

U.S. Municipal Markets

# From Labor Challenges to Infrastructure Needs: The Inaugural HilltopSecurities 2024 Public Entity Survey

When we launched our inaugural Public Entity annual survey in the spring of 2024, we gathered insights from public entities and municipal market participants across the United States about the challenges and opportunities they are encountering. Here is what they had to say.

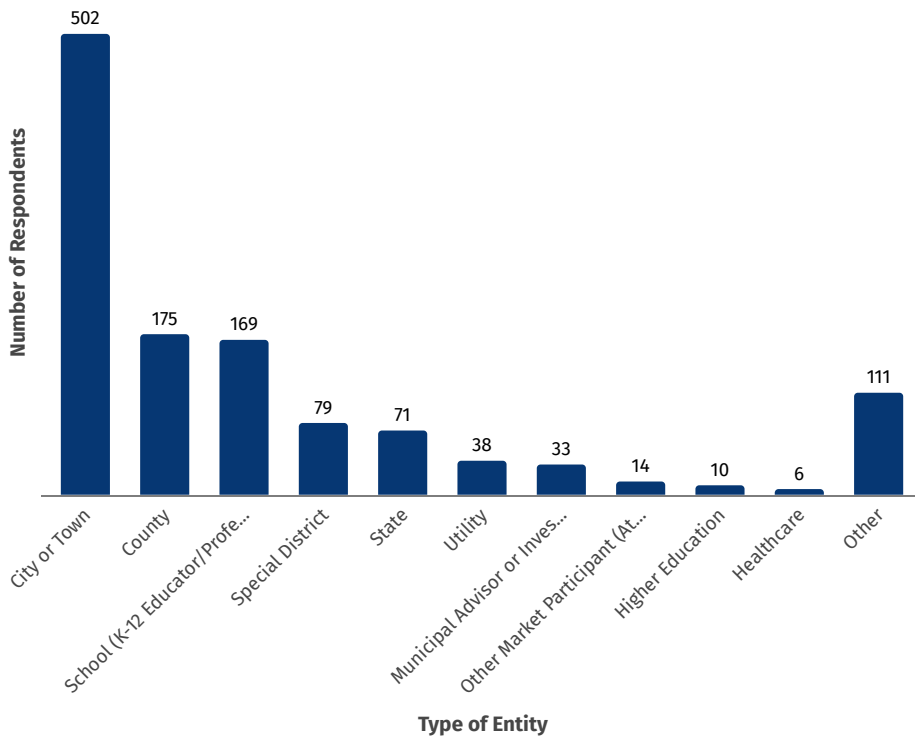
As a leading municipal bank touching thousands of city, county, school district, utility and special district employees, HilltopSecurities created the first Public Entity survey because we wanted to identify the most pressing issues from the lens of public entities.

From our survey, we have learned that public entity employees are most focused on labor challenges, infrastructure, and affordable housing. We have received over 1,200 responses from employees in every state with the most significant number coming from Texas, Florida, California, and Massachusetts. Finally, while public entities benefit from cost effective tax exempt financing solutions, most survey respondents are not aware of the changing political landscape which could affect the financing tool.

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## Entity Representation

### 1. What type of public entity do you represent?



Source: HilltopSecurities.

Please see disclosure starting on page 9.

**National Results: Approximately 42% of responses came from employees of a city or town, with counties and schools contributing another 28% of responses.**

