



Managing in a rising interest rate environment

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Meet your presenter



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Interdisciplinary
team designed
to deliver
comprehensive
solutions

Passion for
building
strong
communities

ATTENTION

DISCLAIMER

The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought.



AGENDA

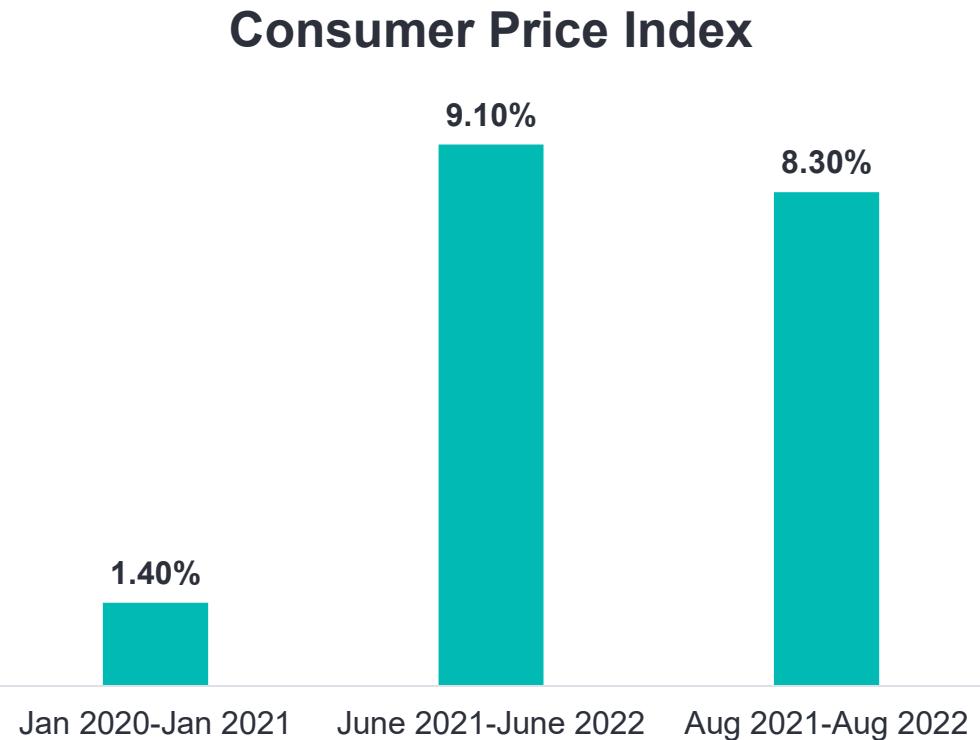
Managing in a rising interest rate environment

