Stephens

PUBLIC FINANCE

2023 MID-YEAR REVIEW

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Contents

A MESSAGE FROM DENNIS HUNT, HEAD OF PUBLIC FINANCE

Welcome to the Stephens Public Finance 2023 Mid-Year Review. I am thrilled to share with you this summary of our insights and activities from the first half of 2023. Our bankers have captured their best ideas and distilled them into actionable takeaways for the municipal market.

Alfred Ray offers his keen perspective on The Stephens Approach. Lyman Wray provides thoughts on serving the diverse needs and priorities of clients in the American South. Jason Holsclaw examines funding for critical public infrastructure projects. Kevin Faught recalls how Arkansas communities such as Springdale have achieved surprising levels of growth.

Leigh Ann Biernat and Jack Truemper also deliver a case study on funding for improvements to the Arkansas Children’s Hospital. This project is of vital interest to the state due to the hospital’s role in serving the most vulnerable residents. It also holds special meaning for Stephens, which successfully served as sole managing underwriter for the hospital for the first time in our 42-year relationship.

And I analyze how the Financial Data Transparency Act (FDTA) of 2022 that Congress passed in December is poised to have far reaching impacts on financial institutions, investors, and municipal issuers nationwide over the next few years.

Although the municipal bond market continues to be very challenging, in terms of public finance transactions, we were quite active in the first half of 2023, completing transactions representing approximately $1.7 billion across governmental and nonprofit entities in the United States. Initial indications suggest the second half of the year will be just as robust.

As always, the Stephens Public Finance Group stands ready to provide expertise to our clients as they seek to access capital and achieve their unique funding goals in service to their communities. I sincerely hope you enjoy the entries in the Stephens Public Finance 2023 Mid-Year Review. Please always feel free to reach out to our team for more information.

Sincerely,

Dennis Hunt
Executive Vice President
Head of Public Finance

Achieving Client Success 'The Stephens Approach'

By Alfred Ray

Here at Stephens Public Finance, we're focused on serving as trusted underwriters or municipal advisors to our existing clients, helping potential future clients understand our value proposition, and growing our ever-lengthening list of projects.

Our team's depth of expertise and experience, along with our commitment to collaborating with external parties on behalf of our clients, are facilitating projects such as new schools, correctional facilities, water treatment plants, bridges, and highways that function as the backbone of countless communities.

What are the elements of success in Public Finance, aka "The Stephens Approach"? For starters, we take nothing for granted.

I live in the land of opportunity—Texas. During my three years at Stephens, I've traveled to every part of the Lone Star State (which is approximately twice the size of Germany). Clients and prospects typically don't come to my Dallas office—I come to them. From El Paso in the west to Texarkana in the east and everywhere in between, the more people I meet, the more relationships I develop.

These dedicated community leaders agree that the state is growing fast and needs sufficient infrastructure to keep up with demand as it develops into an even more desirable place to live. Texas advertised itself as a business- and family-friendly state with low taxes and a culture that encourages and sustains entrepreneurs, small businesses, and investors. That is in no small part why Elon Musk is considering moving significant parts of his companies to Texas.

From Dallas To Little Rock and Beyond

I've been in rapidly growing suburbs that, just five years ago, were wild and uninhabited plains of the state. In such remote places, we make sure to demonstrate the value of the Stephens name, its sterling reputation, and our position as a respected firm for clients in need of public financing (as well as many other financial services). This calls for a different approach than the corporate suites of Dallas, Little Rock, and Atlanta, where Stephens also operates.

For instance, in Texas during the May elections, we were focusing on the $24.7 billion in school district bond referendum elections statewide and $17.9 billion in city water and municipal elections. On the municipal and water side, $16.7 billion passed. On the school district side, $21.5 billion passed.

With plenty of underwriters getting to work after the election, our boots were on the ground immediately. Unlike many, we had begun cultivating those relationships well before the elections. We got to know people in the town, details about its different neighborhoods, as well as major local personalities – some of whom were quite vibrant.

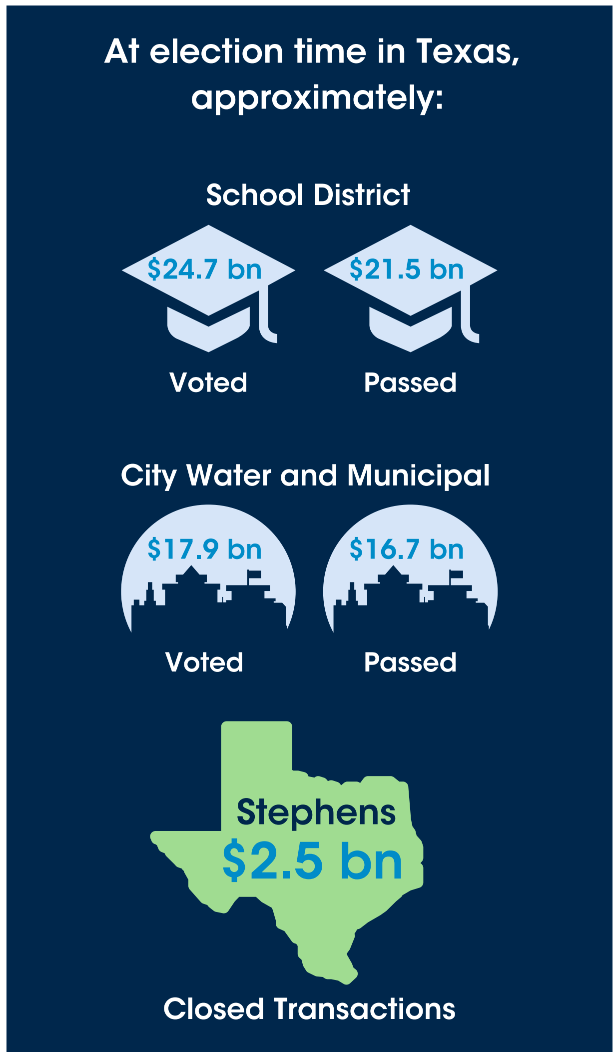
Most community leaders are extremely engaged, loyal citizens who want to improve their towns and counties. Perhaps most importantly, they want to complete projects on time in as cost-efficient a manner as possible. They recognize that they are accountable to the taxpayers and that their use of public funds is a serious undertaking.