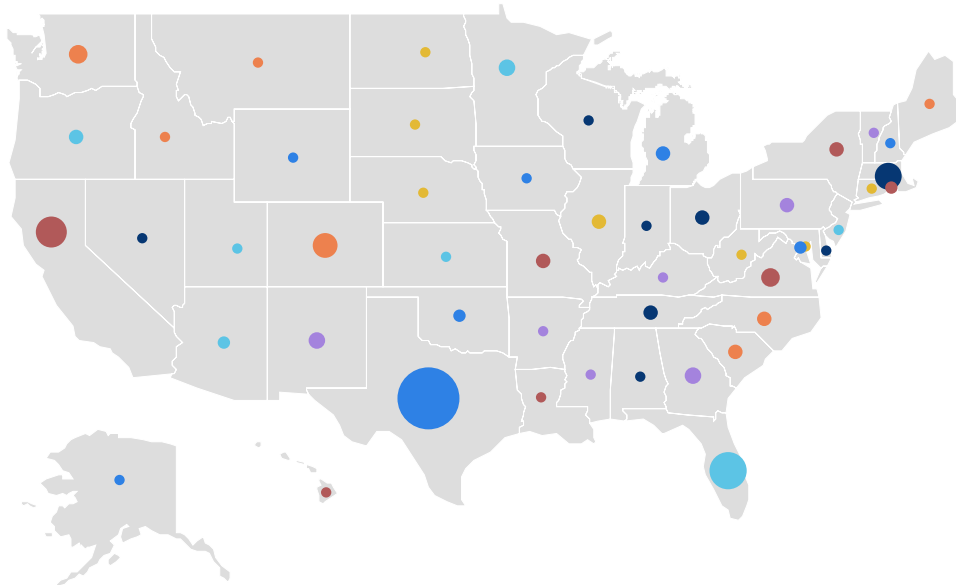
*City, county, and school employees accounted for 75% of the responses, respectively comprising 45%, 16%, and 15% of the results.*

Survey responses came from a diverse group of employees representing various public entities. City, county, and school employees accounted for 75% of the responses, respectively comprising 45%, 16%, and 15% of the results. The majority of the remaining 25% of responses were from special district, state, and utility employees.

In Texas, most survey respondents represented cities or school districts. To compare, in Florida, California, and Massachusetts, most responses were from cities, with additional representation from counties.

## Geographic Distribution

### 2. What state do you work in?



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Source: HilltopSecurities.

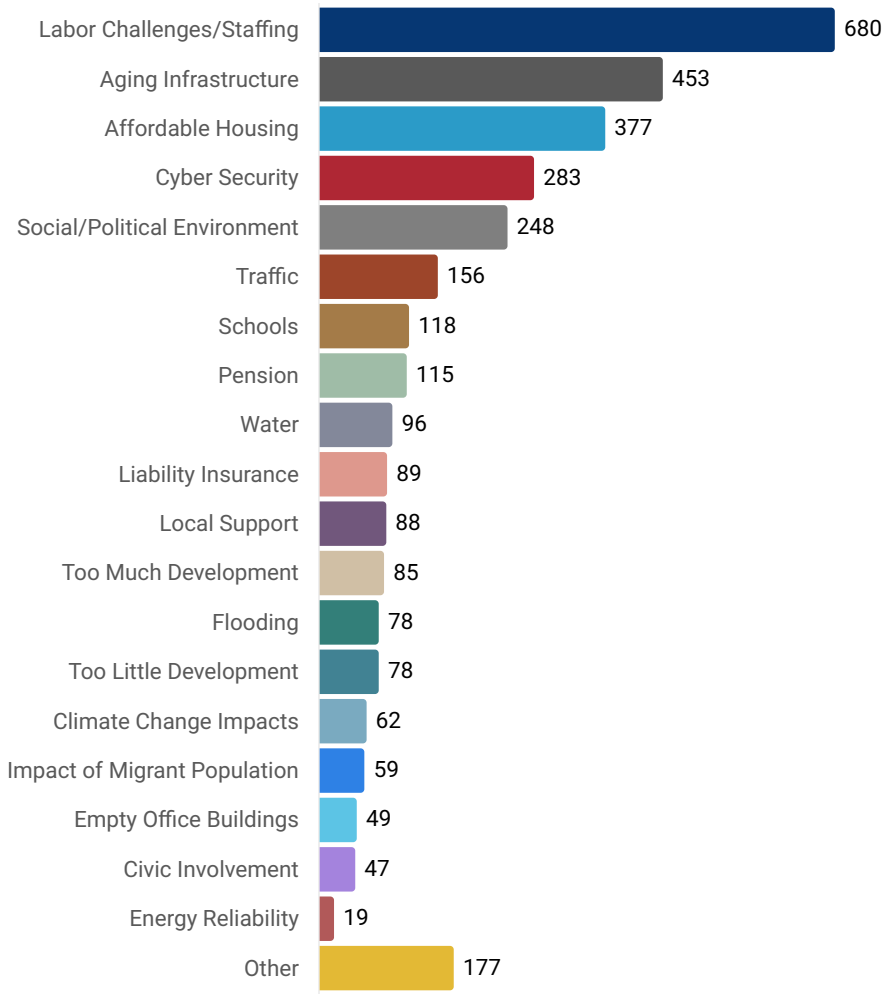
**National Results: Results were received from public sector employees from every state, with Texas, Florida, California, and Massachusetts contributing the most replies.**