1. Market and economic update
2. Capital project financing strategies
3. Cash management
4. Arbitrage



1. Market and economic update

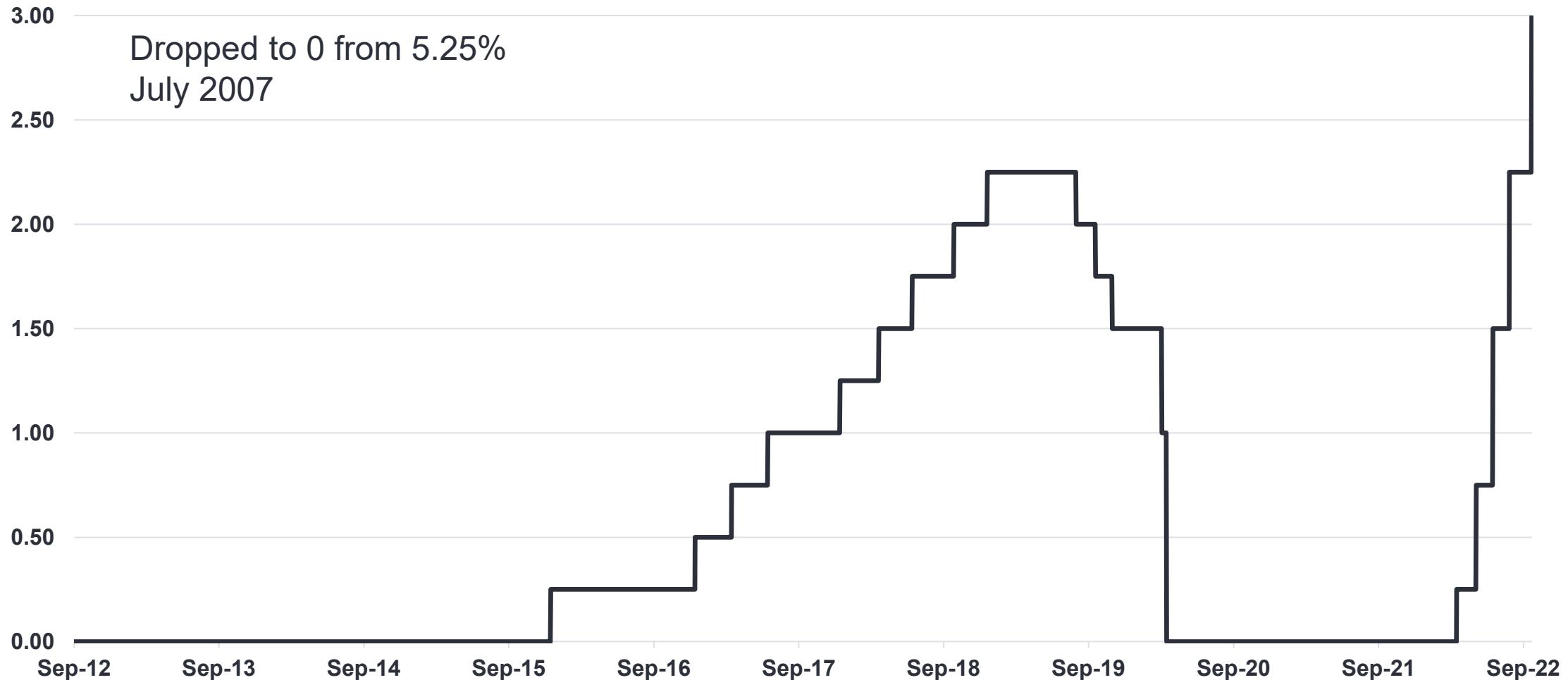
A. Understanding how we got here



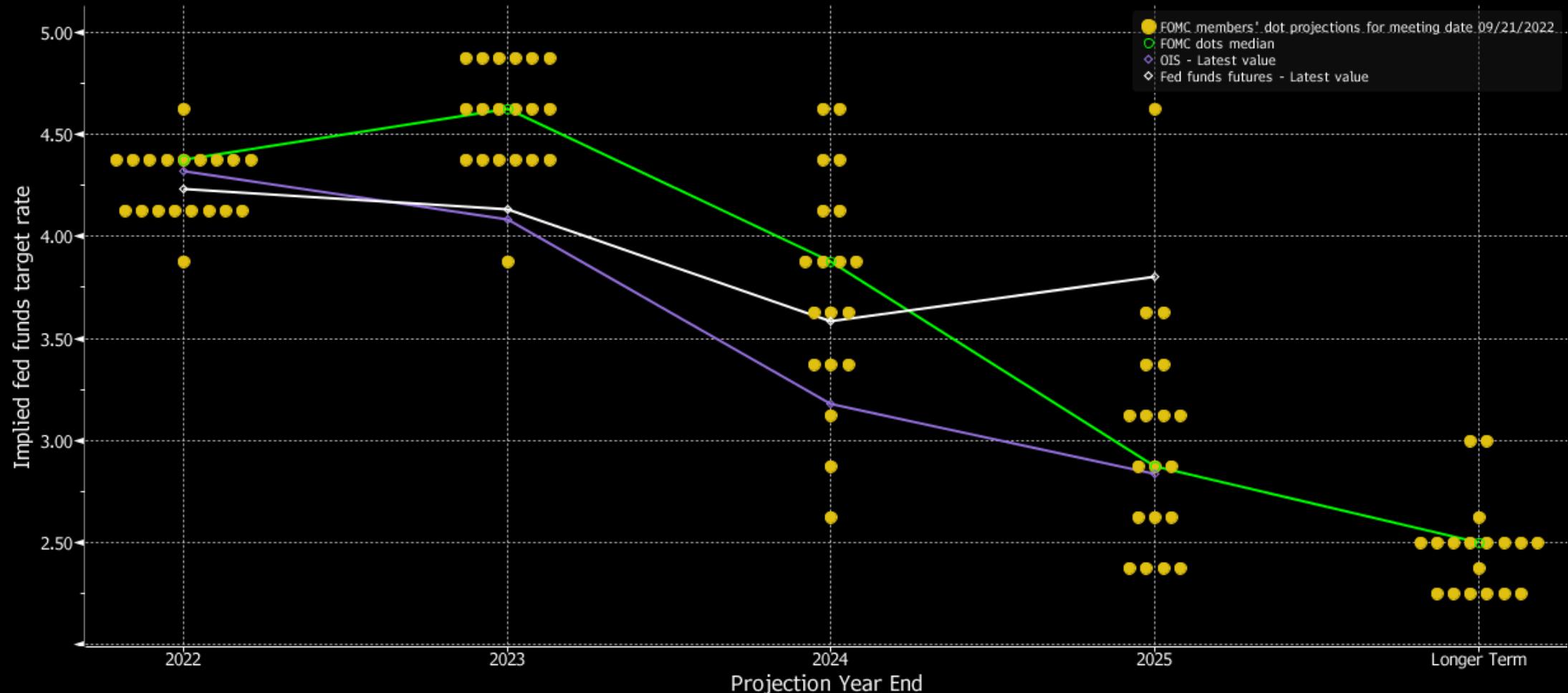
- Causes
 - Historically low federal funds rate
 - Lesser degree: COVID-19 supply chain disruptions and Ukraine war
- Most effective monetary policy is to increase interest rates



Fed funds rate (lower bound)



