The Role of the Public Sector CFO

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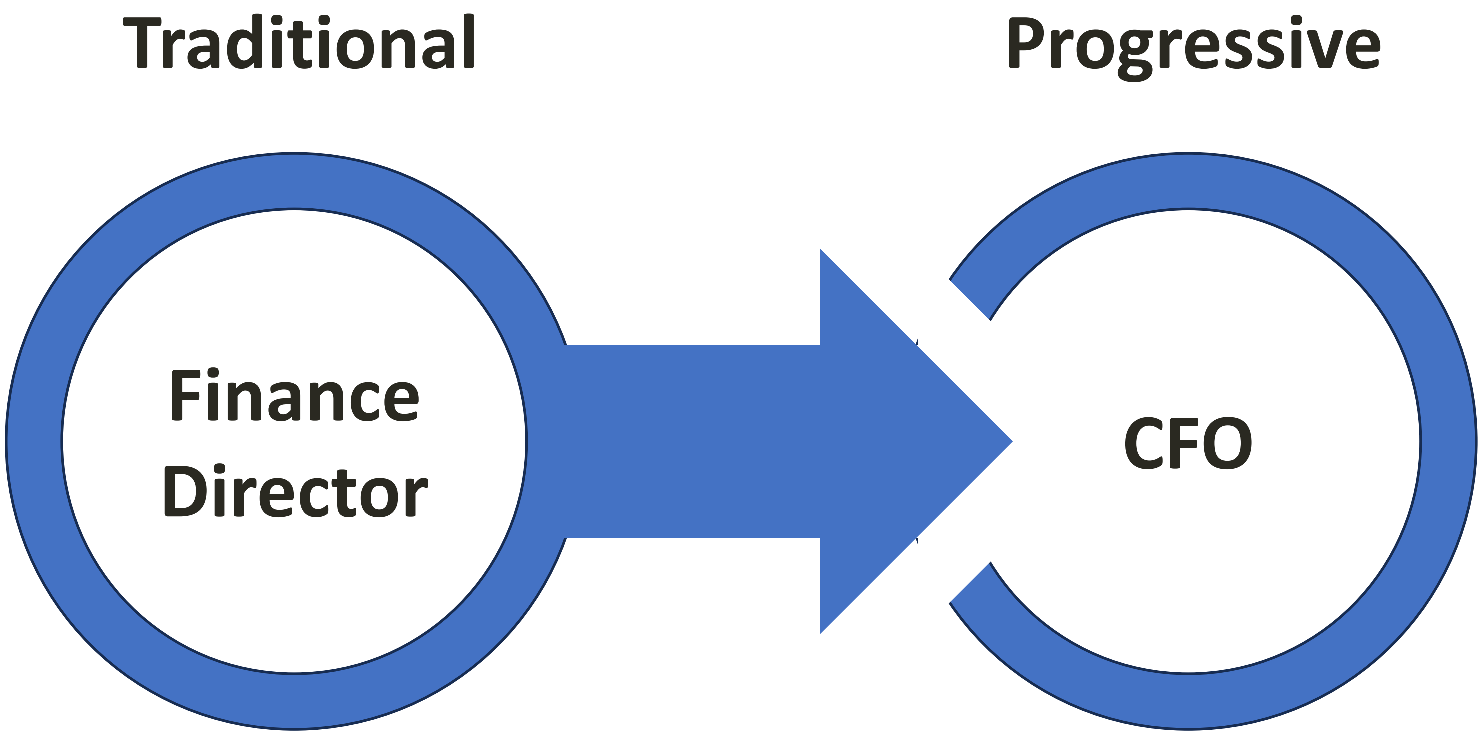
Why the Public Sector Needs a CFO

What’s Next?

Outline

- Why the Public Sector Needs a CFO
- Problem Solver – Creative & Strategic Thinking
- Identifying Talent
- Making Decisions in Policy Context – Understanding Your Community's Values
- Financial Strategies
- Economic Development & Finance New BFFs
- Converting Data into Management Information
- Prior Pension & OPEB Costs Straddle Future CMs with Debt
- Public Private Partnerships (P3s)
- The Critical Role of Soft Skills

