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, Piper Jaffray
- **Presenting financial information** – Scott Miller, Admin. Serv. Dir. & CFO, Beverly Hills

...and polls and questions along the way.

**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 “it’s 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

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

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

The Sources of Cash

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

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 Manager
  - 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

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...
**Cash Mechanisms (cont’)**

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

**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

**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

**The Silent Killer**

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

**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
EVERYTHING STARTS WITH THE BUDGET

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

BE INVOLVED

Be actively involved with budget development and management. Don’t simply “outsource” this to the Finance Department.

BECOME A BUDGET EXPERT

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

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.

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.

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.
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!

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.

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.”

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.

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…

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 (Pension Obligations, OPEB, annual cashflow smoothing)
- Affordable Housing Projects
- Transportation Improvements
- Redevelopment Projects

Basic Bond Structure

- Project
- Issuer
- Underwriter
- Investors
- Consultants
- Legal Team

Lease Obligation Flow Chart

- Project
- PFA Issuer
- Legal Team
- Underwriter
- Investors
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 Financing 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 Facility 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

Issuer

City Council & Staff

Bond Underwriter

Trustee

Investors

Feasibility Consultants

Legal Team

Bond, Disclosure & Issuer Counsel

Financial Advisor
**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

**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

**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 06/07 – FY 07/08 (up 7.1% 1st Q ’06 – 1st Q ’07)
- Transient occupancy averages 78% to 84% and average daily room rate rate increased 18.7% (2-07)
- BH continues to maintain top position in office leasing
- Our biggest problem is lack of large blocks of contiguous office square footage and hotel space

**Effective Presenting Financial Data to Non-Financial Managers – Part I**

**Who Contributes What General Fund Revenues?**

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumers</td>
<td>37%</td>
<td>$57.8 million</td>
</tr>
<tr>
<td>Residents</td>
<td>21%</td>
<td>$33.2 million</td>
</tr>
<tr>
<td>Businesses</td>
<td>42%</td>
<td>$64.7 million</td>
</tr>
</tbody>
</table>

**Consumers**
- ($57.8 Million)
- Sales and hotel taxes paid by residents and visitors

**Residents**
- ($33.2 Million)
- Mostly property tax

**Businesses**
- ($64.7 Million)
- Property and business tax paid by traditional businesses and property and leasing businesses
Where does the money go?

- Community Development: $11M (6.8%)
- Recreation & Library Services: $27.3M (17.0%)
- School District Support: $10.7M (6.7%)
- Insurance & Debt Service: $8.6M (5.4%)
- Contributions & Transfers: $8.1M (5.0%)
- General Government: $700,000 (0.4%)

FY 2007/08 = $160.6 Million

General Fund History
($ Millions)

Possible Cross-Over

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

Economic Cross-Over

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

Resident / Citizen Borrowing: Buying a House

- Find a house & negotiate a price
- Complete Mortgage Application
- Obtain Credit Score
- Loan Approval Based on Credit Worthiness
- House is paid off
- Begin Mortgage Payment
- Reserve Loan Funds
City Borrowing: Replacing a Reservoir

How Departments get their money

Summary

- Know your audience
- Know what you want to achieve
- Start with macro view and move to 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 experiences

Resources

- ICMA & League of California Cities Conference Conference Seminars
- Borrow Slides / Presentation Methods From From Other Agencies
- GFOA / CSMFO Seminars on Presentations Presentations 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.
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