The Fed's New Dot Plot



Source: Federal Reserve

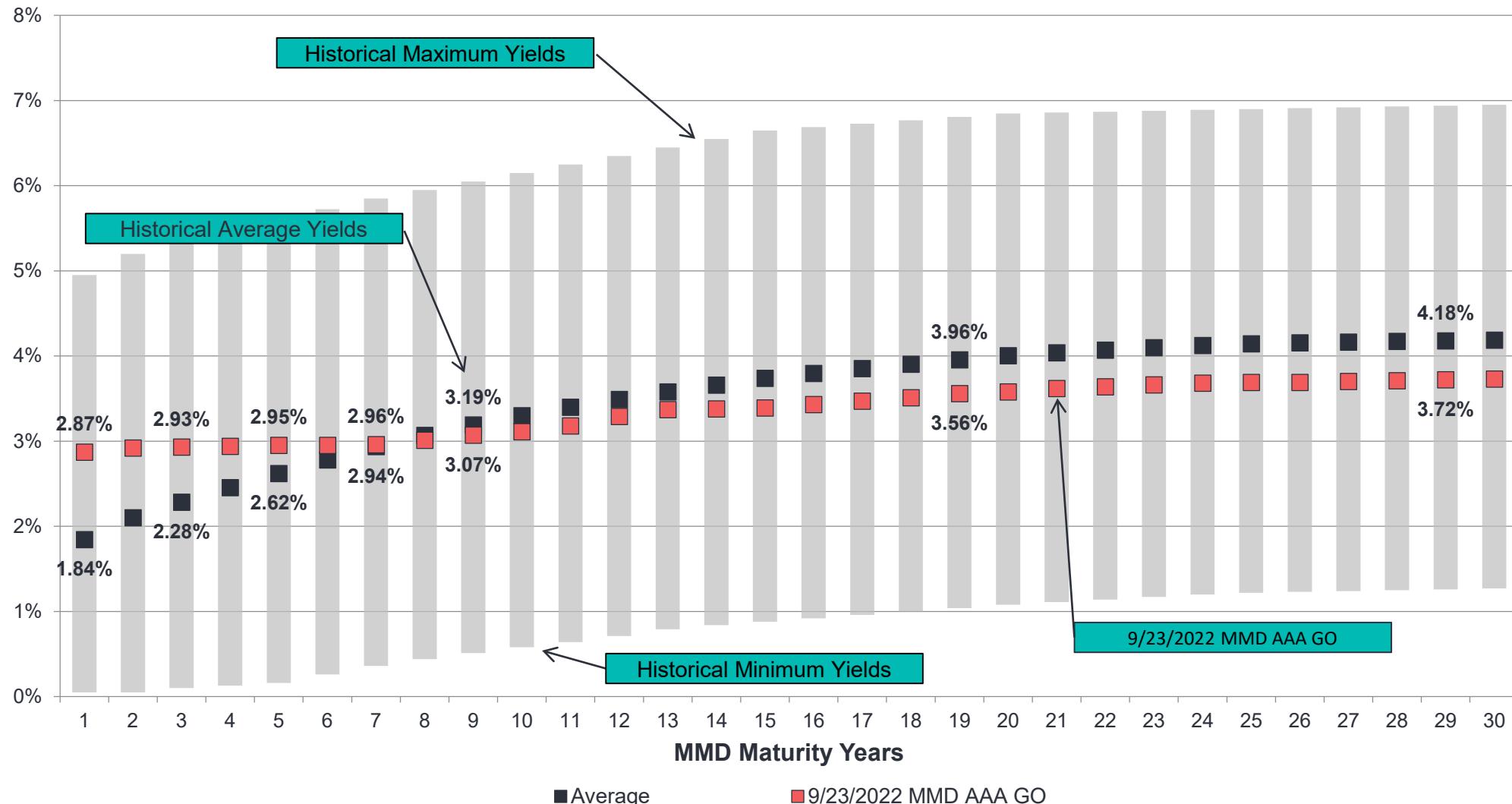
Bloomberg 



US Treasury rates



MMD yield curve vs historical since 1993



2. Capital project financing strategies

A. Stay calm

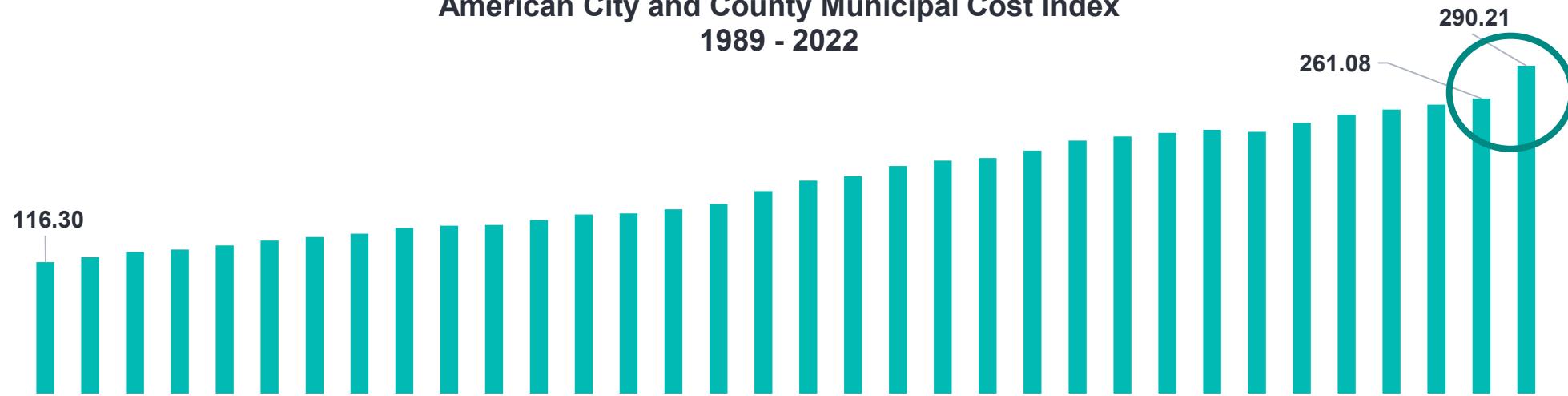
“The Fed is going to cause ‘unbelievable calamities’ if they keep hiking...” - CNBC