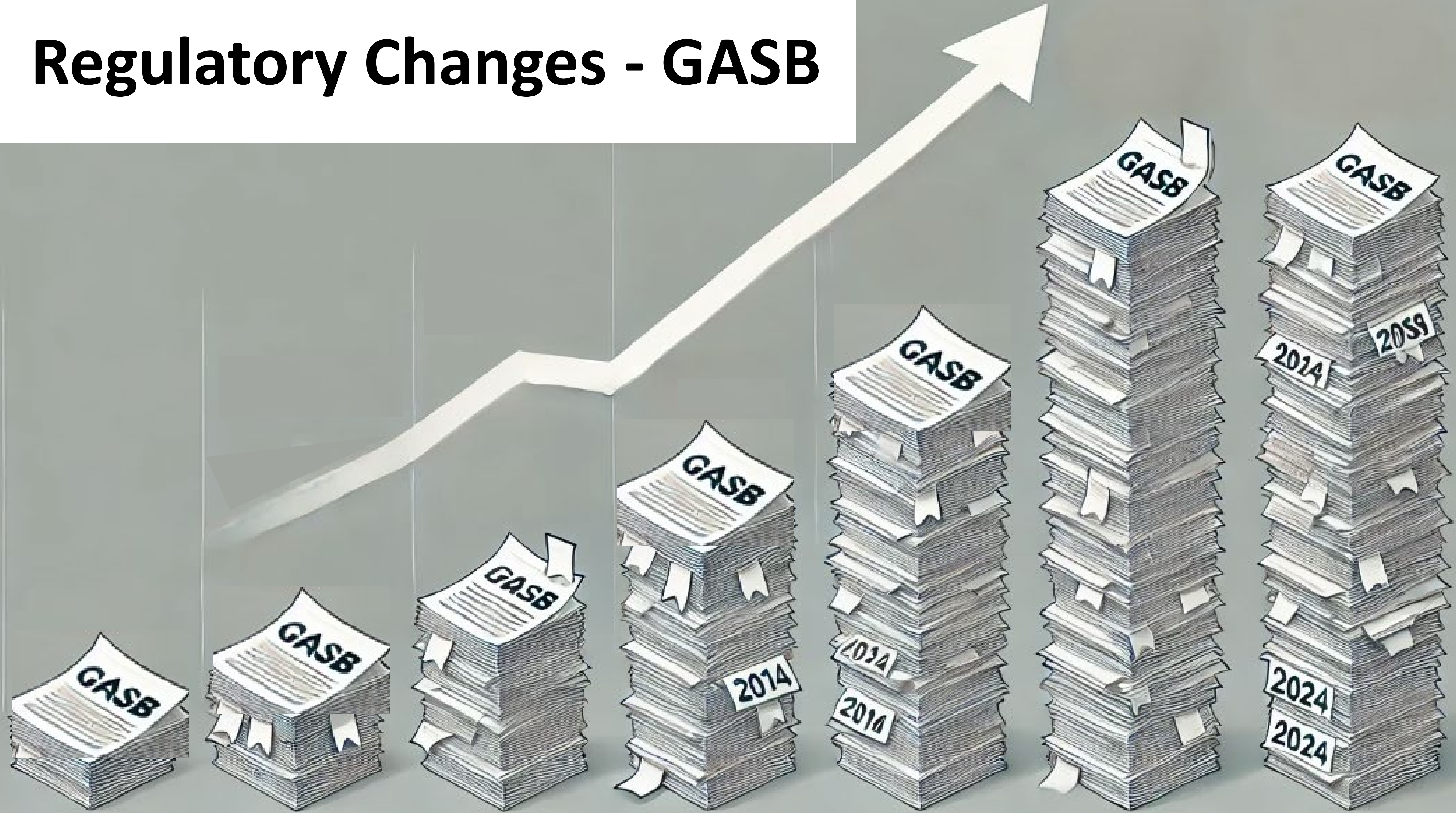
Transformation of Public Finance



WHY?

- Need for Collaboration
- Technology Advancement
- Economic Volatility and Uncertainty
- Demands for Transparency and Accountability
- Complex Revenue Streams
- Strain on Resources
- Emphasis on Performance Measures
- Regulatory Changes

Regulatory Changes - GASB



2004 2014 2024

Transformation of Public Finance

Progressive

CFO

ADDITIONAL AREAS OF FOCUS

- **Diversification of revenue streams**
- Embrace digital transformation
- Focus on sustainability & resilience
- Enhance transparency
- Adapting to regulatory change
- Risk Management
- Collaboration
- Workforce development & skill enhancement
- Economic Development
- CIP

Characteristics of High Performing Public Sector CFO

Characteristics of High Performing CFO

- Solutions Oriented
- Customer Service Focused (Internal and External)
- Economist over Accountant
- Excellent Communicator – Translate Complex Ideas Simply

