September 23, 2026

Memorandum

To: Paul Barrett, City of Cleveland, Director of Finance/Chief Financial Officer

From: Bethany Pugh, PFM Financial Advisors LLC, Managing Director
Jeremy Niedfeldt, PFM Financial Advisors LLC, Managing Director

RE: **2025 Bond Anticipation Note Financing – Rationale and 2026 Take-Out Plan**

PFM Financial Advisors LLC ("PFM") has reviewed the City of Cleveland's (the "City") financing of the first phase of its 2025-approved $80 million Capital Improvement Plan ("CIP") through a partial Bond Anticipation Note ("BAN") issuance, rather than proceeding directly to a full long-term bond sale. This memo summarizes the rationale for the BAN structure, confirms the benefit using the City's actual 2025 pricing results, and outlines the plan to take out the BAN with an **$80,000,000** long-term new-money bond issuance in 2026.

On November 11, 2025, the City priced its Various Purpose General Obligation Bond Anticipation Notes, Series 2025, in the par amount of **$36,045,000** (rated 'SP-1+' by S&P Global), covering the first-year draw across five CIP components: Vehicle Acquisition, Heavy Vehicle Acquisition, Parks and Recreation, Public Facilities, and Bridges and Roadways. Rather than issuing the full **$80,000,000** of anticipated long-term financing in 2025, the City borrowed only the amount needed to fund near-term project costs, deferring the remaining **$43,955,000** until a 2026 long term bond issuance, once the full CIP scope and costs are known.

Below are the key considerations supporting this approach:

1. The City only borrows what it can actually spend in the near term
    a. The 2025 CIP called for an initial draw of approximately $36,045,000 in year one; issuing the full $80,000,000 up front would have required the City to borrow $43,955,000 that would not be spent for more than a year
2. Lower cost of carry and reduced negative arbitrage

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   a. Short-term note rates are typically well below long-term bond rates, so financing only near-term needs on a short-term basis avoids paying long-term interest on proceeds that sit unspent
3. Rate lock is deferred until project scope and cost are firm
   a. Financing in two steps allows the City to size its 2026 long-term issuance to the CIP's actual, approved need — informed by a year of real project experience — rather than a preliminary year-one estimate
4. The structure preserves flexibility and market-timing optionality
   a. The City retains the ability to adjust the size or timing of the 2026 take-out bond if CIP costs or the project schedule change, and benefits directly if long-term rates are more favorable in 2026
5. The modest incremental cost of issuing in two steps is outweighed by the benefits above
   a. A BAN followed by a take-out bond carries more issuance costs than a single long-term sale, but this cost is small relative to the interest savings and improved sizing accuracy achieved by deferring the long-term commitment

The City's actual 2025 pricing results confirm the benefit of this approach:

1. The 2025 BAN priced at a **2.630%** arbitrage yield (2.721% All-In TIC), versus an estimated **5.00%** rate for a 30-year General Obligation bond priced at the same time — a spread of approximately 237 basis points (2.37%)
   a. On the $36,045,000 borrowed, the net 2025 BAN interest cost over the year is **$990,195** versus an estimated **$1,802,250** had that same amount been borrowed at 5.00% for the year — a savings of **$812,055**
   b. Because the City borrowed only $36,045,000 rather than the full $80,000,000, it avoided paying any interest on the remaining $43,955,000 not yet needed; at 5.00%, this avoided cost is approximately **$2,197,750** for the first year

c. In total, the BAN structure is estimated to save the City approximately **$3,009,805** in first-year interest cost relative to issuing the full $80,000,000 long-term bond in 2025

How the 2026 take-out is structured:

1. In 2026, the City will fund the entire **$80,000,000** of 2025 CIP new-money as long-term bonds
    a. **$36,045,000** associated with the outstanding 2025 BAN in full, converting the City's short-term obligation into permanent, long-term financing
    b. **$43,955,000** will fund project costs under the 2025-approved CIP not issued as part of the initial 2025 BAN proceeds

Alignment with the City's Debt Policy and active debt management practices:

1. This two-step structure reflects the proactive, active debt management practices called for under the City's recently adopted Debt Policy (June 2026), which directs that debt not be amortized beyond the useful life of the financed asset and that issuances achieve level debt service while avoiding backloaded amortizations
    a. By funding the 2025 CIP draw with a short-term BAN rather than a full 20-year-plus bond, the City avoids committing to decades of permanent debt service on capital that is still under construction and not yet placed in service or delivering public benefit to residents
2. The Debt Policy identifies bond anticipation notes as an approved instrument for prudent, flexible debt management, consistent with the Policy's stated goals of creativity, innovation, and flexibility in selecting the tools that achieve the City's objectives at the lowest cost over time
    a. Using a BAN as an interim bridge, ahead of a right-sized permanent take-out once project costs and schedules are firmer, is the kind of proactive tool selection the Policy contemplates rather than defaulting to a single long-term issuance

3. This approach directly furthers the Debt Policy's stated goals of protecting the City's financial interests and promoting long-term financial stability by providing near-term budget relief
    a. Deferring $43,955,000 of long-term borrowing until 2026 reduces the debt service burden on the City's current budget while CIP projects are still being constructed, preserving budgetary capacity for other priorities in the interim
4. The structure also supports the Debt Policy's directive to incorporate debt service forecasts into the City's capital improvement planning
    a. Sequencing the take-out bond to follow actual project completion and cost data allows the City to align its long-term repayment schedule more closely with the in-service dates of the assets being financed — rather than locking in 20-plus years of debt service years before those assets begin providing public benefit

In summary, the BAN structure allowed the City to match its 2025 borrowing to actual near-term CIP spending, avoid negative arbitrage on unspent proceeds, and defer its long-term rate lock until project costs are firm — while the 2026 take-out bond will bring total long-term financing to the same **$80,000,000** originally contemplated for the CIP. PFM estimates the City achieved approximately **$3.0 million** in first-year interest savings by using this two-step approach rather than issuing the full long-term bond in 2025. More broadly, this financing sequence is representative of the proactive, active debt management practices called for under the City's Debt Policy — reducing pressure on current budgets during construction and better aligning long-term debt payments with the CIP projects while they are delivering public benefit to Cleveland residents.