High-Touch Service For All: Every Client Is Important

I often work with clients whose towns are far apart, yet face similar issues. That's the case for an account in Lubbock, Texas, and another in Harlingen, just across South Padre Island, near the Texas-Mexico border. I've fostered these accounts by building on relationships that I've cultivated over 30 years of public education, a good portion of that time as a schools superintendent.

I'm also working with my colleague Lyman Wray in our Atlanta office (read his article on page 9) for a higher education client in Texas. A member of the legal counsel that I engaged happens to be a Texas state senator whom I had done business with back when I was a superintendent. We talked with the senator about ways to approach an RFP that Stephens is responding to as part of our work with the Georgia team. This is why it pays to keep contact lists handy, whether they are digital or an old-school Rolodex.

Chatting with that state senator has inspired me to meet more local officials, especially in locations where Stephens has major projects.



This will help us continually increase our ability to serve clients in Texas, Georgia, and every state where we operate. There's little time to celebrate when the focus is on constantly being the best in our field.

Stephens' clients and potential clients performed very well after November's elections, the one of two times each year when Texas municipalities, public schools, and community colleges can vote on their public finance projects. They also get to include which firms are chosen to handle the financing. Our team did over $1.1 billion par from the November 2022 elections during January and February of this year. After strong results in the mid-year elections, we are on track to perform even better this summer with potentially another $2 billion par across more than 10 deals.

Utilizing The Stephens Advantage

At a recent dinner with two of our Brand Ambassadors, PGA TOUR golfers Dicky Pride and Taylor Moore, Curtis Jeffries of the firm's Marketing team described what it means for him to work at Stephens. He spoke of the privilege to work at a firm that is so committed to its clients.

His speech resonated with me, and its message will prove useful when I pitch to prospects who know me but don't yet know Stephens. In these situations, prospects typically ask me why they shouldn't go with some well-known Wall Street bank that has a huge presence in Texas. When pitching for deals, we tell them what Stephens stands for.

Part of the answer is the professional network and long-term relationships we have in public finance, which I think is unrivaled. Another part of the answer is that we have Stephens Chairman, President, and CEO Warren Stephens and they don't. It's like back when the New England Patriots had Tom Brady as quarterback at his best and the rest of the NFL didn't.

Mr. Stephens' leadership creates an atmosphere that enables us to do everything we can to help our clients. He has instilled in us that above all our job is to help the client accomplish its goals. Our clients know that when they do business with Stephens, this company is in it for the long haul with them. Some of my Stephens colleagues have been working with their clients since the 1970s.

Many of our big city competitors are publicly traded companies whose primary job is to make adequate dividends for the shareholders each quarter. Their priority is not necessarily getting to know the client well and making personal connections, much less learning what matters most to real people in those communities. Conversely, if they have a potential deal in a small Texas town, Wall Street bankers have been known to come in on an early-morning flight, give a sales pitch, and return to New York City in time for dinner at a restaurant like Le Bernardin.

At Stephens, we work to achieve the best financing possible for our clients, whether it's for the Louisiana Superdome or the Arkansas Children's Hospital or an elementary school in a small Texas town. Since any project has more than one financial goal, as well as some non-financial goals, we always strive to do whatever is necessary for the client to succeed. That commitment tends to be more valuable to clients than the allure of the kinds of mega-bank supermarkets with which they've tried to do business.

Winning District Elections

For example, we sometimes encounter potential clients that are struggling or that have struggled to get their bond elections to pass. I've been known to call with suggestions on how to make an election representative and fair to their community.

Back when I led a school district, I learned how successful public finance election outcomes often depend upon voter profiling, getting turnout, and analyzing precincts and demographics, including how elections are set up in specific counties. Stephens expertise on these factors can greatly benefit our clients' city managers and school district superintendents.

In one district, upon seeing its map, I met with the superintendent to ask why one precinct was so much larger than all the others. After he explained the details of the district borders, I explained that this one precinct could carry the election if he could get people out to vote for his project. Yet this largest of precincts in his school district lacked a voting location, so people had to drive two precincts over.

After we worked on the issue, both the superintendent and the local Political Action Committee (PAC) successfully lobbied the county elections department to establish a voting location in the precinct, and the bond election subsequently passed this time after it had previously failed. That's the kind of thing that's easy to overlook about municipal elections.