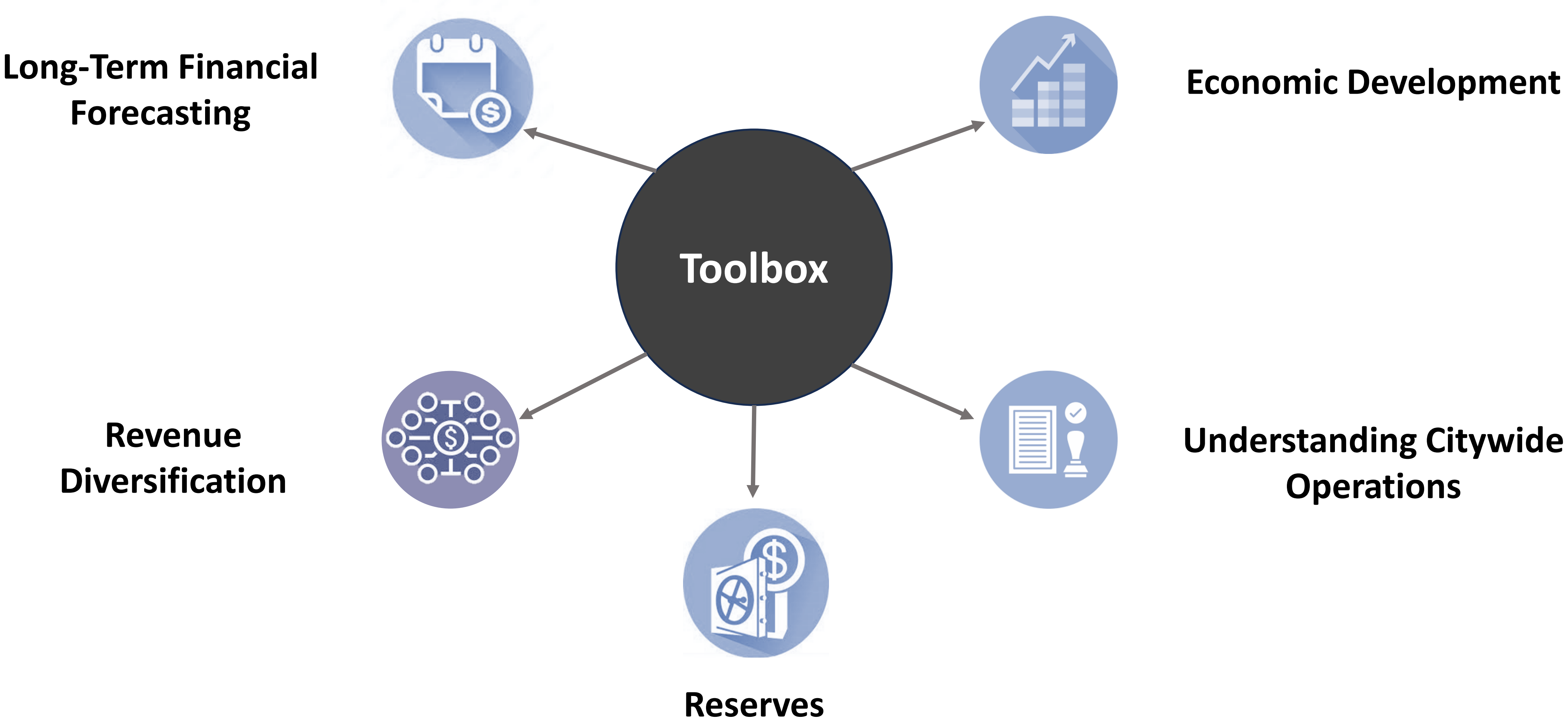
Identifying Talent

Hiring a New Finance Director

- Broad Knowledge Base – Special Financing to Trial Balance
- Experience Matters
- Soft Skills
  - Anticipate Reactions or Issues
  - Reading the Room / Understanding Policy Context
  - Reading in Between the Lines
- Strategic Thinker – Understand Policy Intent over Rigid Rules
- Push Through “Analysis Paralysis”
- Must be comfortable making a decision and moving forward with incomplete information

