

## U.S. Municipal Markets

# From Budget Issues to Labor Challenges: Insights from the HilltopSecurities 2025 Public Finance Leaders Survey

HilltopSecurities' *Public Finance Leaders Survey* assesses the priorities and pressures facing America's public entities. Now in its second year, our survey – held from May to July 2025 – provides a snapshot of the municipal finance landscape, derived from more than 1,000 voices representing a broad set of sectors in all 50 states.

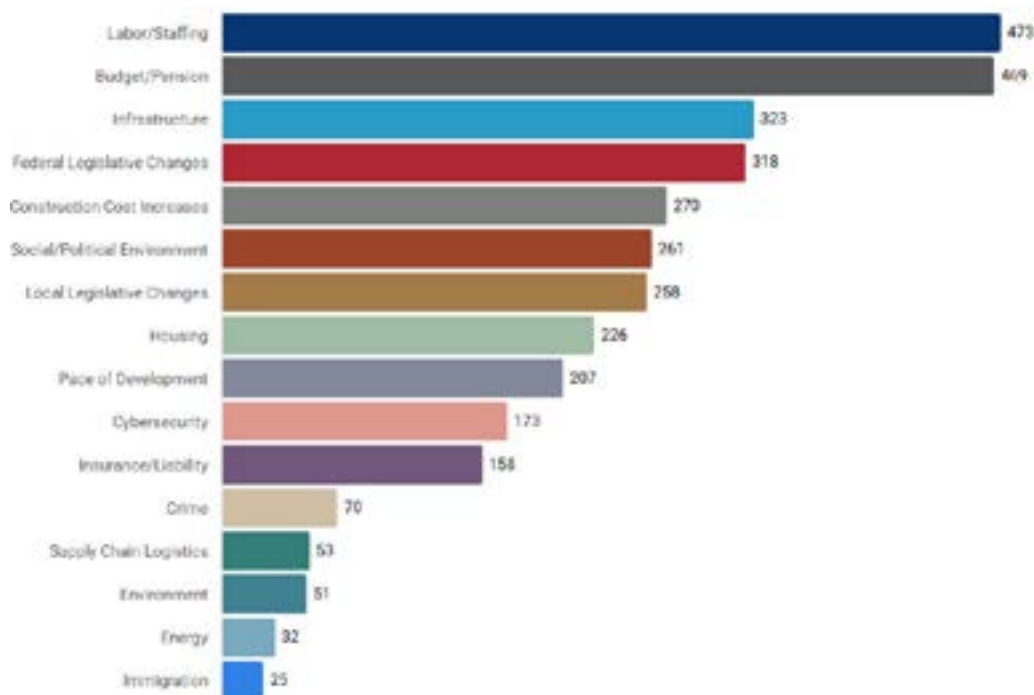
As a leading municipal investment bank, we stay attuned to shifts in sentiment among public entity decisionmakers and recognize that we are in a dynamic funding and interest rate environment.

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## Budget Issues Join Labor as Top Challenges

### 1. What are the biggest challenges facing your public entity in 2025? Choose four (4).



Source: HilltopSecurities.

Significant shifts in national policy dominated 2025 headlines, with immediate, unclear impact on labor supply, municipal budgets, and funding for capital projects. With that backdrop, leaders identified the main challenges facing their organization: staffing issues, budget and pension pressures, aging infrastructure, and changes in federal legislation.