Due to my experience in education, I tend to focus on school districts for Stephens Public Finance. Educators frequently feel like their schools lack sufficient funding and resources. Often times the local school district is looking for support, which my background enables me to recognize and provide as needed. I personally judged an elementary school's robotics competition on behalf of Stephens. That school district is now a client.

My involvement there demonstrated that Stephens will be with the client all the way, and wants to help the district build what it needs in order to succeed. It also was downright inspiring for me to see the children who may someday become accomplished engineers and scientists, at that robotics competition.

School district projects generally require us to understand the priorities of stakeholders such as architecture firms and construction companies, so that we can act in the best interests of the local taxpayers. I've even testified to this fact in front of the Texas state legislature's committee on elections.

Year-Round, Year-After-Year

To be sure, I talk with my clients about rates, yields, deliverables, and everything else relevant to their projects. However, one of the things that distinguishes Stephens from other firms is that we care about clients when the checks are rolling in, as well as during every other time of the year. We're going to have a high-touch relationship with each one of our clients, whether they're issuing this year or not. And that's The Stephens Approach.

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Navigating Unique Financing Concerns of the Southern Region

By Lyman Wray

One of the many things that I value about working at Stephens is contributing to a team that punches well above its weight, compared with the mega-sized global financial institutions that we successfully compete against.

Our team helps finance projects that improve the lives of people in n places like Alabama, whose size is comparable to some countries. I also cover South Carolina, Mississippi, and my home state of Georgia, in addition to participating in projects for clients in Arkansas, where Stephens is based. I am honored to help our clients improve the essential infrastructure of a region that's approximately the size of Great Britain five times over. The American South is growing fast, in terms of both its economy and demographics.

Diverse Needs and Priorities

Last year, Stephens was proud to finance two large state-of the-art correctional facilities in Alabama, a project that garnered considerable public attention. This was one of many innovative projects that Stephens Public Finance participated in across a region with quite diverse needs and priorities.

Knowing the nuances of doing business in Georgia versus, say, South Carolina is crucial as we add to our roster of activities in the region. For instance, after the federal government began allocating American Rescue Plan Act (ARPA) funds for COVID-19 relief, it took certain states in the South a while to devise programs to most effectively dispense that money. Only recently has South Carolina directed those funds toward utilities, local governments, and other functions throughout the state.

This entails granting local governments $1.2 billion for infrastructure improvements to their systems. The local government funding pool is offering all water and wastewater utility systems in South Carolina 20-year loans at 1.4% for new projects regardless of location. This is below the market rate of 3% to 3.5% and subsidized by the federal government. As a result, issuing utility infrastructure bonds has become less of a priority for municipalities in South Carolina than it is in other states in the region.

Inflation, Bids, and TADs

Federal government money that was intended to help states for an event that began in early 2020 is now in effect in mid-2023. A client in South Carolina conveyed that it received an initial bid of $8 million from a contractor for a project, then later received another estimate at $10 million, and now that the client has the COVID relief money it subsequently received a construction bid of $12 million.

This reflects what many of my clients are telling me: They've seen a 50% jump in project estimates due to inflation, and the COVID funding is like a blast of water from a hose that's just been turned on. To be sure, Stephens Public Finance stands ready to help them with completion bonds if they require additional funding.

Georgia, meanwhile, is experiencing considerable economic development, with local governments seeking to either start planning or enter the development phase through the implementation of Tax Allocation Districts or TADs. This enables the government to create a special district, work with a developer, and borrow money for the district to enhance utilities such as water and sewer systems, build fire stations, put up streetlights, as well as pave sidewalks and roads. These improvements often in turn prove beneficial when a major project – like an industrial park with many businesses, hotels, and restaurants nearby – comes to fruition.

Doing so is just plain smart: The arrangement increases the tax value and enhances that district many times over. Developers have been known to indicate that they might pass on building their major projects in municipalities without that kind of investment in supportive infrastructure. However, many municipalities recognize that, ultimately, growth in the tax base is used to repay the government for taking out the initial economic development loan.

These public-private dynamics are occurring all over Georgia. My colleague Bill Johnston recently helped the City of Kingsland, Georgia, with a TAD transaction near the border with Jacksonville, Florida. He is working with another city on an upcoming TAD project, and we are working together on still another TAD for a county government in Georgia.

Electric Vehicles and College Education

Among the biggest projects in the region is Hyundai's plan to build a $5 billion EV manufacturing facility in Bryan County, near Savannah. Land being cleared for the project stretches for almost two miles along Interstate 16. Another Korean company, LG Energy Solution, announced that it is building a huge EV battery manufacturing facility to work in conjunction with Hyundai. Rivian also intends to build a $4 billion to $5 billion EV truck manufacturing plant off of Interstate 20.

Mississippi and Florida have some interesting higher education projects. Pandemic-induced forecasts projected that the number of college students will plateau by 2025 and then steadily drop off as fewer children were born after 2007, which in turn will require fewer on-campus classroom facilities. Meanwhile, lots of student housing infrastructure already has become outdated for Generation Z.

Many of today's college students are less than thrilled with the prospect of sharing the same dorm room with another person. (Their parents may be unenthused about paying for a questionable campus living experience, or seeing their children take out loans to do so in an era of higher interest rates.) Therefore, colleges seeking to attract more students are looking into public financing solutions for so-called suite-style apartments that include a kitchen area, living room, multiple bedrooms, and multiple bathrooms.