Financial Strategies

Financial Strategies Toolbox

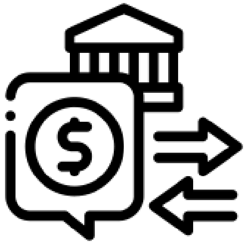


Revenue Impacts In Recent Years

E-Commerce

Pandemic

Housing Market Fluctuations



Government Policies and Fiscal Interventions

Climate Change & Natural Disasters

Transportation & Infrastructure Changes

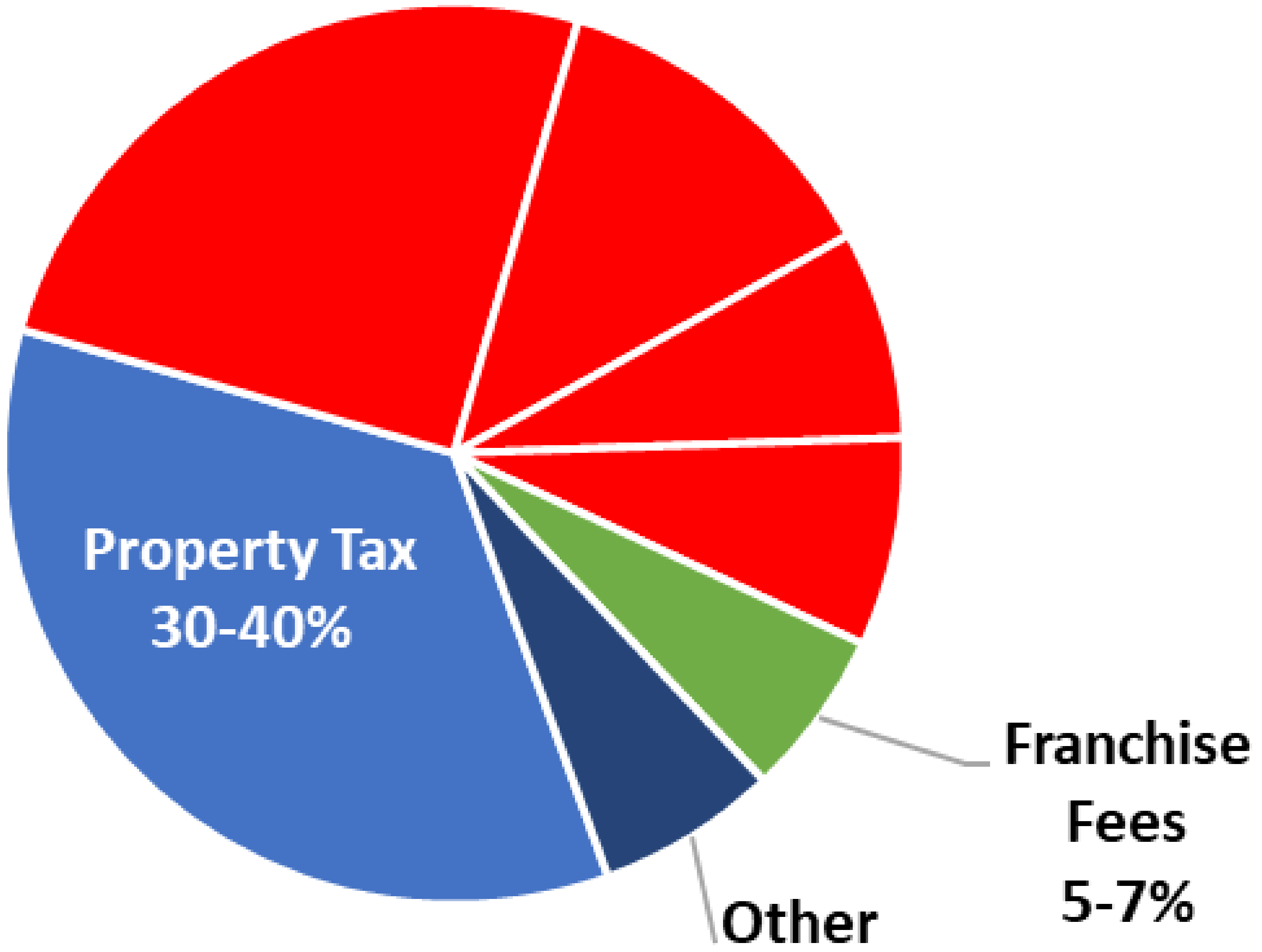
Revenue Diversification

Local Revenue Measures November 2024

	Total	Pass	Passing%
City General Tax (Majority Vote)	141	123	87%
County General Tax (Majority Vote)	9	7	78%
City Initiative Special Tax -MajorityVote*	11	5	45%
County Init. Special Tax -Majority Vote*	5	5	100%
City SpecialTax or G.O.bond (2/3 Vote)	28	17	61%
County Spec.Tax, G.O.bond (2/3 Vote)	8	3	38%
SpecDistrict Tax, G.O.bond (2/3 Vote)	44	23	52%
School ParcelTax (2/3 vote)	26	24	92%
School Bond 2/3 vote	1	1	100%
School Bond 55% vote	266	180	68%
Total	539	388	72%

Why Revenue Diversification?