- 1,208 Total Survey Respondents
- 50 States with Respondents, plus the District of Columbia

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## Challenges Facing Public Entities

### 3. What are the biggest challenges facing your public entity? Choose up to four.



When asked to identify up to four challenges facing public entities, respondents overwhelmingly cited labor challenges and staffing as the biggest obstacles to government.

Labor remains the primary concern and predominant expense for municipalities. Until these costs moderate, there will be fewer available revenues to fund other public priorities. These issues have been highlighted in our 2023 and 2022 annual high yield surveys.

- Yaffa Rattner  
Head of Municipal Credit

Source: HilltopSecurities.

### National Results: Labor shortage, aging infrastructure and affordable housing are the three primary challenges facing public entities.

- 56% of respondents cited labor and staffing challenges
- 38% said aging infrastructure was a top issue
- 31% cited affordable housing as a challenge
- 23% said cybersecurity was a significant issue

When asked to identify up to four challenges facing public entities, respondents overwhelmingly cited labor challenges and staffing as the biggest obstacles to government. Aging infrastructure and affordable housing were the second and third most pressing issues, respectively. Despite significant media coverage on cybersecurity and its impacts on healthcare and hospitals, cybersecurity was ranked fourth.

The National Association of Counties reports that counties are getting creative to attract and retain people given labor shortages including a reduction in hours worked per week and access to child care. According to the National League of Cities [research](#),

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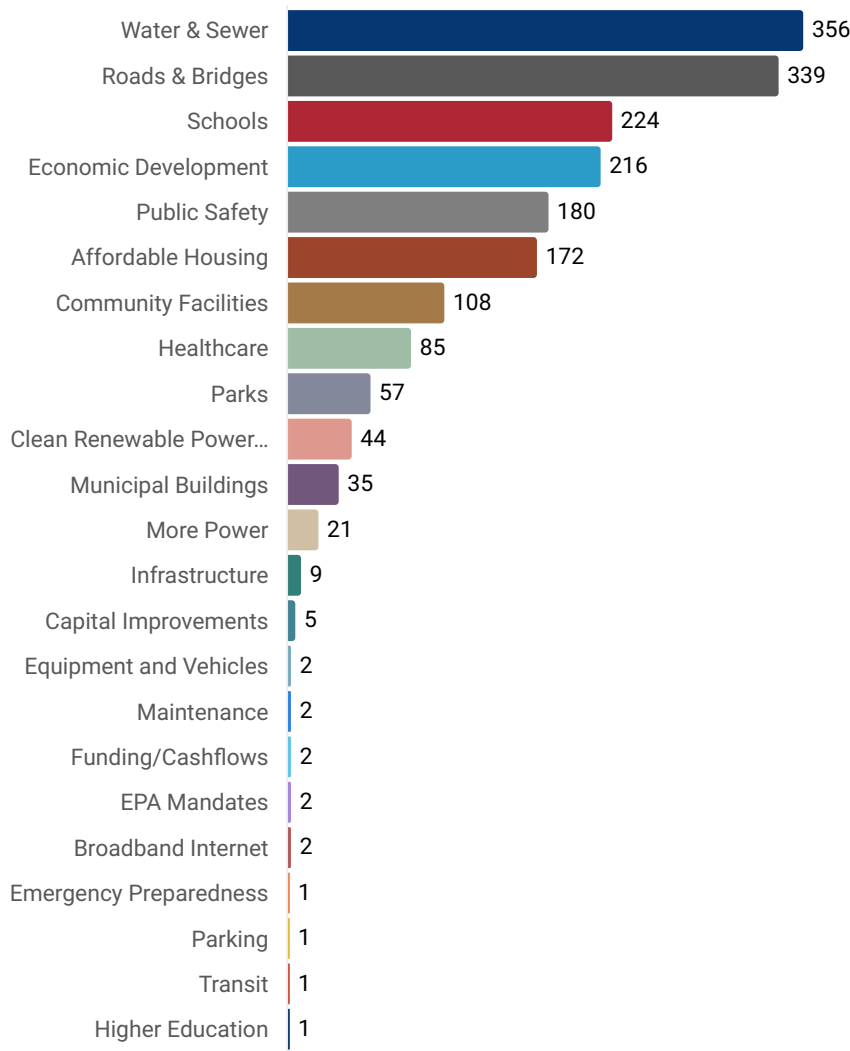
between March 2020 and March 2022 government employment was down by 300,000 workers. While state and local employment now exceeds pre-pandemic levels, hiring and retaining these employees has been challenging particularly in the fields of education, public safety, and health.

