

Mastering Finance in Local Government



Coaching Programs
May 1, 2008



Coaching Program: 10th year as member benefit
Career Development Committee



Coaching Program: 5th year
Preparing the Next Generation Committee

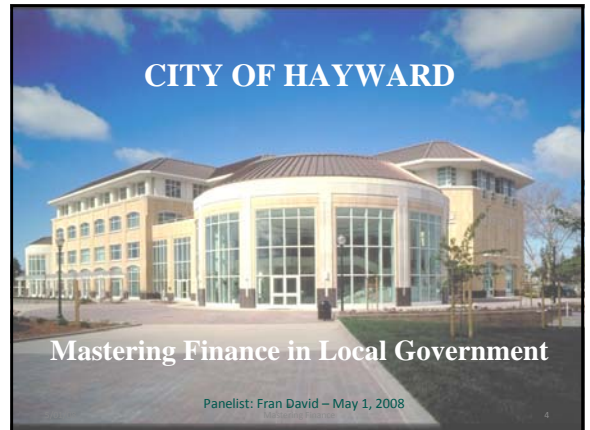
CA City Mgmt. Foundation	CA Communities Joint Powers Authority
CPS Human Resources	Municipal Mgmt. Assn. of S. CA
Int'l City/County Mgmt. Assn.	Municipal Mgmt. Assn. of N. CA
Bob Murray & Associates	Public Agency Retirement Services
County Administrative Officers Assn.	California Redevelopment Assn.
Pacific Gas and Electric Company	Piper Jaffray
Granicus	

Overview of Session

- **What every manager needs to know** – *Fran David*, Asst. City Manager, Hayward
- **Budgeting** – *Darren Hernandez*, Admin. Serv. Dir. & Deputy City Manager, Santa Clarita
- **Financing** – *Mark Curran*, Managing Director, PiperJaffray
- **Presenting financial information** – *Scott Miller*, Admin. Serv. Dir. & CFO, Beverly Hills

...and polls and questions along the way.

CITY OF HAYWARD



Mastering Finance in Local Government

Panelist: Fran David – May 1, 2008

WHAT EVERY MANAGER NEEDS TO KNOW

About Finance

THE TOOLS

- **Budget:** What is it and what do I do with it?
- **Reports:** How do you read these things?
- **Financial Enterprise Systems:** What do you mean “its on line”?
- **Internal Controls:** Not just an accounting term

YOUR BUDGET

- **There is a connection**
 - The dollars are real and reflect Council policy
 - Programs and objectives are measurement tools
- **Use it all year long**
 - Measure and report against it throughout the year
 - Adjust it when necessary – mid-year
- **Get ahead of the curve – anticipate**
 - Know your process
 - Timing is critical for quality output

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7

FINANCIAL REPORTS

- **Contain management information**
- **ARE supposed to reflect what the organization is doing**
 - Get reports regularly – don't ignore them
 - Learn how to read them; ask questions
 - Partner with the folks in Finance
 - Take the time to make the reports accurate

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COMPUTERS ARE YOUR FRIEND

- **Reports online are convenient and timely**
- **But only if you use them – learn the system**
- **If it needs to be programmed, do we really need the report – the downside of old systems**

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9

THE SOURCES OF CASH

- **Revenue sources**
- **Financing mechanisms**
- **Fees**
- **Grants**
- **Other sources**

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10

REVENUE SOURCES

- **Are linked to the economy**
 - Learn to read economic indicators locally and at other levels
 - Anticipate and adjust – a dramatic upswing or downturn should not come as a surprise for a Manger
 - Projections coming out of Finance should be informed by program knowledge
- **Are affected by politics**
 - Locally, at the State, and Nationally
 - Learn how to read the signs

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CASH MECHANISMS

- **Bonds, assessment districts, Mello Roos, Certificates of Participation, lease vs. buy, etc**
 - Learn the language and know the differences
 - Understand the short and long-term impacts
- **Grants**
 - Learn how to get them (where, how, when); and when not to apply
 - Understand their short and long-term cost
- **Fees**
 - Prop 218
 - Think full-cost recovery at all times; but adjust...