Knocking down dormitories and building apartment suites for students can be very good for business. Future potential projects include replacing older student housing and building accommodations for new beds in Gen Z-friendly facilities. Stephens is currently advising a private university in Florida that is planning to develop a high-rise student housing facility with some rooms facing the nearby beach. Talk about a view from your dorm room!

Prisons and Public Sentiment

Then there is the need for our public financing expertise on an entirely different type of institution – correctional facilities. In some southern states, such as Texas and Oklahoma, big money center banks are playing much less of a role in financing prisons and other projects due to their environmental, social, and governance policies and priorities. Unlike many publicly-traded firms, Stephens remains committed to focusing on the needs of our clients and operating as a private company undeterred by the continually shifting sentiments of external factors.

Last year, for instance, outside social pressures prompted a prominent United Kingdom-based bank to step away from its efforts of financing Alabama's new correctional facilities. With the help of our Chairman, President and CEO Warren A. Stephens, we won the competitive proposal process. On both the day we went out to price the bonds in the market, and again on the day before we sought to close the financing, lawsuits were filed on behalf of prisoners regarding the financing.

Yet we succeeded in ensuring that institutional investors participated in the issuance so we could complete a successful financing. Amid the ample media coverage of attempts to stop the deal, opponents echoed the supposition that its goal was simply for Alabama to incarcerate more people. Opponents rarely acknowledged that the existing Alabama prisons were more than a century old and so dilapidated that attracting and retaining workers for them had become problematic.

The new prisons that Stephens helped finance will replace outdated facilities, which will provide the incarcerated with decent living conditions and prison personnel with a safer work environment. In my view, this is a matter of basic human dignity and a concern that the communities we work with share. Whether it's a correctional facility that helps people get their lives back on track, or student housing for high-maintenance Gen Zers, America needs this kind of infrastructure and its citizens need to find the best ways to pay for it all.

Yet major Wall Street firms also are avoiding financing of prison construction projects for large national developers that are involved in public-private partnerships (P3s). Indeed, Wall Street's ongoing prioritization of Environmental, Social, Governance ("ESG") criteria versus financing and completing projects for issuers now gives Stephens Public Finance a competitive advantage.

Competitive Advantage

In this very issue of the Public Finance Mid-Year Report, my colleague Alfred Ray in our Dallas office discusses in detail what we know to be The Stephens Approach. Allow me to end this article with a brief example of my own.

I have a strong 24-year relationship with the vice chairman of a utility in South Carolina. The utility recently brought in a non-Stephens outside financial advisor to discuss the possibility of taking competitive bids on an upcoming $70 million utility financing. I subsequently met with the vice chairman, who then mentioned how well we had worked together on previous projects. In many respects, what he valued about our interactions was The Stephens Approach. Not just doing business, but doing business that creates prosperity, growth, and success for all parties.

Yes, my long relationship with that vice chairman led to Stephens retaining the utility's business and my addressing its latest financing needs. More importantly, he knows how committed we are to making sure his utility succeeds today, and in the future. That kind of connection is hard to find at other firms. But he knew Stephens Public Finance could—and continues to—deliver.

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Helping Municipal Issuers Harness the Power of the Sales Tax

By Jason Holsclaw

One of the many strengths of the Stephens Public Finance Group is that our team has significant firsthand experience serving in the public sector.

For example, prior to joining Stephens, I was a Senior Analyst with the U.S. Government Accountability Office in Washington, D.C. Several of my colleagues have worked at the state and local level in various capacities. Alfred Ray was a school district superintendent in Texas. Kevin Faught was the Assistant City Administrator for the City of Branson, Missouri, and the Assistant to the Mayor/Director of Administration for the City of Springdale, Arkansas.

These experiences give us unique depth and breadth of knowledge about the priorities of municipal officials, and their constituents, regarding the issuance of bonds and the use of public funds. We apply this expertise in numerous ways, including to help municipal issuers harness the power of the sales tax. In fact, Stephens has ranked nationally as a top 10 municipal bond underwriter over the past five years in the number of sales tax bond transactions conducted.

Since a sales tax can apply to a wide range of transactions, depending on the laws of the land – from in-person purchases to online shopping – communities have considerable options at their disposal when seeking to finance projects that may improve the quality of life by boosting local economies or responding effectively to grassroots initiatives.

Water and sewage systems, internet and telecommunications, roads and bridges, parks and recreational centers, schools and hospitals, fire and police departments, as well as correctional facilities, all stand to benefit from a well-structured sales tax. In order to make that happen, Stephens Public Finance works with issuers to determine how best to align the allocation of proceeds with the stated purposes of the bonds, and on how best to communicate these strategies to voters.

Local Economic Growth

Areas experiencing economic growth may be able to issue a new sales tax that capitalizes on an expanding population of workers. Although additional workers who pay ordinary income taxes can indirectly generate revenue for the community, by itself that may not be enough to offset the additional public resources those people consume. This is especially pertinent for workers who move with their children from another state. However, adding a sales tax can present multiple advantages.

Higher earners with greater disposable income who move to a community become likely to spend more on goods and services in that community, thus enhancing tax revenue there. Communities with desirable stores, restaurants, and entertainment venues located near a crossroads with other towns may attract shoppers from those neighboring areas who contribute to the local sales tax revenue. And online shopping makes it easy to order items for delivery without having to leave home, potentially increasing local tax revenues in states that allow collection from internet sales.