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It is interesting to compare how the rankings change depending on location. In Texas, the top two issues, by far, were labor challenges and aging infrastructure; whereas in Florida and California, the top issue was clearly labor while aging infrastructure and affordable housing were virtually tied for second place. Finally, in Massachusetts, labor was the top identified issue; however, aging infrastructure and affordable housing were virtually tied, with cybersecurity taking a close fourth place.

## Top Priorities for Debt Issuance

**4. If you were to issue debt next year, what would be your top priorities? Choose up to two.**



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Source: HilltopSecurities.

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**National Results: It is most likely that if debt is issued in the next few years, it would be for water & sewer, roads & bridges, as well as schools.**

Nationally, water & sewer and roads & bridges were nearly tied as the top priorities for debt issuance—which is unsurprising given the age and quality of infrastructure. Investment in schools was clearly ranked third. Public safety and affordable housing were almost equally prioritized, coming in fourth and fifth, respectively. Interestingly, investments in broadband internet, emergency preparedness, and renewable power were minimally recommended.

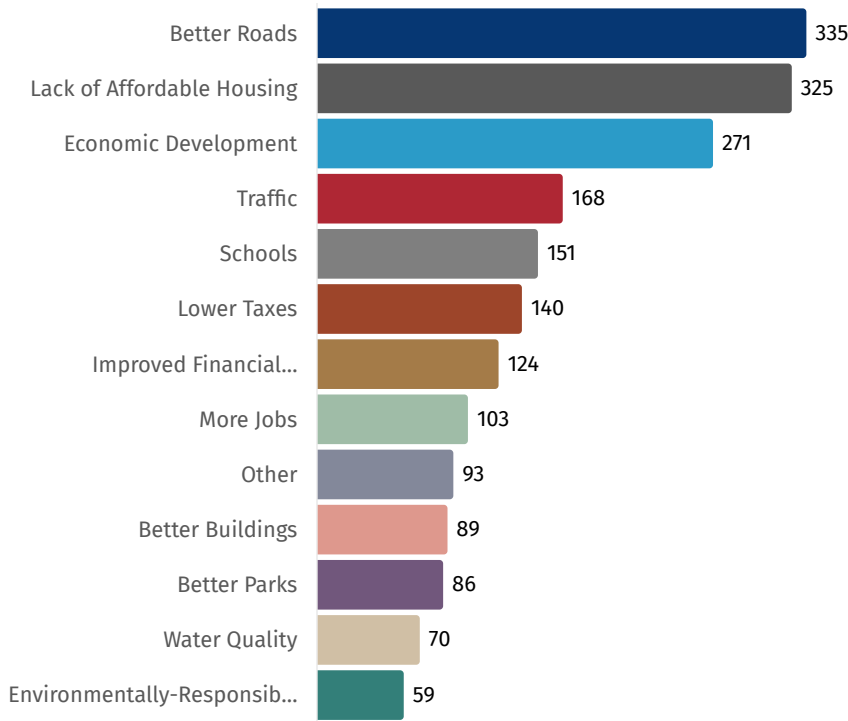
In its [2021 Report Card for America's Infrastructure](#), the American Society of Civil Engineers (ASCE) assigned U.S. roads a D rating, U.S. drinking water a C- rating, and U.S. infrastructure overall a C- rating. In addition, the ASCE calculated an investment need of \$2.59 trillion to restore our nation's infrastructure.