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12

CASH MECHANISMS (CON'T)

- **Creative Approaches**
 - Leveraging – partnering with others
 - Bartering – is a good thing
 - Donations – if you don't ask, you won't get

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ACCOUNTING...UGH

- **Chart of Accounts – It's the roadmap**
 - Where's my money?
 - What do I have left?
 - Where did it go?
- **The Language – it should be a commonality**
 - Encumbrances
 - Roll over
 - Debits and credits

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14

INTERNAL CONTROLS

- **These are not just for accountants**
- **They are every Manager's responsibility**
- **Asset and resource management is what you do to assure service delivery**
- **Keeps you out of the newspapers**
- **Know what they are: teach them, apply them**

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15

THE SILENT KILLER

- **Ethical Behavior**
 - Value it
 - Teach it
 - Preach it
 - Talk it
 - Walk it
 - Never cross the line

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16

THE BIG KAHUNA

- **Bad Customer Service**
 - Can kill a bond
 - Can kill a needed fee increase
 - Can kill a great idea
- **Learn how to measure the level of satisfaction across the entire community**
 - Do it often and measure progress or lack of it
 - Educate your staff and others
 - Pay attention to results and adjust – quickly
- **Care about your customers: Listen with care**

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17

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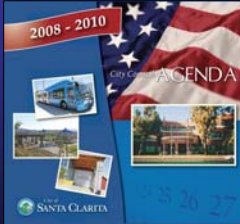
CAL-ICMA Presentation



DARREN HERNANDEZ
Deputy City Manager



EVERYTHING STARTS WITH THE BUDGET



The budget is the single most important policy document presented by staff and adopted by Council.

DARREN HERNANDEZ
Deputy City Manager



BE INVOLVED



Be actively involved with budget development and management. Don't simply "outsource" this to the Finance Department.

DARREN HERNANDEZ
Deputy City Manager



BECOME A BUDGET EXPERT



Immerse yourself in all aspects of the budget and financial structure of the City. Become an expert.

DARREN HERNANDEZ
Deputy City Manager



SPECIAL ASSESSMENT DISTRICTS ARE YOUR FRIENDS



Learn the "ins" and "outs" of special assessment districts. They have great potential as a financial tool if you know how to work/use them.

DARREN HERNANDEZ
Deputy City Manager



THE DECISIONS MADE IN GOOD TIMES ARE MORE IMPORTANT THAN THE DECISIONS MADE IN BAD TIMES



Cities can do themselves great harm by over-extending with the programs they start, the facilities they build, and the staff they hire, when the economy is humming along.

DARREN HERNANDEZ
Deputy City Manager



PROJECT MULTI YEAR COSTS



Carefully analyze and project the long-term operational costs of new programs and facilities. Ask and answer the questions: "can we afford to build it" and "can we afford to operate it." Prepare multi-year financial projections (at least 5 years out). Be conservative! Require strong justification when projecting revenue greater and/or expenditures less than the prior year.

DARREN HERNANDEZ
Deputy City Manager



KNOW YOUR TAXES



- Read, study & learn about how the following taxes work:
- Property Tax
 - Sales Tax
 - VLF
 - Hotel/Motel Visitors Tax
 - Utility Users Tax
 - Any other major tax of your city

Go to: www.CaliforniaCityFinance.com and read everything twice!

DARREN HERNANDEZ
Deputy City Manager



KEEP ON TOP OF RESTRICTED FUNDING SOURCES



Learn about how other restricted funding sources, such as the Gas Tax and local/county "self-help" transportation taxes work.

Use the most restricted funding sources first.

DARREN HERNANDEZ
Deputy City Manager



KEEP COUNCIL UP TO SPEED!



Involve your City Council in all stages of the process.

"Tell them, tell them again, tell them what you told them."

DARREN HERNANDEZ
Deputy City Manager



TAKE A "BIG PICTURE" FOCUS



Develop and maintain a "big picture" perspective. Manage your work like it is the most important part of the city, but know and understand that all of the operations are equally important.

DARREN HERNANDEZ
Deputy City Manager



FUNDING PUBLIC SAFETY



Accept that you can never budget enough for public safety.

Try to tie funding for public safety to objective justifications and performance outcomes. Good luck...



DARREN HERNANDEZ
Deputy City Manager



What You Need to Know About Financing in Local Government

Mark Curran
Managing Director
Piper Jaffray

Why Issue Debt?