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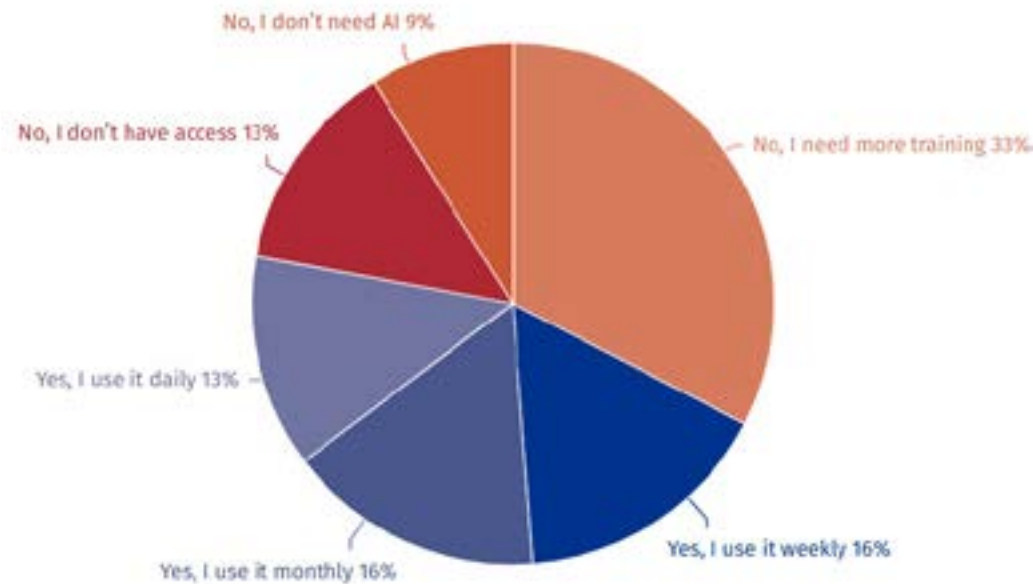
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These trends align with the National League of Cities’ 2025 [State of the Cities report](#), which identifies labor and workforce development – particularly for staffing capital-intensive projects – as top mayoral priorities. Meanwhile, over 85 percent of surveyed mayors cited budget and financial management as critical concerns.

Mind the Gap: AI Adoption vs. Readiness in Public Finance

2. Are you using artificial intelligence in your role?



*AI is being used to automate routine tasks, support data analysis, and enhance decision-making processes.*

Source: HilltopSecurities.

Artificial intelligence (AI) is no longer a distant concept in public finance—it’s becoming a practical tool for many professionals. Nearly half (45%) of respondents reported using AI in their roles.

This growing adoption reflects a broader shift in how public finance leaders are approaching technology—not just as a back-office efficiency tool, but as a strategic asset. AI is being used to automate routine tasks, support data analysis, and enhance decision-making processes. These applications align with what the [Urban Institute](#) identifies as Tier 1 use cases, such as digital assistants that help summarize meeting notes, draft memos, or support basic research and problem-solving.

The expanding use of AI by public finance leaders signals a promising future for innovation in state and local government. However, the Public Finance Leaders Survey results also revealed a critical gap: 33% of respondents said they need more training to use AI effectively, and 13% indicated they lack access to the necessary tools. This is an important issue, especially as public entities face mounting budgetary constraints which are also reported in this year’s survey and AI use can provide some time efficiencies.

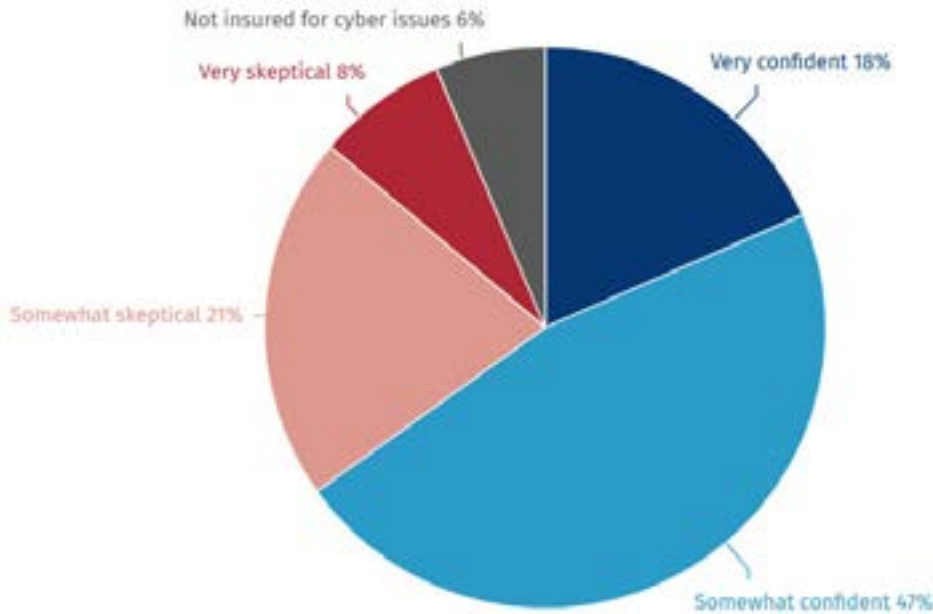
*Public entities are actively realigning their strategies to navigate a more complex and less predictable financial environment—signaling a clear shift in the municipal finance landscape.*

Without targeted investment in training and infrastructure, the full potential of AI may remain out of reach for many organizations. Yet the opportunity is clear. With the right support, public entities can overcome these barriers and unlock new levels of efficiency, responsiveness, and service delivery for their constituents.

