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## **Public Debt and the Art of the Float.**

**Governments need to balance expected returns on their invested cash with the costs of their bonds and other obligations. Shifting a portion of their long-term debt from fixed to floating rate is a way to hedge interest rate risk.**

It's a cliché we hear from so many political candidates: "Government should be run like a business." Ironically, the collapse of Silicon Valley Bank and other recent bank debacles confirm that governments do indeed have much to learn from businesses. But in this case, the lessons are what not to do.

The most obvious message to be drawn from these meltdowns is that organizations, whether businesses, not-for-profits or governments, cannot ignore the credit risk of depositing large amounts of uncollateralized cash in seemingly rock-solid banks. The more subtle, yet no less important, lesson is that governments need to carefully and consciously manage their interest rate and related liquidity risks. More specifically, they must appropriately balance expected returns on invested assets with their required payments on bonds and other debts.

For sure, this is a principle that government treasurers and other public finance officers of a certain age need not be taught. They are likely to recall the 1994 bankruptcy of Orange County, Calif. The county, one of the nation's wealthiest, borrowed short and invested long, which ultimately produced the same financial consequences as those that struck Silicon Valley Bank.

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