- To fund large capital projects 
- Avoid "pay as you go" waiting periods (typically 8-10 years) because funds are delivered up front 
- Cash Flow Management 
- Assist Projects of Special Public Benefit 

What is a Bond?

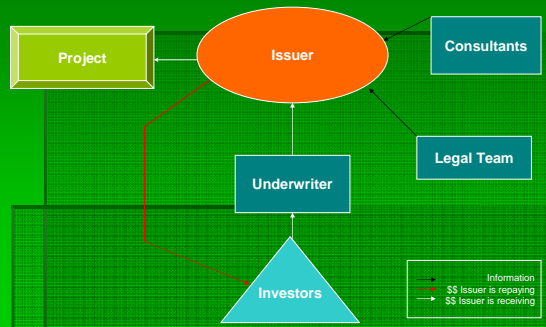
- A Bond is simply a Loan**
- Bonds are typically sold and traded typically in \$5,000 denominations
- Bonds Can Be Tailored To Cash Flow And Repayment Needs Of Borrower
- Interest on most Municipal Bonds is exempt from Federal and State Income Tax – Lower Interest Rates
- Buyers include high net worth individuals, banks and corporations who will benefit from the tax exempt interest
- Debt repayment can range from a few months to over 40 years



What Can be Financed?

- New & rehabilitated public infrastructure and facilities
- Specialized Cashflow Requirements (Public Obligations, OPEB, annual cashflow) 
- Affordable Housing Projects
- Transportation Improvement 
- Redevelopment Projects 

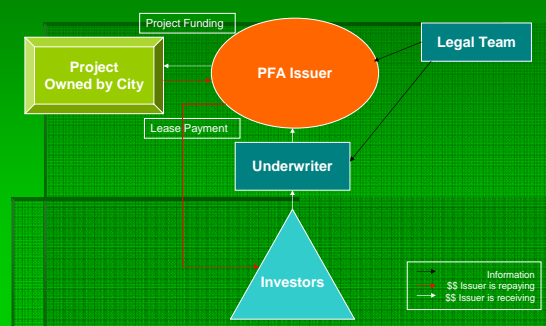
Basic Bond Structure



What is a Lease Obligation?

- A Tax-Exempt Lease is used to provide a financing tool that does not require voter approval – there must be a leasable project and two parties to the lease.
- The Lease obligation creates the ability to borrow funds secured by the lease.
- The funds raised by the Lease obligation do not need to be spent on the leased facility – it can simply be the financing conduit – this is called an Asset transfer.

Lease Obligation Flow Chart



How does Prop. 13 Limit Your Ability to Incur Debt?

- Proposition 13 & Subsequent Propositions generally require 2/3 Voter approval for City obligations that exceed a one year term
- Exceptions include:
 - > Lease based obligations
 - > Redevelopment finance
 - > Certain Sewer & Water financings
 - > Specialized revenue bond financings



What is a PFA?

- The PFA is a Public Finance Authority (also termed a Joint Finance Authority or various other names)
- The Marks Roos Law enables a City and a fellow public agency (Redevelopment Agency, Port Authority, School District etc.) to create the PFA
- Per the Marks Roos Law, the PFA can issue bonds more efficiently and quickly than is often possible via the historic underlying statutes
- A PFA can also facilitate lease based financings



What is a Conduit Bond?

- The City or its Public Finance Authority (PFA) make available to another public or private user its ability to issue tax-exempt bonds
- No City funds are pledged for debt repayment
- Classic examples are Community Facilities District Bonds or Housing Bonds



What is a Revenue Bond?

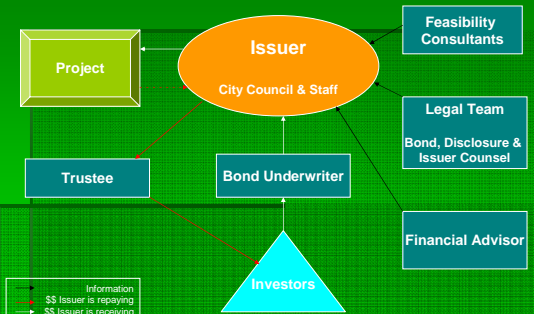
- A Revenue Bond is a debt in which specific revenues are pledged for repayment
- Classic examples would be sewer or water system revenue bonds – just the enterprise funds are pledged – no City general pledge of revenues
- Redevelopment tax increment bonds are also classic revenue bonds.
- A Revenue bond will have no lien on or ability to impact the General Funds of the City.