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## The Cyber Insurance Illusion: Are Public Entities Overestimating Coverage?

### 3. How confident are you that your cyber-insurance covers the financial risk in your data governance?



Source: HilltopSecurities.

*The finding that 66% of public finance leaders are confident their cyber-insurance policies adequately cover the financial risks associated with data governance is both encouraging and concerning.*

Nearly half of respondents claim they are only somewhat confident that their cyber-insurance is sufficient to cover the financial risks associated with data governance. Only 18% report being very confident, while another 29% are skeptical.

The finding that 66% of public finance leaders are confident their cyber-insurance policies adequately cover the financial risks associated with data governance is both encouraging and concerning. While it reflects growing awareness and investment in cyber risk management, it also suggests a potential overestimation of what these policies actually cover. Cyber-insurance is a critical tool, but it is not a comprehensive solution. As the recent [cyberattack on Hamilton, Ontario](#) illustrates, even well-prepared municipalities with cyber policies can face millions in uncovered costs, including operational disruptions, reputational damage, and long-term recovery expenses. This gap between perceived and actual coverage poses a significant risk to public entities, investors, and taxpayers.

To truly mitigate cyber risk, public entities must go beyond insurance and invest in layered cybersecurity strategies. These may include multi-factor authentication, endpoint detection and response, regular penetration testing, and continuous employee training. These tools and practices are part of a broader approach to cyber resilience that helps prevent breaches before they occur. Confidence in insurance should be matched by confidence in the systems and protocols that protect sensitive data and financial

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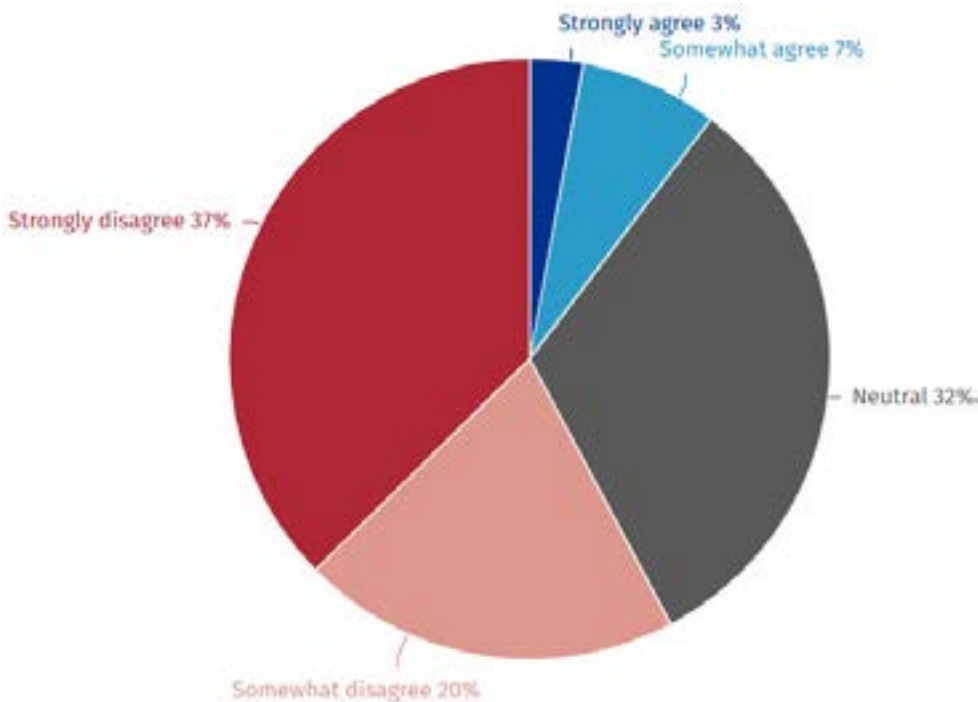
operations. Public finance leaders have a responsibility to ensure their organizations are not only adequately insured but also actively defended against the growing sophistication of cyber threats.