Immediate Economic Response

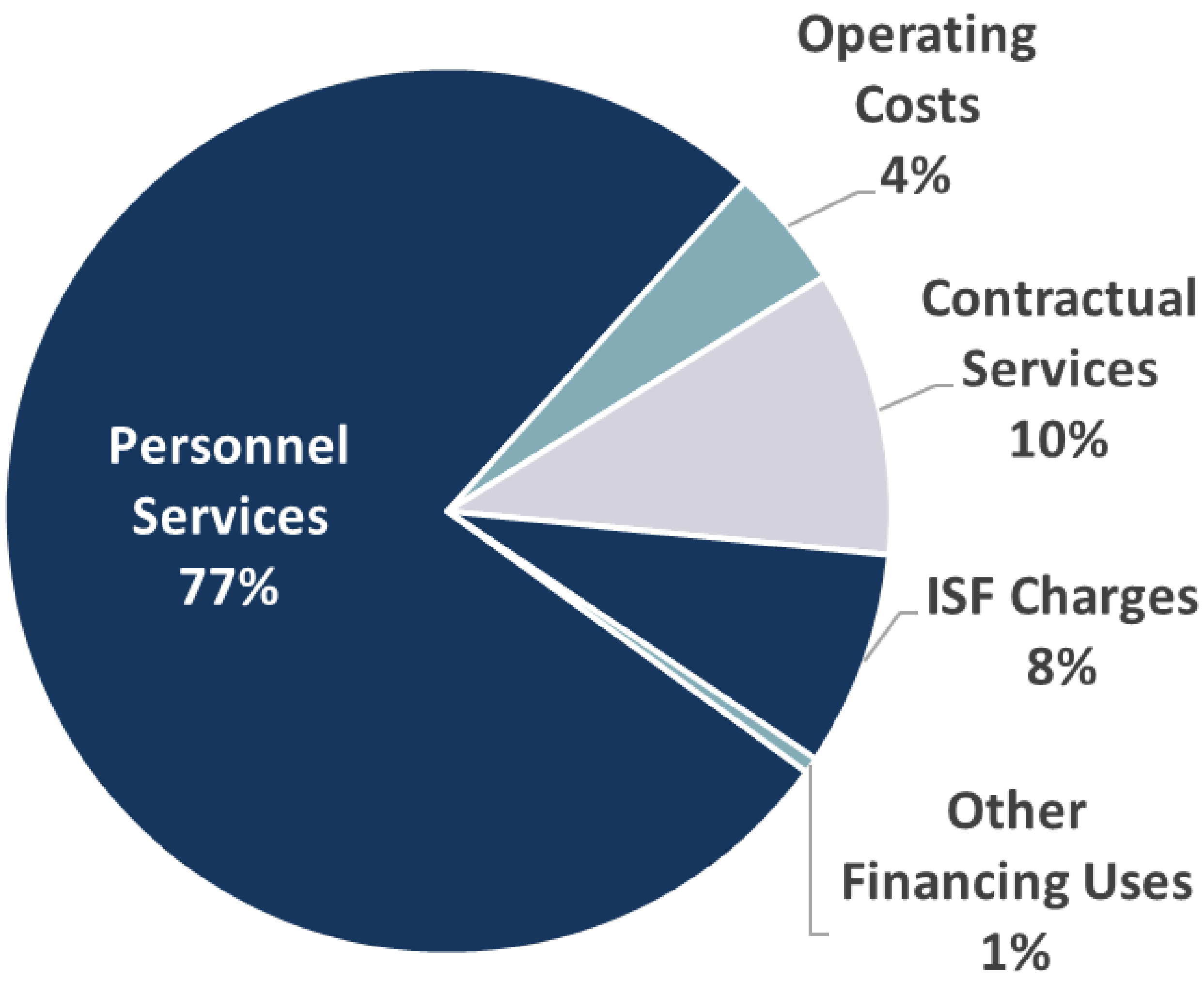


Understanding Citywide Operations & Needs

WHY?

- Informed Budgeting and Resource Allocation
- Aligning Financial Decisions with Strategic Goals
- Identifying Cost-Saving & New/Enhanced Revenue Opportunities
- Enhancing Collaboration Across Departments
- Risk Management and Contingency Planning
- Transparency and Accountability
- Supporting Labor Negotiations

Understanding Citywide Operations



Labor Negotiations

Key Objectives:

- Financial Advisor Analyst
- Strategic Planner
- Negotiation Support
- Compliance Officer
- Mediator Between Stakeholders
- Risk Manager
- Advocate for Sustainability
- Communicator of ALL Things Financial!

Long-Term Impact of Raises / Pensions

Unfunded Accrued Liability

As of July 1	10/6/6%	2.5/2.5/2.5%
2022	$209.330M	$209.330M
2023	$208.988M	$208.988M
2024	$219.452M	$205.017M
2025	$222.126M	$199.569M
2026	**$224.253M**	$192.748M
Change in UAL from Base Year	**$15.265M**	**($16.240M)**

Long-Term Financial Planning

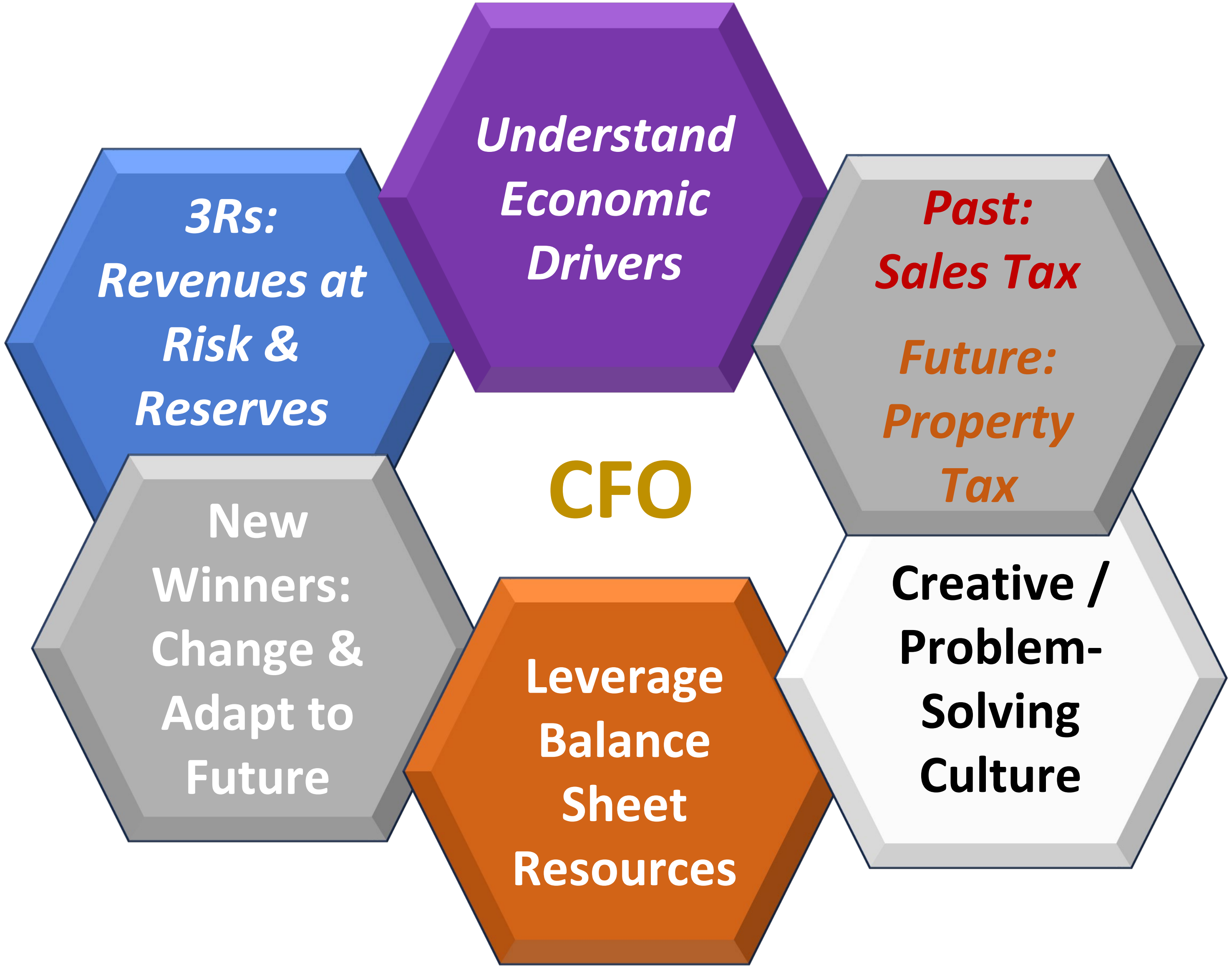
Why?