The Financing Process

- 1) Determine financing capability (Issuer and Financing Team)
- 2) Set spending priorities (Issuer)
- 3) Structure financing (Underwriter)
- 4) Financing team establishes credit for the issue (Underwriter & Financial Advisor)
- 5) Preparation of bond documents (Financing Team)
- 6) Agency approves financing (Issuer)
- 7) Bonds are pre-marketed (Underwriter)
- 8) Bonds are sold and financing is closed (Financing Team)

The Financing Team



Determinants of Bond Size

- Priority and Timing of Projects
- Debt Service Coverage Requirements
 - Rating/ Bond Insurance Requirements
 - Pre-existing Parity Covenant
- Available Revenues
- Term of Financing
- Taxable vs. Tax-Exempt Uses
 - Flexibility of Proceeds
 - Higher Borrowing Costs
- Capitalized Interest – Freeing up Revenues



Current Issues

Subprime Credit Upheavals have impacted parts of the Municipal Market

- MBIA, Ambac, FGIC & XL Capital all adversely impacted
- Traditional Approach of Investment Grade Rating & Bond Insurance is no longer a straight line

Current Issues

Rating Equality

- Muni credits perform much better than comparable corporate credits
- If all municipal credits rated with corporate scale, just about all "AA" & "A" credits would be "AAA"
- California Treasurer Lockyer has taken on this issue as a MAJOR CAUSE
- Equalization of bond ratings could reduce need for Bond Insurance and save Cities millions in lower financing costs

Effectively Presenting Financial Data to Non-Financial Managers – Part I



Beverly Hills City Hall

FY 07-08 Economic Outlook

General Economy

- Inflation concerns eased (somewhat), still #1 concern
- Stock prices overvalued and still highly volatile
- Job market still growing steadily "but slowly"



Beverly Hills Economy

- Retail sales up 5.6% FY 05/06 – FY 06/07 (up 7.1% 1st Q '06 – 1st Q '07)
- Transient occupancy averages 78% to 84% and average daily room rate increased 16.7% (2-07)
- BH continues to maintain top position in office leasing
- Our biggest problem is lack of large blocks of contiguous office square foot square footage and hotel space



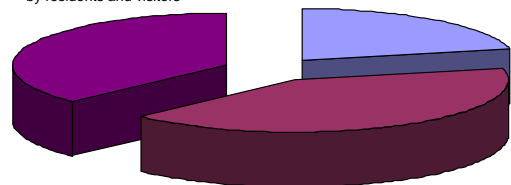
Who Contributes What General Fund Revenues?

Consumers – 37%
(\$57.8 Million)

Sales and hotel taxes paid by residents and visitors

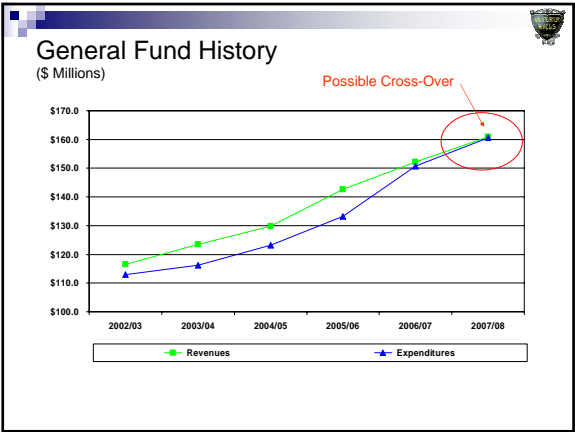
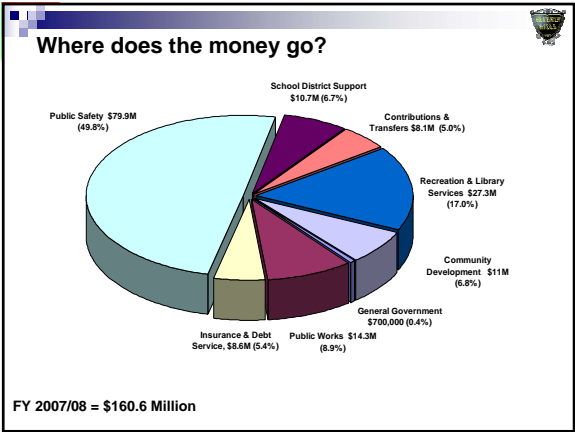
Residents – 21%
(\$33.2 Million)