HilltopSecurities Insurance understands these challenges and has worked closely with public entities to ensure their cyber liability coverage is aligned with real-world risks. This team helps clients evaluate existing policies, identify gaps, and build comprehensive protection strategies that integrate insurance with proactive cybersecurity measures.

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## Guarding the Public Purse: Crypto Isn't Gaining Ground in Public Finance

### 4. Assuming that cryptocurrency is permitted, do you agree that cryptocurrency is a viable investment option for public entities to diversify earnings?



Source: HilltopSecurities.

Only 10% of responders agree that crypto is a viable investment option for public entities. To compare, a resounding 57% of respondents do not believe that crypto is an appropriate option for public entities.

The results of our survey reveal a clear skepticism among public finance leaders regarding cryptocurrency as a viable investment option for public entities. A clear majority—57%—disagree with the idea that cryptocurrency should be used to diversify earnings, even assuming it is legally permitted. This strong level of disagreement reflects a cautious and risk-aware posture among public sector financial professionals, many of whom are responsible for safeguarding taxpayer dollars and ensuring long-term fiscal stability. This opinion aligns with our main message expressed in: Crypto Abstinence: Safeguarding Public Entity Credit Quality, Taxpayer and Public Funds by Avoiding Digital Illusions. While cryptocurrency markets have grown in visibility and scale, their volatility, lack of regulatory clarity, and susceptibility to fraud and manipulation remain serious concerns for public entities.

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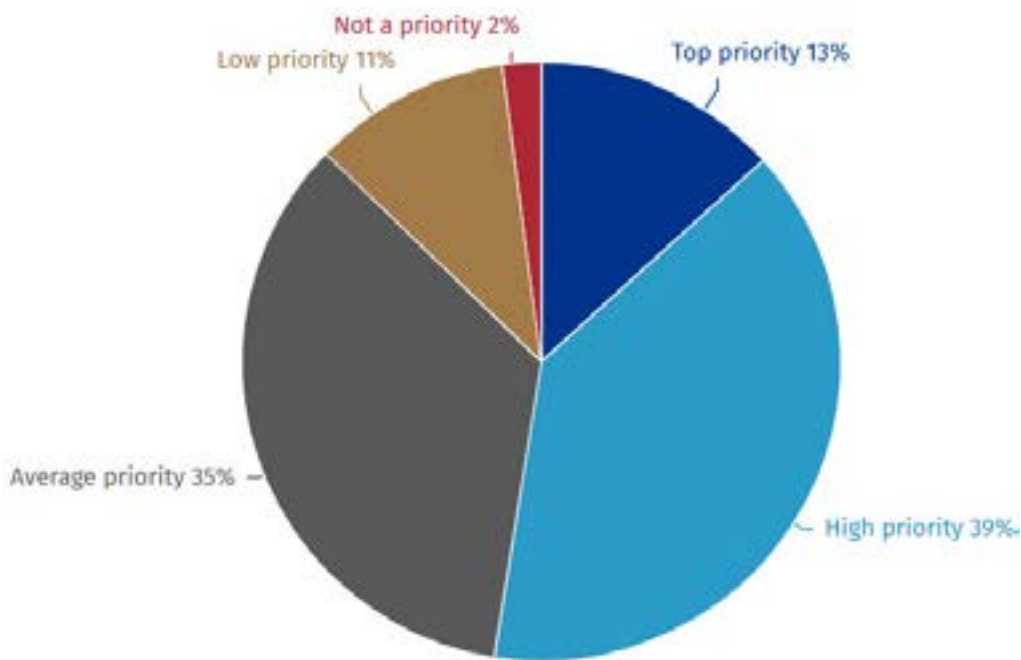
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What is equally notable is that nearly one-third of respondents selected a neutral position. This signals uncertainty and perhaps a lack of familiarity with the risks and mechanics of cryptocurrency investments. In an era of tightening budgets and increasing pressure to optimize public funds, this knowledge gap is a critical oversight. State and local financial leaders must be equipped with clear, unbiased information about the risks and limitations of crypto assets. Without that understanding, neutrality could inadvertently lead to exposure to financial instruments that are fundamentally misaligned with the fiduciary responsibilities of public institutions.