- Media sensationalizes market events
- A 50 bps (0.5%) increase on \$1 million in principal equates to \$5,000 in additional annual interest cost
- Inflation can result in increased governmental revenue via higher taxable sales and property values



B. Be patient

American City and County Municipal Cost Index
1989 - 2022



- Transitory or long-term problem?
- Is it possible to delay projects until supply chain and labor tightness subsides?
- Use this time to get your projects “shovel ready”
- How much can rates rise before your project becomes unfeasible?





**“I always knew we’d make better decisions
when we had less money”**



C. Act strategically

- Leverage interim (short-term) financing
- Controls to get the most for your money – construction audit
- Diversify project funding sources

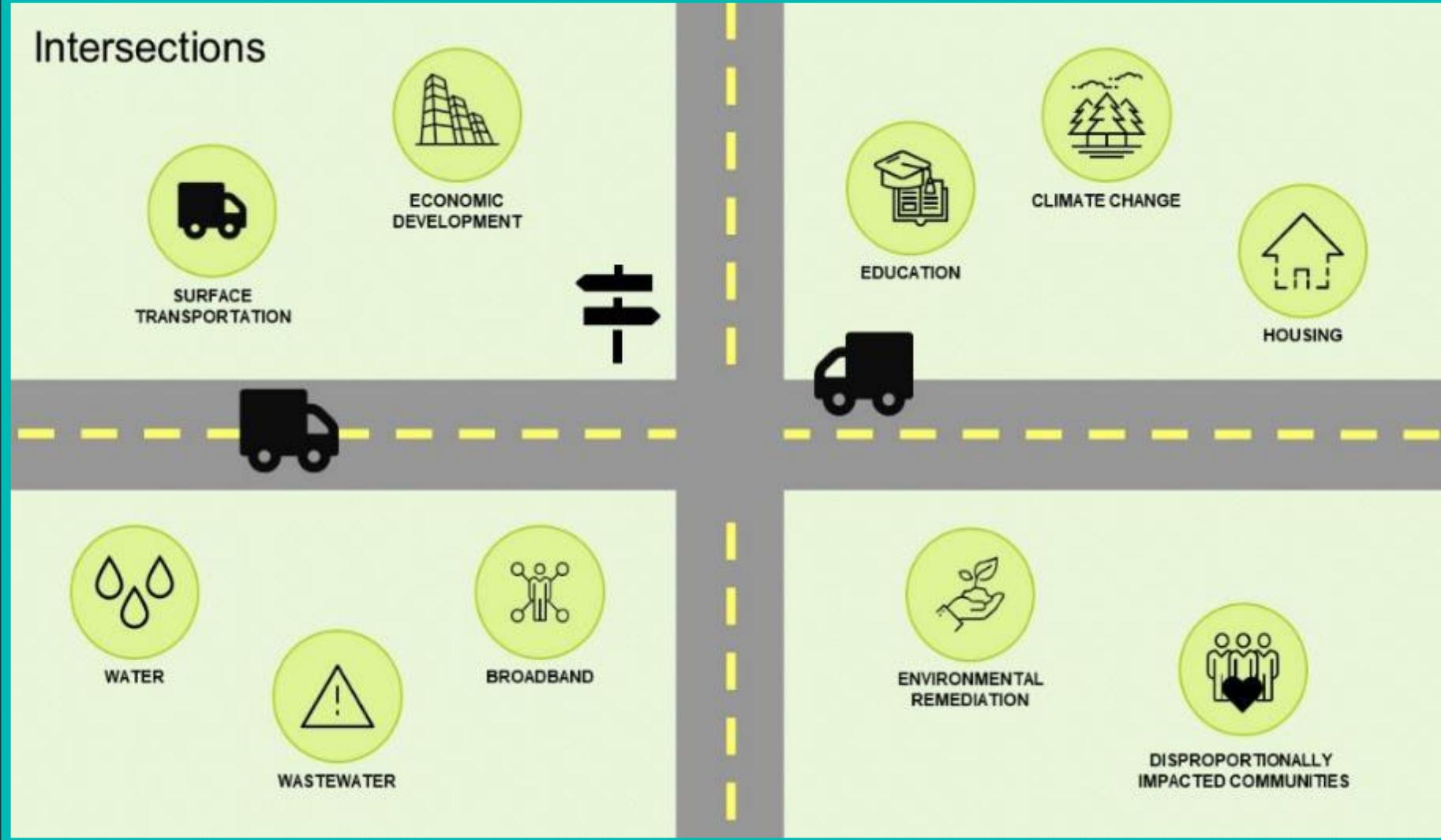


Construction Audit Results:
\$190mm Wastewater Treatment Plan

Finding	Financial impact
Double billed holiday and vacation time	\$684,000
Unauthorized travel: Contractor CEO did a site visit traveling on the corporate jet	\$16,750
Subcontractor overcharges in excess of cost incurred	\$137,800
Unauthorized personnel additions to the project	\$262,900
Subcontractor default insurance overcharge	\$190,000
Total	\$1,291,450 Construction audit ROI: 8:1



Intersections



D. Scenario planning

- We live in a time of rapid change
- Today's disruptive economy requires multiple financing plans based on varying assumptions and the flexibility to make adjustments along the way
- The battle between capital and people

Factors	Degree of Difficulty
Potential for community pushback	
Implementation technical and operational difficulty	
Likelihood of meeting necessary implementation timing	Low-Medium-High
Disruptive impact on service delivery	
Disruptive impact within City organization	



3. Cash management

Reserve operating funds

Investment considerations as rates are rising:

- Keep investment maturities short between 3-12 months
- As investments mature, stay in the 3- to 12- month range until Fed signals a pause in rate increases
- In the months preceding a Fed rate pause, begin extending maturities to 18- to 36- months as long as you are confident of liquidity needs