Mostly property tax



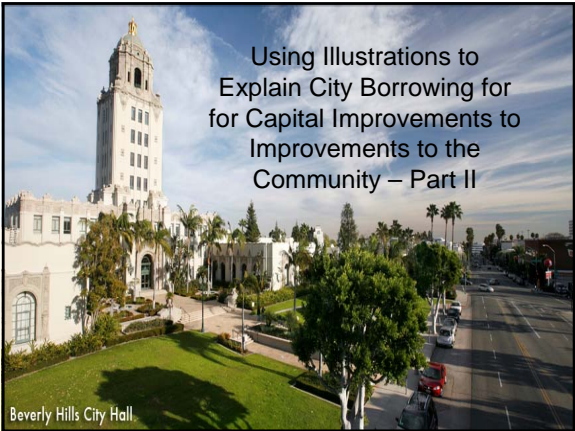
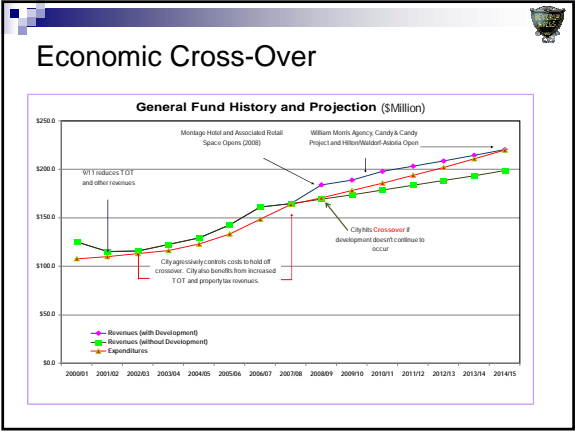
Businesses – 42% (\$64.7 Million)

Property and business tax paid by traditional businesses and property and leasing businesses

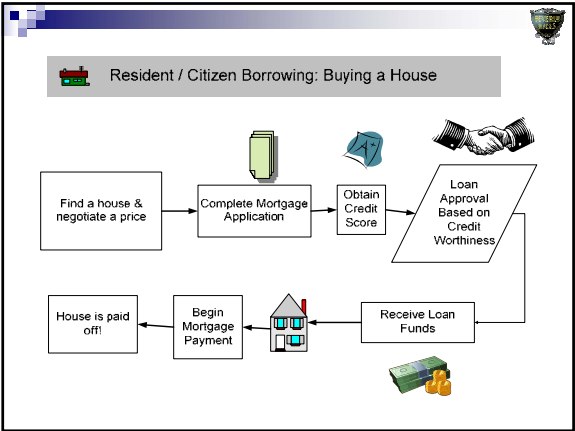


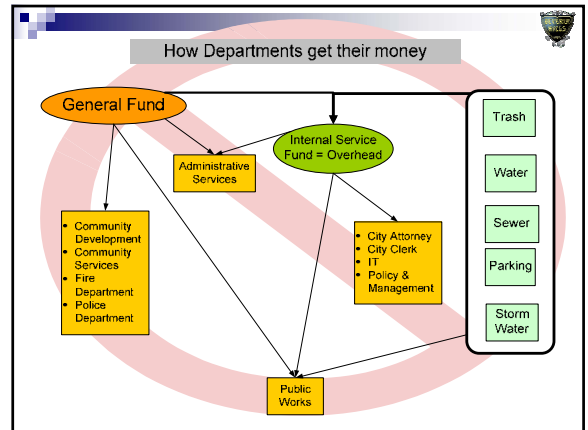
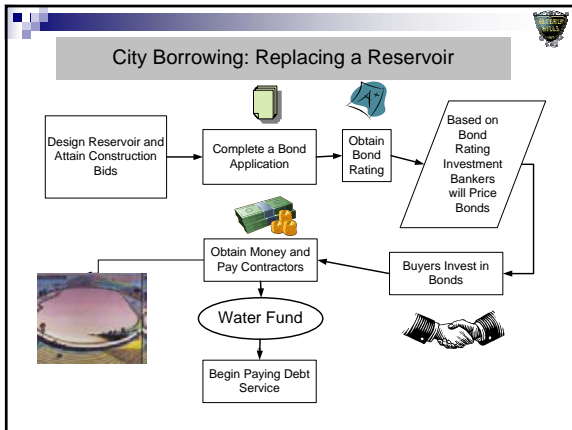
How did we get into this cross-over situation?