Northwest Arkansas is an economically vibrant area of the state due to the corporate headquarters of Walmart, J.B. Hunt Transport, Tyson Foods, and other companies. In November 2020, the Northwest Arkansas Council offered certain remote workers $10,000 to relocate there. More than 66,000 people applied and 100 were chosen. Since that program launched, Stephens has served as an underwriter on seven sales and use tax bond issuances in Northwest Arkansas totaling approximately $510.5 million, including the Springdale issuance of $314.9 million dated July 5, 2023.

Grass Roots Initiative

Conversely, municipal officials may need to respond to grassroots initiatives for community improvements. This could occur due to public outcry after an essential service or facility falls into severe disrepair, as a result of regular wear and tear over a prolonged period of time, an unexpected natural disaster, or a manmade accident. Alternatively, a specific demographic in the community may advocate for a new service or facility, as a result of technological advancements or the awareness that a nearby community already has the resource.

Last year, Stephens served as underwriter on the issuance of approximately $25.8 million in sales and use tax bonds for the City of Cabot, Arkansas, dated April 11, 2022. Approximately $23.8 million of that amount was allocated to financing all or a portion of the costs of the acquisition, construction, and equipping of facilities and apparatus for broadband, voice, data, video, or wireless telecommunications services, or any combination thereof, and any necessary land and easement acquisition, road, and utility adjustments therefor. Conway, Arkansas, which is less than an hour away by car from Cabot, has had broadband since 1997.

"We have to get broadband out to the people because it may determine whether a community survives or not. Everything revolves around it, including the education kids get and the ability to attract new residents and economic development," State Sen. Ricky Hill (R-Cabot) said long before the issuance, in a June 16, 2021, Arkansas Money & Politics article. "In Central Arkansas, one of the first places people and businesses look to relocate is Conway. One of the reasons is because they have municipal broadband that is better than the surrounding areas."

Bond Allocation Voting

Municipal officials often must make their case to voters before passing a sales tax. Among other things, this entails stating the proposed tax percentage to be levied, par amount, maturity schedule, annual debt service requirements, debt service coverage, specific purposes of the bond, and how much of the par amount is allocated for each specific purpose. Voters generally have to approve each purpose that a sales tax might be used for, and they tend to appreciate clarity from municipal officials on these matters.

Of course, sales taxes are based on largely voluntary consumer purchases that depend on an array of uncontrollable factors. These include the level of retail activity within the community; the economic health of the community, its surrounding trade area, and macroeconomic conditions; as well as possible future actions by a state's government defining transactions subject to the tax, or granting exemptions from the tax. That's why Stephens Public Finance always strives to provide municipal officials with a realistic view of their tax base.

Because the most complex aspect of a public financing project often is the policy side, a holistic approach to funding may serve issuers well. Every community consists of different groups of constituents, who possess different priorities regarding use of public funds. A sales tax may be used to address parents who want a new public swimming pool for their children, childless drivers who want road potholes repaired, and retirees who want a new nearby police precinct along with competitive salaries for the requisite additional police officers.

To be sure, raising sales taxes is no surefire solution to every public financing hurdle that a community faces. In fact, it is just one of the many strategies that we discuss with our clients based on their unique needs.

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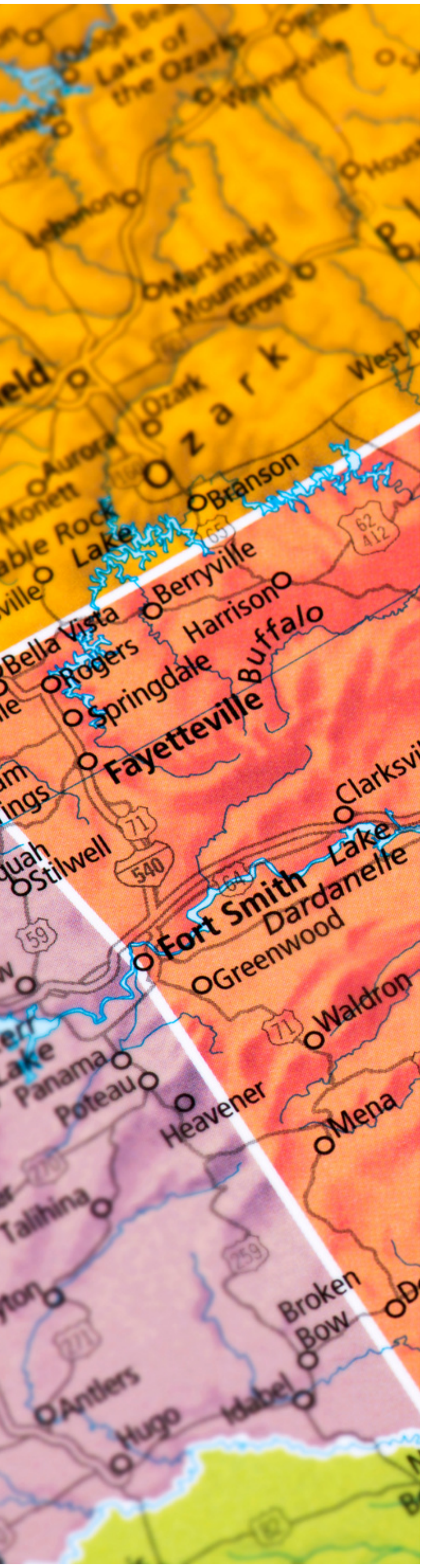


Springdale's Growth Reflects the Opportunity for Communities Across Arkansas

By Kevin Faught

Northwest Arkansas continues to rank among the fastest growing areas of the country and is attracting people from all over the U.S. with its many job opportunities, excellent quality of life, and low taxes. Those transplants are excited when they see their taxes spent properly on things they've worked hard for – such as their children's education, infrastructure improvement, and, of course, making their communities better places to live.