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## Resilience by Design: Public Finance Leaders Embrace Risk Mitigation

### 5. To what extent is your public entity prioritizing disaster risk reduction and resilience planning?



*Disaster risk reduction and resilience planning is receiving considerable attention, with almost 53% of responders identifying it as either a top priority (14%) or a high priority (39%) for their public sector entity.*

Source: HilltopSecurities.

53% of respondents said that disaster risk reduction and resilience planning were a top or high priority for their entity. Only 2% claimed it was not a priority at all.

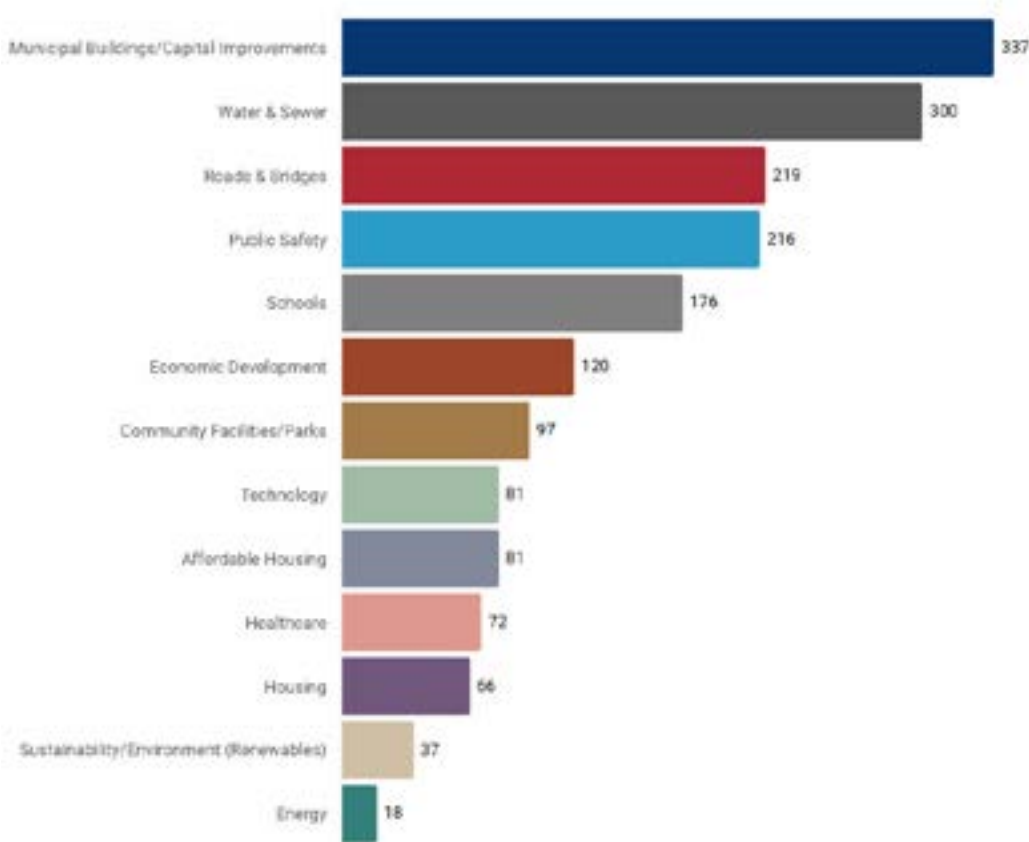
Disaster risk reduction and resilience planning is receiving considerable attention, with almost 53% of responders identifying it as either a top priority (14%) or a high priority (39%) for their public sector entity. In addition, over a third of respondents consider it a mid-level priority. Taken together, while not always prioritized at the highest level, almost 90% of responders are aware of and even focused on resilience efforts.

This aligns with [findings from the U.S. Government Accountability Office](#), which released a report in August 2025 that discussed that federal agencies including, FEMA, EPA, and USDA, have collectively invested over \$64 billion in grants and loans from 2014 to 2023 to support water and sewer infrastructure resilience, particularly in vulnerable communities. In our assessment, the survey reflects the growing institutional commitment to mitigating disaster impacts and enhancing community preparedness across the country.