- 6.8% average annual revenue increase in the past 5 years
- 8.5% average annual increase in expenditures in the past 5 years
- Cost increases
 - Personnel costs increased an average of 8.3% annually over the past 5 years
 - Steel costs increased 190%+ in 5 years
 - Concrete prices increased 105% in 5 years
 - Gasoline prices increased



Using Illustrations to Explain City Borrowing for Capital Improvements to the Community – Part II





- ### Summary
- Know your audience
 - Know what you want to achieve
 - Start with macro view and move to micro micro view
 - Provide a brief history of your topic

- ### Summary (continued)
- Tell a story, ideally with graphs
 - Use common language
 - Synthesize the information for your audience audience
 - Don't get too fancy or go over the top
 - Give examples that relate to your audience's audience's experiences

- ### Resources
- ICMA & League of California Cities Conference Conference Seminars
 - Borrow Slides / Presentation Methods From From Other Agencies
 - Another Presentation on Presenting Financial Financial Information
www.iabc.com/conf2005/docs/James_Cole_M10_M10.ppt
 - GFOA / CSMFO Seminars on Presentations
 - Presentation Skills for Finance Professionals Professionals (May 20, 2008)

- ### Questions and Answers
- Go to web sites for recordings of this webinar and other professional development resources.
www.cal-icma.org/coaching
www.csmfo.org/coaching
 - Please complete the follow up survey.

Contacts for Today's Session

- **Fran David**, Assistant City Manager, Hayward, Fran.David@hayward-ca.gov
- **Darren Hernandez**, Administrative Services Director and Deputy City Manager, Santa Clarita, dhernandez@santa-clarita.com
- **Scott Miller**, Administrative Services Director & CFO, Beverly Hills, sgmiller@beverlyhills.org
- **Mark Curran**, Managing Director, Piper Jaffray, mark.a.curran@pjc.com
- **Don Maruska**, Director, Cal-ICMA and CSMFO Coaching Programs, don@donmaruska.com

"Mastering Finance in Local Government"

2:00 - 3:00 p.m. PT, Thursday, May 1, 2008

DIAL 646-519-5883 [callers' PIN 7592#] or new live audio via the web [powered by Granicus] at www.cal-icma.org/coaching or www.csmfo.org/coaching "Live Audio and Archives."

[Target audience: finance and non-finance managers]

Panelists:

- + Fran David, Asst. CM, Hayward
- + Darren Hernandez, Admin. Serv. Dir., Santa Clarita
- + Scott Miller, CFO, Beverly Hills
- + Mark Curran, Managing Dir., Piper Jaffray

Panel Discussion Questions:

1. What are the critical areas of financial expertise that every manager needs to know?
2. How can you learn these efficiently?
3. How can we better incorporate financial considerations into decision making?
4. What are effective ways to convey financial information to non-financial managers?

Post-Call Group Discussions

Many agencies are organizing groups to listen to the calls (live or recorded) and discuss the topics among themselves after the calls. Some are summarizing their discussions and distributing them to managers throughout their organizations. Use the Cal-ICMA Coaching Program as an effective way to enhance professional development in your agency. Here are some discussion starters for this session.

Follow Up Topics:

1. What big financial issues do we face in our agency?
2. What's the level of financial acumen among our managers?
3. How can we boost our level of expertise?

Panel Call Etiquette

- * Please put your phone on mute, except when you are asking a question or making a statement.
- * Do not put the call on hold, especially if you have music or a message that plays and will disrupt other callers.

* Kindly disable call waiting or other phone features that will interrupt your participation in (and others listening to) the call.