- Understanding the impacts of today's decisions on tomorrow
- Managing Fiscal Risks
- Communicating with Stakeholders

Economic Development & Finance – New BFFs

Public Finance Axioms

Financial Goals Align with Economic Development Objectives



Integrated Approach: Remove Departmental Silos

Creative Solutions & Thinking Outside the Box

"Never, ever, think outside the box."

Old Rules of Economic Development

1978 - Proposition 13 limits ability to raise municipal revenues (taxes) **without voter approval**

All cities were chasing Sales Tax …

Efforts (and redevelopment dollars) focus on attracting:

- Car dealers
- Big box retail / shopping centers
- Multi-plex theatres & fast casual dining

BLOCKBUSTER

kmart

circuit city

Pier 1 imports

American Apparel

“West Coast Offense” – Innovation & Speed

Economic Development Promotes Economic Resiliency

Must be ahead or keep up with competitors or opportunities will pass you by

Runs the Play CD

PW FIRE CFO REC PD Clerk

CFO: Orchestrates the Play

CD: Runs the Play

City Council "Coach" Calls the Plays or Provide Policy Direction

CM: Leader

Integrated Approach: Remove Departmental Silos

CD: Runs the Play

Focus on Budget is the Old Playbook

New Vocabulary of Innovation

Surban

Telecommuting

Retail Reimagining

BOPIS & Pickup

Frictionless Retail

Driverless Delivery

Ghost Kitchens

Re-dustrial

15-Minute City

LIVE

- Nearby integrated amenities, jobs, services, open space, education, entertainment

WORK

- Telework & hybrid offices
- Move for better amenities and/or lower cost of living
- *Employee commitment is to lifestyle, <u>not</u> to a job*

PLAY

- Consumer want (special) experiences
- Convenient & rapid delivery

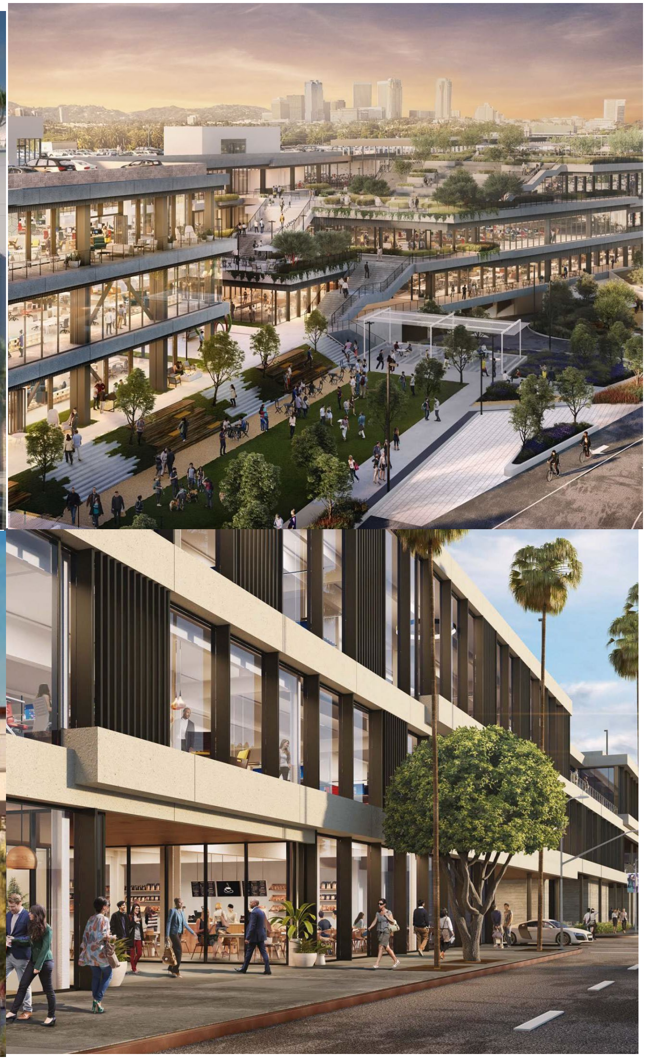
Retail Reimagining – About Creating Experience