In Texas, water & sewer, roads & bridges, and schools were effectively tied as the most important priorities. In Florida, by comparison, water & sewer was the clear priority with roads & bridges and economic development ranking more distantly as second and third priorities, respectively. In California, there was a virtual tie for investing in economic development, roads & bridges, and affordable housing. And in Massachusetts, the priorities were clearly water & sewer and roads & bridges.

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**Recommended Improvements to Entities**

**5. If you could improve something about your municipality, what would it be? Choose up to two (2).**



Source: HilltopSecurities.

*The importance of and challenge in funding U.S. infrastructure was all over the HilltopSecurities 2024 Public Entity Survey results. This reinforces the call-to-action to protect the municipal bond tax-exemption we wrote about in, 'Save the Tax-Exemption, A Call to Action for U.S. Public Finance.'*

*- Tom Kozlik  
Head of Public Policy  
& Municipal Strategy*

*Interestingly, investments in broadband internet, emergency preparedness, and renewable power were minimally recommended.*

**National Results: Public entity employees are most interested in better roads and lack of affordable housing.**

When respondents were asked to choose up to two municipal elements for improvement, better roads and affordable housing were essentially tied for first place. With congestion costing the average American driver an hour per week (according to the [2022 Global Traffic Scorecard by Inrix](#)) and significantly more in certain cities and regions, and mortgage rates meaningfully higher than the 2021 lows, these issues are top concerns for many.

Other respondents expressed a desire for their cities to focus on economic development and traffic. If roads and traffic had been combined, this issue would have been the most requested improvement. When looking at the responses on a state-by-state basis, the lack of affordable housing ranked as the number one issue to improve in California, Florida, and Massachusetts. To compare, in Texas better roads was the number one area to improve.

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**Remote Work**

**6. On any given day, what percentage of your team is working remotely? (Average of all responses)**

● Working Remotely ● In Office



**National Results: On average, only 20% of employees are working remotely on any given day according to survey respondents.**

Technological change accelerated during the COVID-19 pandemic, resulting in a sea-change in work arrangements for many employees. The [Kastle Systems Back to Work Barometer](#) average of ten major cities shows average office occupancy is still only 47.2% of the pre-COVID level as of August 21, 2024.

*The largest percentage of respondents are from major Texas cities, which have higher levels of office occupancy compared to most other cities.*

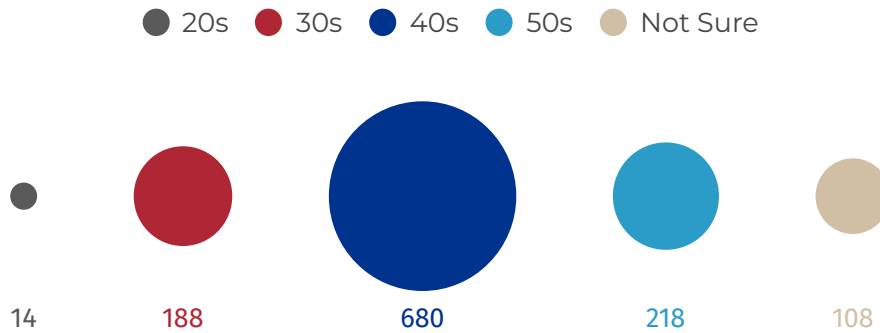
The HilltopSecurities Public Entity Survey results show much lower work-from-home rates. The survey responses indicate that only 20% of public entity workers are working remotely on any given day. This discrepancy could be the result of several factors. First, the largest percentage of survey respondents are from Texas, and cities such as Austin (60.0%), Dallas (58.7%), and Houston (61.2%) have higher levels of office occupancy compared to most other cities. We also did not ask respondents to differentiate between hybrid and fully remote workers. Lastly, it is very possible that governments are just less likely to be working remotely or even on a hybrid basis than the private sector.