There is no charge to participate in the telephone panel discussion, but callers will bear the costs charged by their carriers to reach the conference number. Alternatively, you can listen via live audio on the web [powered by Granicus] at www.cal-icma.org/coaching or www.csmfo.org/coaching "Live Audio and Archives."

MORE RESOURCES--See the "Coaching Corner" at www.cal-icma.org/coaching or www.csmfo.org/coaching for valuable resources to boost your career.

Enjoy the resources and support to thrive in local government.

Don Maruska, Master Certified Coach
Director, Cal-ICMA and CSMFO Coaching Programs
See "Coaching Corner" at www.cal-icma.org/coaching and www.csmfo.org/coaching

Darren Hernandez

Director of Administrative Services and Deputy City Manager, Santa Clarita

Darren Hernández has been the Director of Administrative Services for the City of Santa Clarita since January 2004 and was named Deputy City Manager in July 2007. In this position he serves as the chief financial officer of the City of Santa Clarita and provides leadership to the Department of Administrative Services, which consists of the following divisions: City Clerk, Finance, Risk Administration, Special Districts, Technology Services, and Transit. Previously Darren has served as the Director of Finance of the City of La Habra, California; Village Manager of the Village of Walden, New York; Assistant to the City Manager of Kalamazoo, Michigan; and, Executive Assistant to the Controller of the State of New York. Darren studied political science as a undergraduate at the State University of New York at New Paltz and public administration, with a specialization in state and local government finance, as a graduate student at the Maxwell School at Syracuse University.

SCOTT G MILLER, PHD

CFO and Admin. Services Director, Beverly Hills

Dr. Scott Miller has over 27 years of experience in both the public and private sectors. He has worked for organizations in executive management capacities ranging from small \$500,000 organizations to well over \$4 billion dollar ones. In the public sector, Dr. Miller has worked in a management capacity for organizations which include: the City of Palm Desert, the City and County of San Francisco, City of San Clemente, University of California at Berkeley, the City of Mission Viejo, and the Santa Ana Watershed Project Authority Utility. In the private sector, Dr. Miller has worked as the Corporate Financial and Systems Controls Manager for Turner Broadcasting Systems, Inc and as a manager for the Accounting/Consulting firm of Deloitte/Touche and Senior Manager for the firm Ernst and Young.

His current position is with the City of Beverly Hills as the Chief Financial Officer and Administrative Services Director. Dr. Miller's responsibilities include accounting, purchasing, risk management, budgeting, real estate and property management, human resource, organizational development, business process analysis, treasury functions, bond and debt financing, contract negotiations, training, and employee relations.

Dr. Miller graduated from San Diego State University with his Bachelor's Degree in Psychology and Business Administration, a Master's Degree in Higher Education Administration from the University of Georgia, and has his Ph.D. in Public Administration from Arizona State University. Dr. Miller also holds a **C.F.E.** (Certified Fraud Examiner) license from the International Association of Certified Fraud Examiners.

Dr. Miller has received a number of awards and commendations for his work in technology, finance/administration, and economic development, from the State of California, the California State University System, the Municipal Management Assistants of Southern California, the Municipal Information Systems Association of California, the Government Finance Officers Association, two National University Associations and the national Innovations Group.

He is a current and past member of a number of professional and honorary organizations and has served or currently is serving on a number of national and state wide Boards and Committees. He also serves as a member of the Board of Advisors for the University of La Verne's College of Business and Public Management.

Dr. Miller has published a number of articles in various magazines and professional and academic journals including Western Cities, the Los Angeles

Times, City and County Magazine, C.A.N. Innovation Newsletter, the Journal of Student Housing, the Public Personnel and Administration Journal and the Journal of the Social Sciences. Dr. Miller has also had the honor of making presentations to state and federal legislators in Sacramento and Washington D.C. on Livable Communities, Redevelopment and Transportation Planning Principles, and on Local Government Financing and Budgeting.

Scott is a “Go Big Blue” Dodger fan, enjoys live theater and films, is an avid reader and is a native southern Californian. He is also very proud to be a member of the City of Beverly Hill’s team and to be a member of the Beverly Hills Rotary and special advisor to the Maple Counseling Center.