Bond proceeds

Investment considerations as rates are rising:

- Liquidity extremely important when investing construction funds
- Most large projects take 24- to 36- months to complete
- Despite rate environment, it is still prudent to match investments to the draw schedule by building a monthly investment ladder
- To take advantage of rising rates, all monthly maturities could be invested at 15-20% more than expected draws and reinvest the difference
- As always, make sure draw schedule is accurate and updated when reinvesting



4. Arbitrage

Practical advice

- It's been a while since we've had to worry about this
- Arbitrage is not a bad word. Maximizing earnings within the confines of investment policies is fiscally responsible and expected by the IRS
- With rates on the rise, opportunity to earn arbitrage increases and makes monitoring more important than ever
- If you have fallen behind on reporting, discuss with your municipal advisor



Overview

- State and local governments benefit from ability to issue tax-exempt debt
- Issuers must comply with requirements under Internal Revenue code and applicable regulations through the life of the bonds
- Gross proceeds include
 - Sale proceeds
 - Investment proceeds
 - Transferred proceeds
 - Disposition proceeds
 - Replacement proceeds, such as sinking, debt service, and reserve funds
- Depending on type of proceeds, there may be an exception from rebate and subject to different rules and temporary periods



General reporting requirements

- Analysis is required within 5-years from date of issue, then every 5th year until final redemption
- Rebate or yield reduction payments must be paid to the IRS within 60 days of computation date
- 50% to 100% penalties for late or unpaid liability
- If no liability is identified, there is no IRS filing requirement and report is retained by the issuer in the event of a future inquiry
- Issuers must maintain records through final redemption date plus 3 years



Wrapping it up

- We've been here before
- Stay calm
- Be patient
- Act strategically
- Reap the investment benefits (and plan for arbitrage)



Questions?

Thank you!

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