It is interesting to note that when we break out the results of the survey by state, our California respondents reported a significantly higher work from home rate while Massachusetts was significantly lower.

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## Average Age of Employees

**7. We are seeking to understand the dynamic of aging employees in the public entity workplace and steps that are being taken to attract new talent. To that end, what is the average age of your team?**

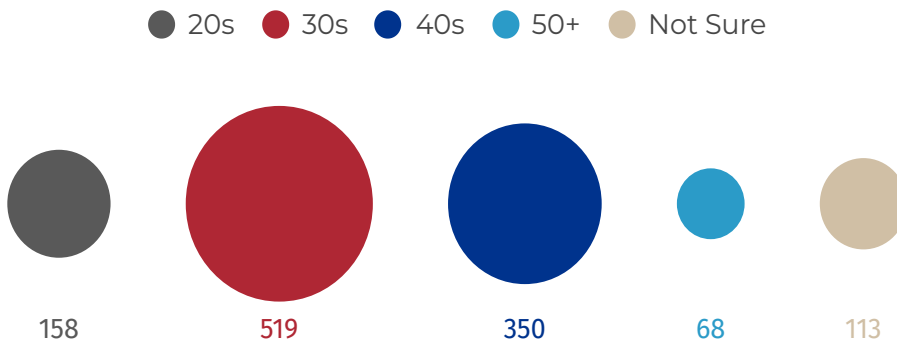


Source: HilltopSecurities.

National Results: 56% (665/1,193) of employees are in their 40s.

The survey results seem reflective of general demographic trends in the U.S. labor market. The average age of the U.S. labor force is currently 41.6 years old, according to the U.S. Bureau of Labor Statistics. Therefore, it makes sense that 56% of those surveyed are in their 40s.

**8. What was the average age of the last five (5) hires on your team?**



Source: HilltopSecurities.

National Results: The most "hires by decade" were those in their 30s at 43% (509/1,193).

This result shows some forward thinking on the part of those public entities surveyed. Recruiting and retaining the Gen Z workforce is and will likely continue to be at issue as public entities and governments work through their labor concerns. However, this result is telling us that those public entities surveyed are actively recruiting Gen Z for the public entities of today.

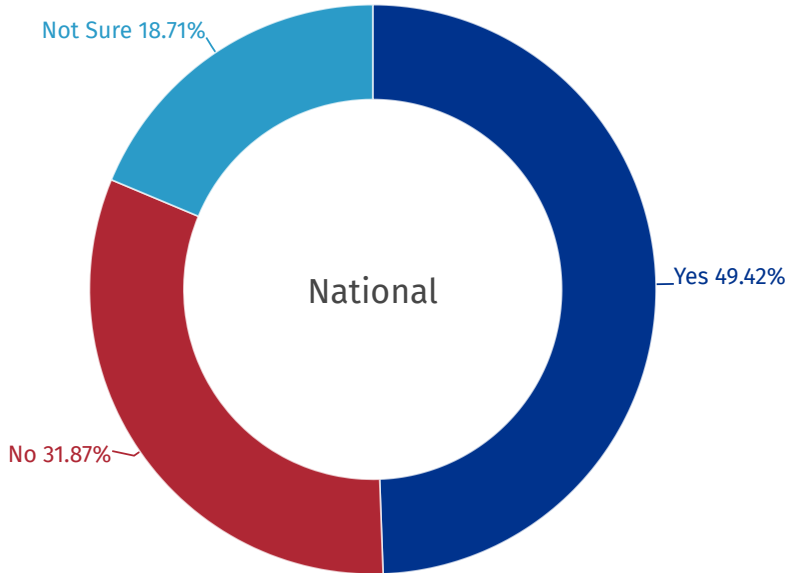
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## Adding Staff in 2024