Mark Curran
Managing Director
Piper Jaffray Public Finance

Mark Curran has worked in the field of California Public Finance for three decades. He has structured all types of California local government financings, including City lease revenue, COP and General Obligation bonds, redevelopment tax increment financings and Community Facility District (CFD) financings. He has also helped California cities establish the first (and many subsequent) CFD municipal services funding programs. Mr Curran has overseen the issuance of well over \$5 billion of municipal bonds.

Mark Curran started his career in city management and moved to the private sector a week before the Proposition 13 election in 1978. He has continued to focus on helping public sector management with his 18-year tenure as the Treasurer of the California City Management Foundation. He is also very active in working with the California Redevelopment Association and teaches the two-day CRA financing class each year.

Bio Sketch of
Fran David
ICMA Credentialed Manager (since 2005)

WORK EXPERIENCE SUMMARY

- Employed with the City of Hayward – 145,000 population; approximately 900 FTE; \$300 million plus budget – Assistant City Manager: September 2006 to present
- Immediate previous employment with City Of Berkeley – 104,000 population; approximately 1,600 FTE; \$350 million plus budget – Director of Finance: 1996-2006
- Position in Oakland was working on the elected side of the house as Chief of Staff for the Vice Mayor – two years.
- Over 25 years in public service working for the cities of Berkeley, Oakland, Daly City, Pittsburg, and the County of San Mateo.
- Worked in private sector as consultant, business owner, trade association manager, retail buyer, and corporate Chief Operating Officer.
- Currently a 4th-term Presidential Appointment to the Revenue & Taxation Policy Committee of the League of California Cities. Was Vice-President of the League's Fiscal Officers Department, and State President of the Utility Users Tax Technical Task Force.
- Have worked with State and Federal legislators and with industry providers on developing (or not developing) legislation related to telecommunications regulation, Internet taxation, etc. Have experience working with State Department of Health Services in contract administration, billing, and cost recovery. Had regular interactions with FEMA on cost recovery issues related to past and on-going disaster recovery efforts.

AREAS OF INTEREST SNAPSHOT

- Customer service, particularly enabling the customer to manage his/her own accounts and transactions.
- Understandable and meaningful reporting on programmatic outcomes and financial operations to both internal and external customers.
- Public finance reform in California.

- Building strong neighborhoods and strong partnerships between a city and its neighborhoods; re-establishing trust between constituents and their municipal government.
- Growing and mentoring folks to get the best out of themselves and their organization; teaching.

CHRONOLOGICAL SUMMARY OF WORK SERVICE

- **Assistant City Manager:** City of Hayward, 9/2006 to present
- **Acting City Manager:** City of Hayward, 7/2007 to 10/2007
- **Finance Director:** City of Berkeley, 1996 to 2006
- **Chief of Staff:** Vice-Mayor of Oakland, 1994-96 *
- **Assistant to the City Manager:** City of Berkeley, 1993-96*
- **Various Private Sector Activities:** 1981-93
- **Assistant City Manager:** Daly City, 1979-81
- **County Deputy Agency Director:** (Employment, Training & Area Agency on Aging), San Mateo County, 1975-79
- **CETA Program Manager:** City of Pittsburg, 1971-75
- **Peace Corps Volunteer:** U.S. Government (Barranquilla, Colombia)

(* These positions were either part-time, on contract, or held simultaneously with a shared 65+ hours per week.)

EDUCATION

- **Certificate** from the Berkeley Executive Seminar (BES), Berkeley CA 2007
(An intensive, professional development program sponsored by UC Berkeley – Goldman School of Public Policy and ICMA)
- **Credential**, ICMA Credentialed Manager starting 2005 and current 2005-2008
- **MBA** in Management, Golden Gate University, San Francisco, CA. 1988
- **B.S.** in Ecology/Urban Geography, CSU Hayward (CSU East Bay), Hayward, CA. 1971
- Completed the 40-hour “Earthquake” course for California State Emergency Response Disaster Management (San Luis Obispo State facility) 2000

RELEVANT MEMBERSHIPS

- International City/County Management Association (ICMA) – Credentialed Manager since 2005
- Association for Corporate Growth (ACG) – Member
- Returned Peace Corps Volunteers
- League of CA Cities Revenue & Taxation Policy Committee – Member (4th term)
- League of CA Cities Fiscal Officers Department, Utility Users Technical Task Force, various committees – past member, Board Officer, and State President