Some municipal leaders have a stronger grasp than others on how to govern effectively. When citizens feel as though they're being taxed excessively, without seeing tangible benefits as a result, they are prone to consider seeking out more sensible municipalities. Those who do move, for example to numerous areas in Arkansas, may take pride in their new, more fiscally responsible communities.

I began working in the Springdale, Arkansas, Mayor's Office in 1994 as the Director of Administration and Finance. Few mayors have a direct line to the President of the United States, but considering the year and who was in the White House at the time, working for Springdale's mayor gave me access that I might not have experienced elsewhere. Since 1994, the population of the town has more than doubled.

In the 1990s, the sales tax was collecting about $6.5 million per penny. Today that same one-cent sales tax is collecting $23 million annually. So even though we considered the mid-to-late '90s as a boom period, it's hard to argue with how well the area is doing now.

Dennis Hunt, the head of Stephens Public Finance, has an amazing instinct for not only knowing where the action is, but where it will be. Due to his foresight, he urged Stephens' management to open an office in nearby Fayetteville. I believe that our presence here has demonstrably benefited the neighboring communities, which are growing so fast that they must constantly work to keep up with their infrastructure needs. This is a challenge that most communities would love to face.

However, few options exist to pay for expensive projects like street work. In Arkansas, one of the only feasible ways to do so is through sales taxes. The growth of the state, and the resulting sales tax collections (a chicken-and-egg phenomenon), has presented opportunities to finance significant projects in my coverage area.

Another significant focus in this area is on quality of life, and that has renewed exceptionally detailed and informed interest in parks and trail development. Some of these plans feature quite innovative designs for the natural landscape. What, then, is the best way to finance projects that are typically derived through sales taxes?

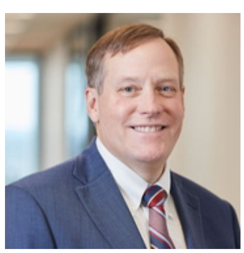
The first and most important element is to have a Public Finance team that possesses thorough expertise on the intricacies and nuances of these issues, as well as on how best to handle every aspect of them in service to the client. Stephens has served this role for many clients for the better part of a century. When relatively limited financing options prevail, the proper Public Finance team must be not only experienced and knowledgeable, but able to "deliver the goods."

We've been particularly fortunate to have strong leadership in the communities we serve, and those leaders have trusted us to show municipalities how to spend their money wisely in order to improve the quality of life for their residents.

In the town of Lincoln, a $4.25 million sales tax bond issue recently passed easily, with an extension of an existing tax for a community center. We also recently served the City of Springdale as co-manager on a $315 million combination of refunding and new financing for four purposes: streets, parks, the fire department, and a senior center. The Springdale referendum also passed by a very strong margin of over 80%.

As our Chairman, President and CEO Warren A. Stephens has said many times, "No fee is worth our reputation." Whether it's Springdale or any of the other cities, towns, counties, and states that we work with, our clients know they've hired a team that is among the most experienced in the business, and guided by its commitment to integrity and honesty.

Some of the people I worked with in Springdale during the 1990s are still there, and many of them are longtime friends. As with all of my clients, in every municipality that I serve, I am committed to conducting business for them with integrity and discipline, while seeking to add value for their communities and always following the sage words of Mr. Stephens.



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Case Study: Arkansas Children’s Hospital Revenue Bonds Issuance, Series 2023

Dated Date: June 28, 2023
Client: Arkansas Children's Hospital (ACH)
Issuer: Pulaski County, Arkansas (to provide funds needed for improvements to ACH)
Par Amount: $128,150,000
Rating(s): Moody’s A1 (Stable) and S&P AA- (Stable)
Primary Bankers: Jack Truemper and Leigh Ann Biernat
Role: Sole Manager

Stephens Public Finance is committed to establishing and maintaining long-term relationships, and to delivering successful results for our clients and their communities. Here’s an example of how a 43-year relationship yielded strong results for the Arkansas Children’s Hospital.

Client Relationship

The Arkansas Children’s Hospital is a pediatric hospital located in Little Rock. It is the only quaternary healthcare facility operated exclusively for children in the State of Arkansas.

The Little Rock Hospital includes the state’s only Level I Pediatric Trauma Center, Level IV neonatal intensive care unit, pediatric intensive care unit, pediatric surgery program with Level 1 verification from the American College of Surgeons, and its only nationally recognized pediatric transport system.

Additionally, the Little Rock Hospital is nationally ranked by U.S. News & World Report in seven pediatric subspecialties: Cancer; Cardiology & Heart Surgery; Diabetes & Endocrinology; Nephrology; Neurology & Neurosurgery; Pulmonology & Lung Surgery; and Urology.