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## Infrastructure Takes Priority in Public Sector Debt Issuance

6. If you were to issue debt next year, what would be your top priorities? Choose your top two (2).



Source: HilltopSecurities.

Municipal buildings & capital improvements topped the list of debt issuance priorities this year, pushing water & sewer and roads & bridges into the second and third spots, respectively.

The survey delineates that Municipal Buildings/Capital Improvements (33%) and Water & Sewer Infrastructure (30%) are the top two areas of prioritization for debt issuance among public entities, with Public Safety and Road & Bridges virtually tied for third place (approximately 21%). Notably, Public Safety maintained the same priority level as in 2024 which may reflect the philosophy that the issue is important but in an environment of limited financial resources, it is a lower priority.

This ranking likely reflects a shift in urgency toward foundational infrastructure needs, especially as communities face aging facilities and increasing environmental pressures. This finding is consistent with the extreme level of disaster awareness that is discussed in question No. 5.

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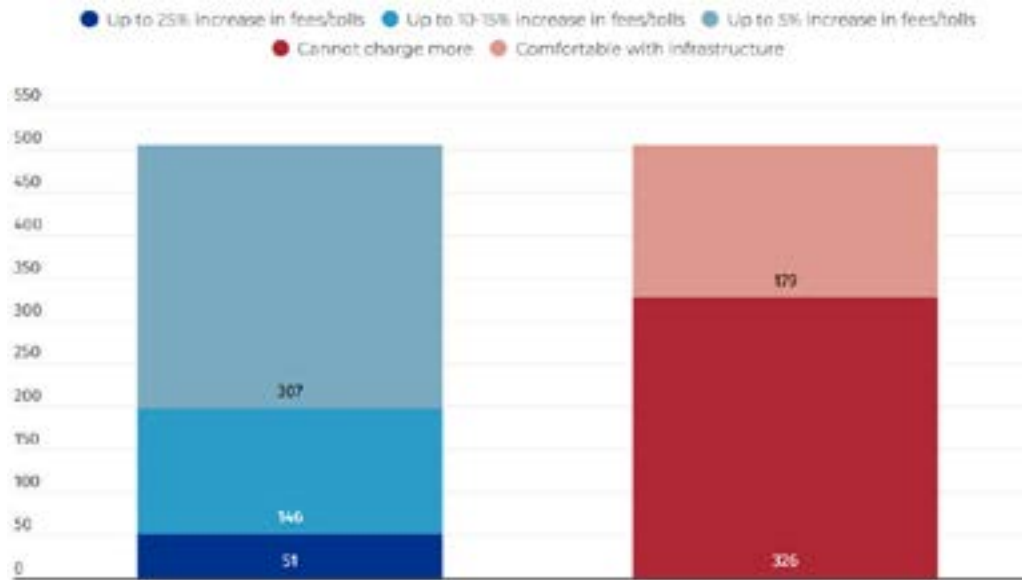
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## The Cost of Progress: Resistance to Higher Infrastructure Costs

### 7. Would your entity be willing to charge more for improved infrastructure?



Source: HilltopSecurities.

Despite the recognition that aging infrastructure is a priority for public entities, survey results suggest a clear reluctance among public entities to raise fees or tolls to fund improved infrastructure.

The results underscore the challenge of funding infrastructure upgrades through fee adjustments. They also reflect a broader tension between infrastructure needs and fiscal constraints, where public support for improvements can clash with resistance to pay for them.

Most respondents (50%) either believe municipal fees are already too high (32%) or feel their community's infrastructure is sufficient (18%), indicating limited public appetite for an additional financial burden. Only a small minority, about 5%, would support increases up to 25%, and fewer than 15% would accept a 10–15% hike. It is particularly interesting to note that the largest group willing to pay more, accounting for 30% of responses, would only tolerate a modest 5% increase.

This tension is especially relevant in light of the American Society of Civil Engineers' [2025 Infrastructure Report Card](#), which gave the nation's infrastructure its highest-ever overall grade of C, up from C- in 2021. While this improvement signals progress—largely attributed to the federal aid and increases in municipal bond issuance from 2020 on—the report also highlights a persistent \$3.7 trillion investment gap and emphasizes that sustained funding is essential to avoid backsliding. The report's findings underscore the urgency of continued investment, even as public and federal capacity to bear the cost remains uncertain.

