

Uncertainty of Federal Funding May Trigger Cash Flow Note Issuance

With all of the uncertainty as to the timing and the amount of Federal funding to be received, or not, by state and local governments this year, the need of these entities to issue cash flow notes to ensure a steady flow of funding is a real possibility. In the early days of the COVID 19 pandemic, many public jurisdictions issued cash flow notes out of concern that tax receipts and other revenues would not be received as budgeted. Somewhat surprisingly, months into the pandemic, many jurisdictions found themselves in even stronger fiscal shape than before it started. Many school districts that didn't have to spend much of their transportation budgets, ended their 2020 and 2021 fiscal years with large additions to their fund balances. In addition, virtually all public jurisdictions received Federal "pandemic aid". The current situation is quite different. There is no expectation that the Federal government will be doling out huge grants to state and local governments in 2025. Quite the contrary. For example, it has been reported that the EPA has paused more than 30 grant programs including some providing money for schools to buy electric buses. In addition to education, some Federal funding related to healthcare and infrastructure has been paused. Since the spending needs of local governments and school districts remain constant, cash flow financing may provide much needed funding continuity.

Under Section 25 of the NYS Local Finance Law, local municipalities and school districts can issue revenue anticipation notes ("RANS") "in anticipation of the collection or reception of revenue". If revenue budgeted to be received are no longer expected to be received, deficiency notes can be issued under LFL Section 40.10 to cover "a deficiency in any fund or funds arising from revenues being less than the amount estimated in the budget for the current year..." Contact your Financial Advisor at CMA if you'd like to discuss your jurisdiction's cash flow needs.

Strengthening Fraud Prevention Measures for Government Payments

The following information was based on a recent mailing by the Government Finance Officers Association (GFOA). Fraudulent activity related to government payments, including wire transfers and bond proceeds, has seen a troubling uptick in recent months. Fraudsters, using a variety of sophisticated tactics, are attempting to exploit vulnerabilities in how payments are received, processed, and transferred. This is particularly concerning when large sums of money, such as bond and note proceeds, are at stake. The GFOA has issued a series of recommendations aimed at bolstering fraud prevention measures.

GFOA has urged its members to take immediate and proactive steps to safeguard against fraudulent schemes. While much attention has been focused on preventing fraud during the payment process to vendors, it's equally crucial for government entities to take comprehensive measures to prevent fraud when receiving payments. Governments at all levels must be particularly vigilant when it comes to receiving large payments, especially via wire transfer. Below are the key fraud prevention measures that should be implemented:

(Continued on next page.)

RECENT CMA CLIENT SALE RESULTS

<u>Issuer/Underlying Rating</u>	<u>Issue Type</u>	<u>Par Amount</u>	<u>Sale Date</u>	<u>Term</u>	<u>Rate</u>	<u>Purchaser</u>
Upper Mohawk Valley RWFA (AA Insured)	Rev. Bonds	\$17,260,000	Neg.	27 yrs.	4.12%	Raymond James
Pawling CSD (Aa2)	Bonds	\$4,945,000	25 – Feb.	15 yrs.	3.11%	Huntington Securities
Newburgh City (A1)	BAN	\$8,000,000	19 – Feb.	1 yr.	3.18%	BNY Mellon
Valley Stream CHSD (Aa2)	Bonds (Txb)	\$887,201	13 – Feb.	8 yrs.	5.06%	Bernardi Securities
Hicksville UFSD	TAN	\$6,000,000	12 – Feb.	4 mos.	3.17%	TD Securities
Pelham Village (AA+)	BAN	\$6,241,200	4 – Feb.	1 yr.	3.07%	TD Securities
Fredonia Village (A1)	RAN	\$825,000	4 – Feb.	5 mos.	4.24%	Greene County

1. **Establish Secure Communication Channels for Banking Information** Governments should implement a policy stipulating that no changes to banking information will be communicated via email. The use of emails to convey such critical information has become a common tactic for fraudsters.
2. **Use Encrypted Means for Initial Banking/Financial Information** When sharing initial banking details or financial information with the deal team, encrypted methods should always be employed. Encryption ensures that sensitive data is transmitted securely, reducing the risk of interception or tampering during transmission.
3. **Notify Vendors Through Phone or Video Meetings** As part of a broader anti-fraud strategy, governments should clearly communicate to vendors that any changes to banking information will only be communicated via phone or, preferably, through secure video meetings. This measure adds an extra layer of verification, ensuring that information is authentic and not the result of an email-based phishing scam.
4. **Encourage Vendors to Verify Contact Information** Governments should instruct vendors to be cautious if they receive an email about any changes to banking information. Vendors should be advised to verify the authenticity of the request by contacting the government entity directly using their established contact information, not the details provided in the email. This step helps avoid falling victim to fraudulent emails that appear to come from legitimate sources.
5. **No Acceptable Notification of Change via Email for Third-Party Facilitators** Any third-party facilitator involved in the payment process—such as trustees, financial institutions, or payment processors—must not accept email notifications regarding changes to banking information. These parties should only accept changes through verbal or video confirmation, ensuring an added layer of security and verification.
6. **Confirm Wire Instructions via Video Call or Phone Call for Bond and Note Proceeds** When receiving bond proceeds or other large transfers, all involved parties, including the government, bond team, and trustee (if applicable), should participate in a video call or phone call to confirm the wire instructions. This ensures that every party has reviewed and agreed on the wire transfer details in real-time, helping to avoid costly mistakes or fraudulent transfers.
7. **Use Good Faith Deposits or Small Payments for Testing** Before transferring a large sum of money, governments can consider implementing a small "test" payment to confirm that the payment details are accurate and the system is functioning as expected. This "good faith" deposit can help verify that the intended recipient is indeed the correct party and can help identify any issues before the full amount is transferred. Many underwriters are already implementing this change.
8. **Require Payee Confirmation Systems** Governments should work with their bank and payors to implement payee confirmation systems, which require a confirmation from the payee before large funds are transferred. These systems further verify that the correct party is receiving the funds and adds an extra safeguard to the payment process.

As fraud schemes continue to evolve, the onus is on government entities to stay ahead of potential threats by adopting stringent measures to secure the receipt of payments, especially when large sums are involved. CMA is committed to supporting our clients by offering expert guidance, addressing questions and providing recommendations to tackle this important issue. By adhering to the guidelines laid out by the GFOA and staying informed about emerging fraud tactics, governments can significantly reduce the risk of falling victim to costly fraudulent activity.

GENERAL OBLIGATION TAX-EXEMPT INTEREST RATES

Term	March 3, 2025					1 Month Ago - February 3, 2025					1 Year Ago - March 1, 2024				
	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	2.54%	2.57%	2.65%	2.63%	3.01%	2.65%	2.68%	2.76%	2.74%	3.12%	2.97%	2.98%	3.06%	3.04%	3.43%
5	2.63	2.67	2.79	2.83	3.22	2.77	2.81	2.93	2.97	3.36	2.44	2.46	2.58	2.59	3.02
10	2.87	2.98	3.12	3.22	3.70	2.97	3.08	3.22	3.32	3.80	2.46	2.53	2.71	2.77	3.29
15	3.20	3.39	3.53	3.62	4.06	3.30	3.49	3.63	3.72	4.16	2.91	3.06	3.24	3.29	3.78
20	3.71	3.92	4.07	4.15	4.59	3.76	3.97	4.12	4.20	4.64	3.27	3.44	3.63	3.67	4.17