Our relationship with Arkansas Children's dates back to 1980. Since that time, Stephens Public Finance has served as either manager or co-manager on 11 financings totaling over $556 million in par amount of bonds. In 2023, Stephens, for the first time, served as sole manager on the Hospital's $128.15 million bond issue.

The Stephens Public Finance team's track record of consistent success on these transactions, and responsiveness to ACH between transactions, led to our serving as sole managing underwriter on this issuance. We began working on this transaction in late 2021.

Planned Use of Proceeds

Proceeds from the bonds will be used to make improvements on the campus of the Little Rock Hospital and will include approximately 193,050 square feet of new finished space, approximately 6,150 square feet of new shell space and approximately 118,500 square feet of renovated space.

Major project components are expected to include a new outpatient building spanning approximately 146,700 square feet, repurposing of the existing Sturgis Building, a new main entry and Sturgis Building Gallery, as well as renovations for inpatient space.

The new outpatient building will include three levels. Level One will include a lobby with covered entrance and a valet drive, support spaces, an orthopedic clinic with 24 exam rooms, and a sports medicine clinical suite and sports lawn. Level Two will include space for the relocation and enlargement of the clinical laboratory, and space to support clinical research and/or clinical care. Level Three will include 10 ambulatory outpatient surgery operating rooms and space for future program refinement.

Repurposing of the existing Sturgis Building will include consolidation of outpatient clinics that are currently located throughout the Little Rock Hospital campus. This will occur following relocation of the clinical laboratory to the new outpatient building. The first and second floors of the Sturgis Building also will be converted to flexible clinic pods containing 102 exam rooms.

The new main entry will be realigned to serve as a clear wayfinding zone and a central access point for inpatient, surgery, patient services, and outpatient clinics. A three-story addition to the front of the Sturgis Building will serve as a public and staff concourse connecting the main entry and outpatient building. It also will provide shared waiting space outside the renovated Sturgis Building clinics, and create a unified exterior façade between the main entry and outpatient building.

Several inpatient space renovations are planned. Once outpatient procedure areas are relocated to the new outpatient building, the Department of Surgery will be completely renovated for primarily inpatient and trauma cases, containing six operating rooms and three procedure rooms. The new design should address patient access and flow, storage, and internal operating room workflows, and will provide for family waiting and new patient intake access from the new main entry.

An Acute Crisis Unit capable of accommodating four to eight patients will be developed as an addition to the existing building and co-located with the Emergency Department. The Acute Crisis Unit will provide behavioral health crisis intervention services, including screening and evaluation, treatment planning, and intervention, to children ages 4 to 18.

Structure and Execution of Issuance

The total project is estimated to cost approximately $235.2 million, with $134 million of such costs to be paid from proceeds of the bonds. Remaining costs of the project will be paid from funds raised by the Arkansas Children's Hospital Foundation, Inc., in connection with a planned capital campaign relating to the project, and from current cash flows and cash reserves of ACH.

On June 6, 2023, Stephens successfully priced tax-exempt bonds to raise funds for the above hospital improvements. The revenue securing the bonds consisted of gross revenues of ACH with additional security guaranty agreements by Arkansas Children's, Inc., ACH, Arkansas Children's Northwest, and Arkansas Children's Hospital Foundation, Inc. The repayment term is 30 years with a final maturity date of March 1, 2053.

Stephens Private Client Group and Stephens Fixed Income Sales team did an excellent job of generating investor interest. The issue was structured with level debt service payments and an optional call date of March 1, 2033. With a retail order period from 8:30 a.m. to 10:30 a.m., and an institutional order period from 11:30 a.m. to 1:00 p.m., Stephens generated over $1.2 billion in total orders – over 9x oversubscribed – during the 3.5 hour order period. In fact, multiple institutional accounts placed orders for the majority of the issue.

Based upon the successful pre-marking of the bonds and the actual amount of orders received on the pricing date, the True Interest Cost from the initial pricing was reduced from 4.538% to 4.475%, which saved ACH approximately $1.8 million in the process.

We are proud of our relationship and ongoing service to Arkansas Children's Hospital. This issuance demonstrates our commitment to earning the long-term trust of our clients through prudent advice and excellence of execution.

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Time for Municipal Issuers to Prepare for the FDTA's Looming Impact

By Dennis Hunt

For several months now, I've been analyzing how the Financial Data Transparency Act (FDTA) of 2022 that Congress passed in December is poised to have far reaching impacts on financial institutions, investors, and municipal issuers nationwide over the next few years.

Now is the time for issuers in particular to learn everything they can about it, share their concerns about its potential ramifications, track the progress of the various regulatory agencies involved with its forthcoming rulemaking process, as well as prepare for the implementation and enforcement of those rules, however they evolve.

This will be a major and ongoing undertaking, for all parties. To assist our clients and their communities with the potential effects of the FDTA, I will briefly cover the main factors here in three parts: The stated purpose of the FDTA, the expected rulemaking process, and what it may mean for municipalities.

Stated Purpose of FDTA

Under the FDTA, the U.S. Securities and Exchange Commission (SEC) will adopt Municipal Market Data Standards regarding information that financial firms, issuers, and other organizations are required to submit to the Municipal Securities Rulemaking Board (MSRB), ostensibly including through the Electronic Municipal Market Access (EMMA) portal. The purpose is to institute wide-ranging enhancements to the transparency and quality of public sector and private sector financial disclosures.