### 9. Does your team plan on adding staff in 2024?



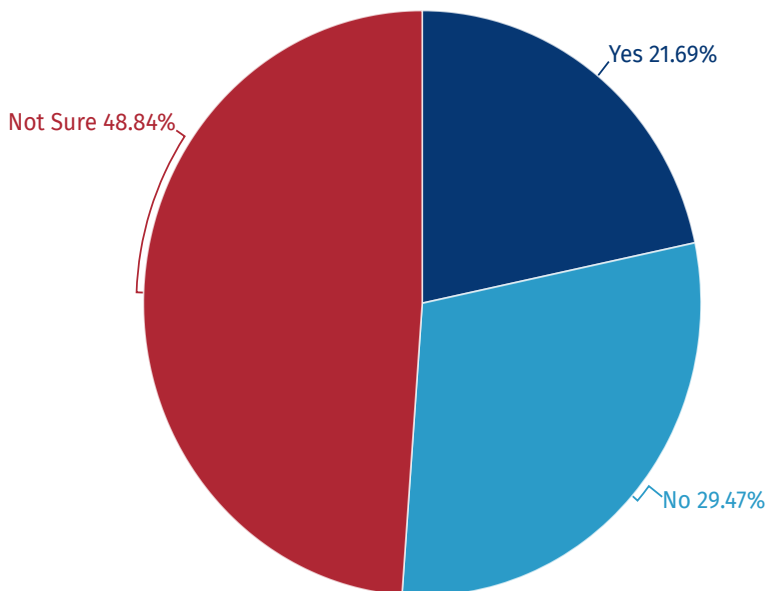
Source: HilltopSecurities.

**National Results:** 50% of teams are adding staff, 32% are not, and the rest are not sure.

While the labor market is still adding jobs on a monthly basis, the general strength of the U.S. labor market overall is weakening. However, we have seen relative strength in the addition of federal, state and local jobs relative to the private sector in recent months. This aligns with the result we are seeing in the HilltopSecurities Public Entity Survey.

## Representation in D.C.

### 10. Do you believe that your legislative representatives in D.C. understand the value of the tax exemption for municipal bonds?



Source: HilltopSecurities.

*While the labor market is still adding jobs on a monthly basis, the general strength of the U.S. labor market overall is weakening.*

*Public sector employment levels are a key credit indicator for tax-backed municipal bonds. Therefore, it is telling that almost half of those surveyed responded that they expect to add staffing in 2024. The results to this question reinforce my stance that the Golden Age of Public Finance has not ended. We would not see staffing going higher if public entities had severe fiscal concerns.*

- Tom Kozlik  
Head of Public Policy  
& Municipal Strategy

*We have seen relative strength in the addition of federal, state and local jobs relative to the private sector in recent months.*



**National Results: 49% are not sure, 29% said no, and 22% said yes.**

There is an increased threat to the municipal bond tax-exemption because of the rising U.S. debt to GDP ratio, and growing debt costs that are increasing the need for deficit reduction. The Tax Cuts and Jobs Act of 2017 already eliminated the ability of public entities to use tax-exempt bonds for advance refundings. The TCJA of 2017 is sunseting at the end of 2025, and that could put the municipal bond tax-exemption back in the crosshairs of Congress. Some are already calling for the elimination of the municipal bond tax-exemption in order to reauthorize those 2017 tax cuts. The tax-exemption provides an important financing mechanism and value to public entities.

The Government Finance Officers Association (GFOA) writes, "If state and local governments lose the ability to use tax-exempt bonds and are compelled to issue taxable bonds as an alternative, it is estimated that debt issuance costs would increase around 25%, and possibly more for smaller governments." The GFOA's Public Finance Network and their #BuiltbyBonds effort is trying to inform and advocate on the value the municipal bond tax-exemption offers public entities across the nation.

Also please see, Save the Tax-Exemption, A Call to Action for U.S. Public Finance.

*Some are already calling for the elimination of the municipal bond tax-exemption in order to reauthorize those 2017 tax cuts.*

*Only 21% of reps in D.C. understand the value of the municipal bond tax-exemption according to HilltopSecurities' survey results. This is a key reason why I wrote, 'We Could See an Unprecedented Threat to U.S. Municipals from Potential Tax Policy Changes'.*

*- Tom Kozlik  
Head of Public Policy  
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