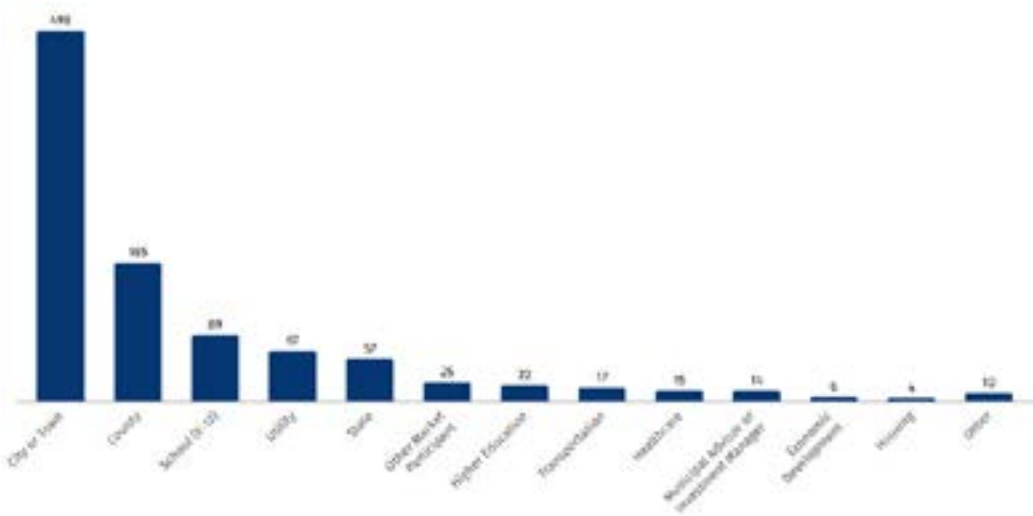
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Entity Representation

8. What type of public entity do you represent?



Source: HilltopSecurities.

Approximately 49% of responses came from employees of a city or town, with counties contributing another 18% of responses.

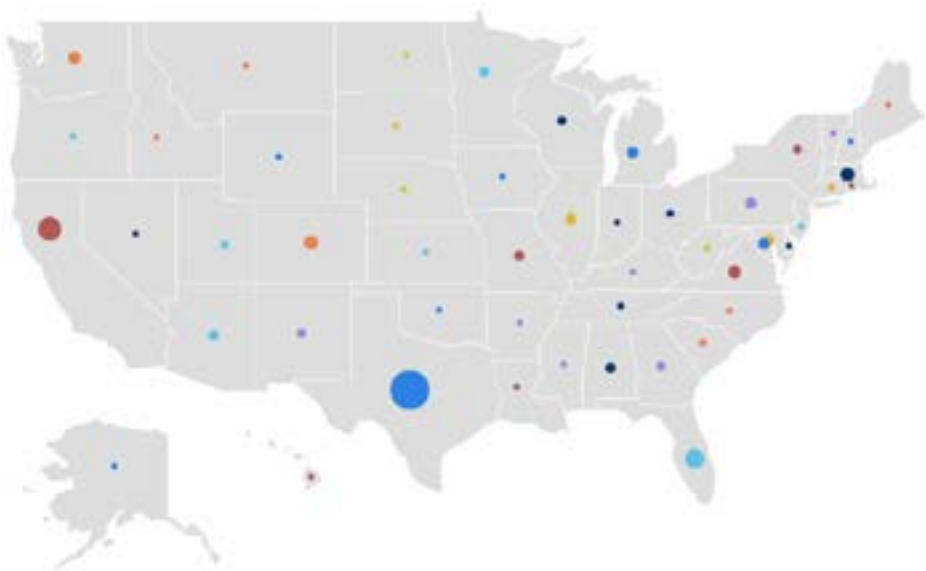
Survey responses came from a diverse group of employees representing various public entities. City, town and county employees accounted for 68% of the responses. The majority of the remaining 32% of responses were from schools (9%), states (6%), and utilities (7%).

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Geographic Representation

9. In which state do you work?



Source: HilltopSecurities.

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



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