Here's where it gets very technical. In general, data standards established in the final rules must include a common nonproprietary legal entity identifier that is available under an open license for all entities required to report to covered agencies. It also stipulates several other enhancements, "to the extent practicable." These include:

- Rendering data fully searchable and machine-readable;
- Enabling high-quality data through schemas, with accompanying metadata documented in machine-readable taxonomy or ontology models, which clearly define the semantic meaning of the data, as defined by the underlying regulatory information collection requirements;
- Ensuring that a data element or data asset that exists to satisfy an underlying regulatory information collection requirement be consistently identified as such in associated machine-readable metadata;
- Incorporating standards developed and maintained by voluntary consensus standards bodies;
- And consistently implementing applicable accounting and reporting principles.

If this all seems daunting, it is. Perhaps the words of an SEC official will be of comfort. Mary Simpkins, Senior Special Counsel at the SEC's Office of Municipal Securities, spoke at the SEC's 2023 Municipal Securities Disclosure Conference in May. "We anticipate this is going to be a phased in process, not something that's going to happen overnight. It's going to be a long process," she said.

Expected Rulemaking Process

The SEC was scheduled to set up a corporate data quality program and file a cost-benefit analysis with Congress about structured data in such disclosures. By June 2024, federal regulators are expected to publish proposed rules for comment on Joint Data Standards.

This step may involve the SEC, Federal Reserve, Treasury Department, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Consumer Financial Protection Bureau, National Credit Union Administration, Federal Housing Finance Agency, and the Financial Industry Regulatory Authority.

By December 2024, regulators are scheduled to announce their final Joint Rulemaking with Joint Data Standards. Sometime in 2026, the SEC plans to publish proposed Municipal Market Data Standards for comments and the MSRB likely will align with its own proposed rule changes and system enhancements for comments.

Two years later, in December 2026, the Joint Data Standards are set to go into effect and the SEC will put forth the final rule adopting Municipal Market Data Standards. Municipal Market Data Standards and associated MSRB rule changes and system enhancements then would go into effect by early 2027.

Impact for Municipal Bond Issuers

The FDTA does not explicitly require the submission of additional disclosures. The Act also allows the SEC to scale the new data standards in order to reduce any unjustified burden on smaller regulated entities and seek to minimize disruptive changes to the people affected by the new rules.

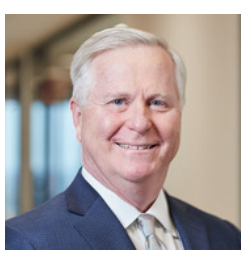
Despite these provisions, considerable uncertainty persists about how to reconcile the myriad of differences in reporting among the vast number of municipal issuers, financial firms, and other organizations the Act affects. For example, currently there is no clear path forward regarding how to compare or standardize the countless entity-specific accounting procedures and financial terminologies in use nationwide.

And for good reason. What's relevant to a bond issuance for specific city improvements in Trumann, Arkansas – where Stephens Public Finance served as underwriter on capital improvement revenue bonds this year – has little in common with what's relevant to a bond issuance for specific capital improvements in Fort Worth, Texas, at some unknown point in the future.

Although the FDTA is silent on whether structured data collection must occur in the eXtensible business reporting language (XBRL), this appears to be among the most feasible approaches based on present technology usage. However, other viable formats may emerge before the implementation phase. It also remains unclear whether documents must continue to be submitted as PDFs, which is still a popular digital format among the retail investors who hold approximately 70% of the nearly $4 trillion in outstanding municipal bonds.

Then there are the costs associated with complying with these requirements, which are still being calculated but already appear that they will become significant. Additional expenses are set to arise from the need to adopt and maintain new technology, as well as to onboard and train properly skilled staff.

The salient point for municipal issuers is to get engaged with your state Municipal League, Government Finance Officers Association, or other advocacy groups in order to keep informed on the status of the implementation of the FDTA. Federal regulators will be providing the opportunity for issuer input, and local officials should be actively involved in the public comment process. This involvement will be critical to minimize the potential impact on your communities from the FDTA.



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Since 1933, we have provided advisory and underwriting services on many transactions, supporting critical projects ranging from hospitals and courthouses to roads and education facilities.

Our Services

Stephens Public Finance is a recognized leader in general obligation and revenue bonds. We work directly with Stephens Fixed Income Sales & Trading on all transactions, which provides valuable insights on the pricing of our clients' bonds through our participation in the municipal bond market.

Underwriting

Deep experience in negotiated and competitive underwritings offers our clients unmatched knowledge and expertise. Stephens has ranked nationally as a top 10 municipal bond underwriter over the past five years in the number of sales tax bond transactions conducted.

Municipal Advisory

As a full-service investment bank, Stephens Public Finance is a registered municipal advisor to a wide range of issuers. We have extensive expertise in designing and structuring municipal financing transactions.

Sectors

Our team employs expert insight and real- time analytics to determine the most appropriate financing vehicle to best meet the current needs of our clients and to set them up for future success. We carefully define the appropriate debt level required to fund each project while protecting our clients' credit profile and minimizing the impact on their citizens and customers.

Click here to view all sectors.

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