions



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STATE OF WISCONSIN EXPERIENCES

### Addressing political/governing body expectations


- Know all angles and factors of the issue**
  - What are the optics
  - What is the financial bottom line
  - What is the policy requirements and/or ramifications
- Financial analysis versus political analysis**
  - Selective hearing
  - Reality is the best financial decision is often not the best political decision
- Municipal disclosure considerations**
  - Political speak versus materiality
  - Elections and campaigning – Finance Director's nightmare

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STATE OF WISCONSIN EXPERIENCES

### State Debt – Slice of the Pie

- General obligation debt – \$1,157/resident
- Appropriation obligations – \$429/resident
- Transportation revenue bonds – Approximately \$30 from each motor vehicle registration fee
- Water/wastewater programs – Clean Water Fund/Safe Drinking Water Loan Program



Source: State of Wisconsin Continuing Disclosure Annual Report – Dec 2023

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STATE OF WISCONSIN EXPERIENCES

### Things I've learned over the years

1. Utilize all your resources
  - o Municipal Advisors, Bond Counsels, Neighboring Entities, State and National Organizations
2. Never second-guess past decisions
  - o Importance of written policies, criteria and standards
3. Always plan for staff turnover
  - o Murphy's law – staff take other opportunities at the worst times
4. Delivering good or bad news
  - o Give yourself room

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### Municipal market update

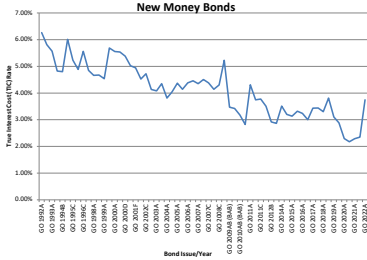


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MUNICIPAL MARKET UPDATE

### Recent Ride

State of Wisconsin True Interest Cost (TIC) Rate - G.O. New Money Bonds



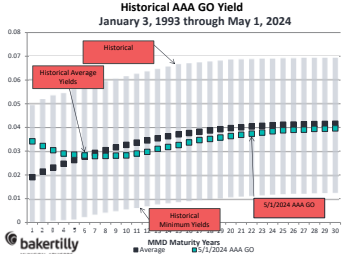
- 1995; 20-year general obligation financing true interest cost (TIC) rate of over 6% (State of Wisconsin)
- 2020; 20-year general obligation financing true interest cost (TIC) rate of just over 2% (State of Wisconsin)

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MUNICIPAL MARKET UPDATE

### Current Realities

Historical AAA GO Yield January 3, 1993 through May 1, 2024




- "Active" and "uncertain" period of interest rate changes
  - o FOMC
  - o US Treasuries
- Refunding opportunities; never totally disappear

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MUNICIPAL MARKET UPDATE

### What Does The Future Hold?

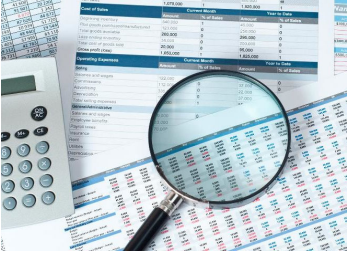
- Every economist has an idea, theory and prediction
- Next year?
- Next 5 years?



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HOT TOPICS IN PUBLIC FINANCE

### You Heard It Here First



- Financial Data Transparency Act (FDTA)
  - Mandate changes in financial reporting using uniform reporting categories
    - "data standards"
    - File format; PDF no longer acceptable?
  - 3 to 4-year implementation window
  - Initial DRAFT Rules from SEC expected summer 2024
  - LEI

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HOT TOPICS IN PUBLIC FINANCE

### New refunding approaches

- Offer to Tender Outstanding Bonds
- Forward Delivery
- Alternative Redemption Provisions


- Each approach likely has unique accounting impacts on financial statements and accompanying notes

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HOT TOPICS IN PUBLIC FINANCE

### Disclosure

- Municipal disclosure; responding to investor needs and expectations
  - Municipal bonds/used cars
  - Timely disclosure
  - Voluntary disclosure considerations
- SEC Interpretive Release; Last provided in 1992 and update being discussed

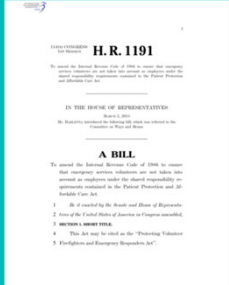


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HOT TOPICS IN PUBLIC FINANCE

### You heard it here first

- Other matters placing stress on the municipal market
  - Subsidy provided by federal government with tax-exemption
    - Internal Revenue Code 1986
    - Build America Bonds (BABs), Inflation Reduction Act (IRA)
  - Corporate operations and actions
    - Climate change
  - Pensions and other post-employment benefits (OPEBs)



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### Ways for Governments/Staff To Improve Experience With Bonding

- Open and frequent communication with advisors, bond counsel, and other professional service providers
- Challenge the professional service providers; ask "why" and ask for alternatives
- Honest inventory and assessment of your "risks"; financial and other
- Create and maintain debt policies and procedures

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## Baker Tilly Public Sector

Having tomorrow's conversations today

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