Americana at Brand: Glendale

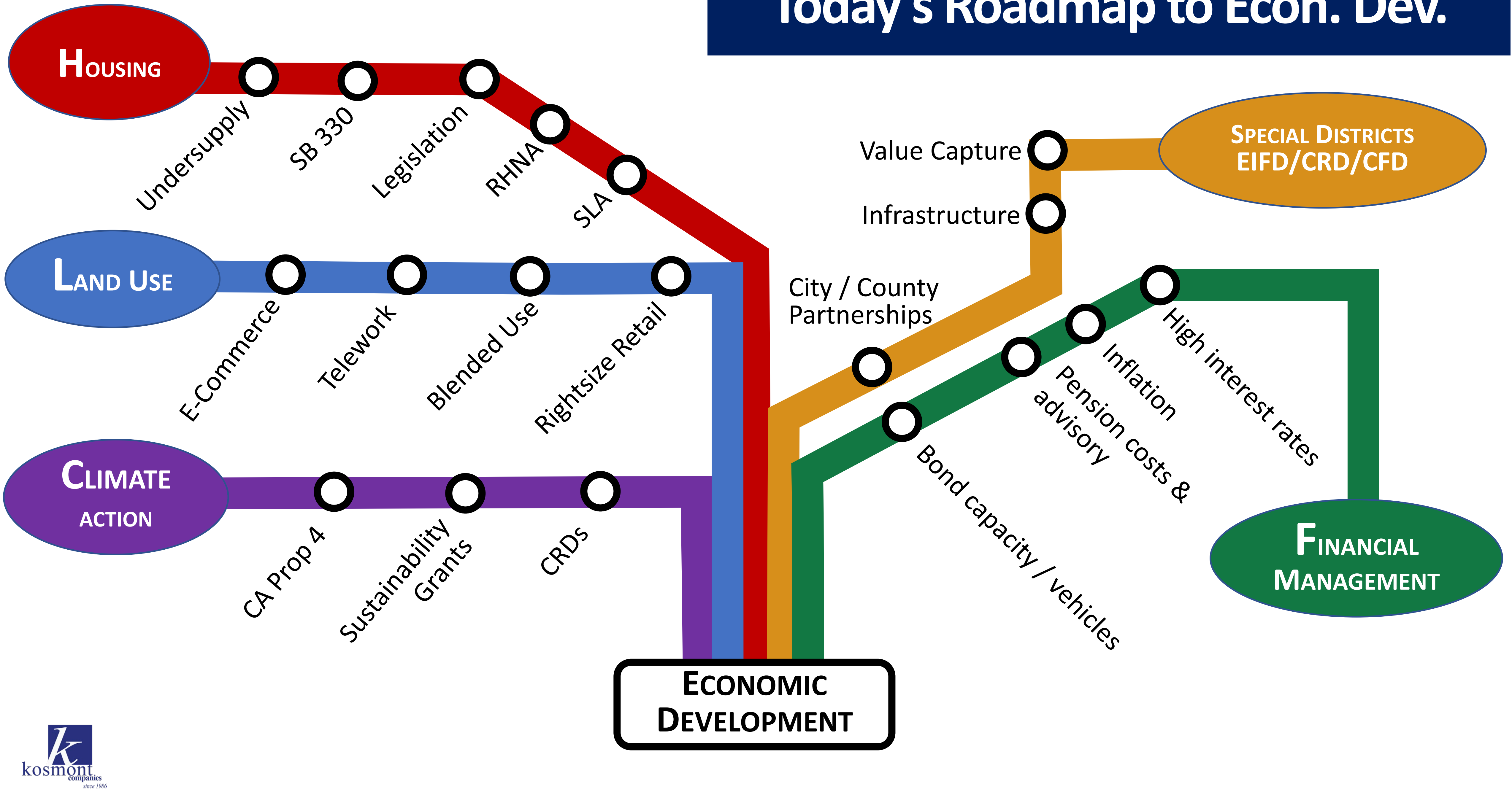
Arsenal Yards: Boston

Bella Terra: Huntington Beach

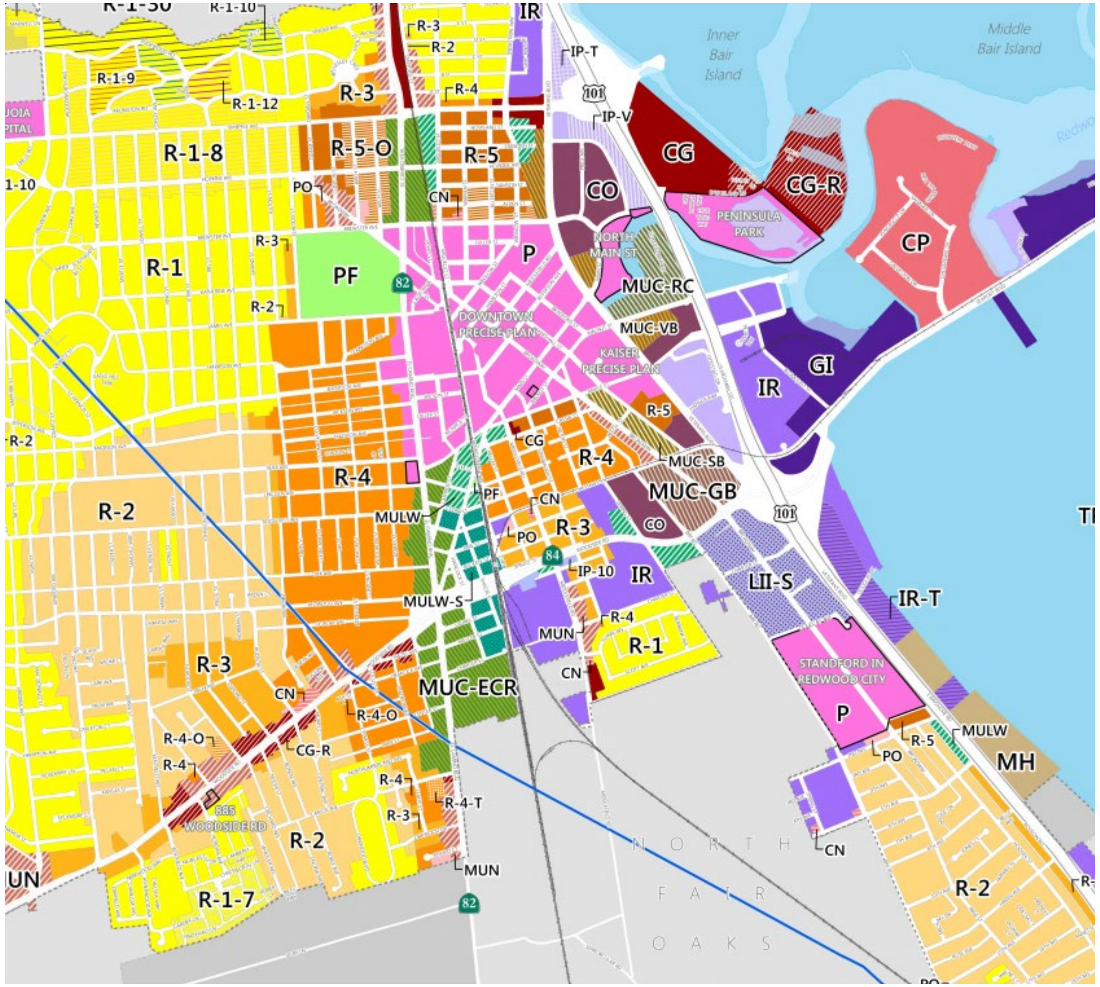
Google Westside Pavilion



Today's Roadmap to Econ. Dev.



Zoning & Density are Currency



Avoid assigning specific density to landowner unlikely to implement housing. Diminishes RHNA compliance effort.

Zoning & Density are currency
Don't give it away…

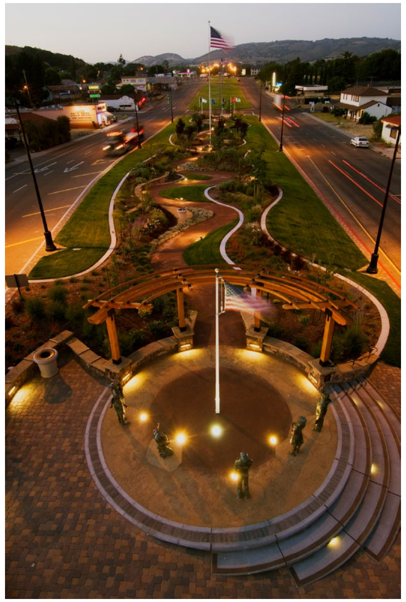
- Specific Plan (developed by "planners") – effectively gives away value of Zoning & Density to passive property owners.
- Land use changes & entitlements should be tied to projects that deliver **community benefits and/or public amenities or pay fees.**

- Integrate Value Capture Zoning™ to trade additional density for community amenities and benefits while achieving Housing Element / RHNA compliance.
- Avoid assigning specific density to landowner unlikely to implement housing. Diminishes RHNA compliance effort.

Value Capture Zoning

Development Opportunity Reserve - DOR® Bank
Trades zoning incentives (*density, building heights, parking, setbacks, fees, etc.*) to projects that deliver community amenities, infrastructure, or other benefits.

The City of Buellton Avenue of the Flags Specific Plan to encourage development in the downtown area and create a vibrant main street.



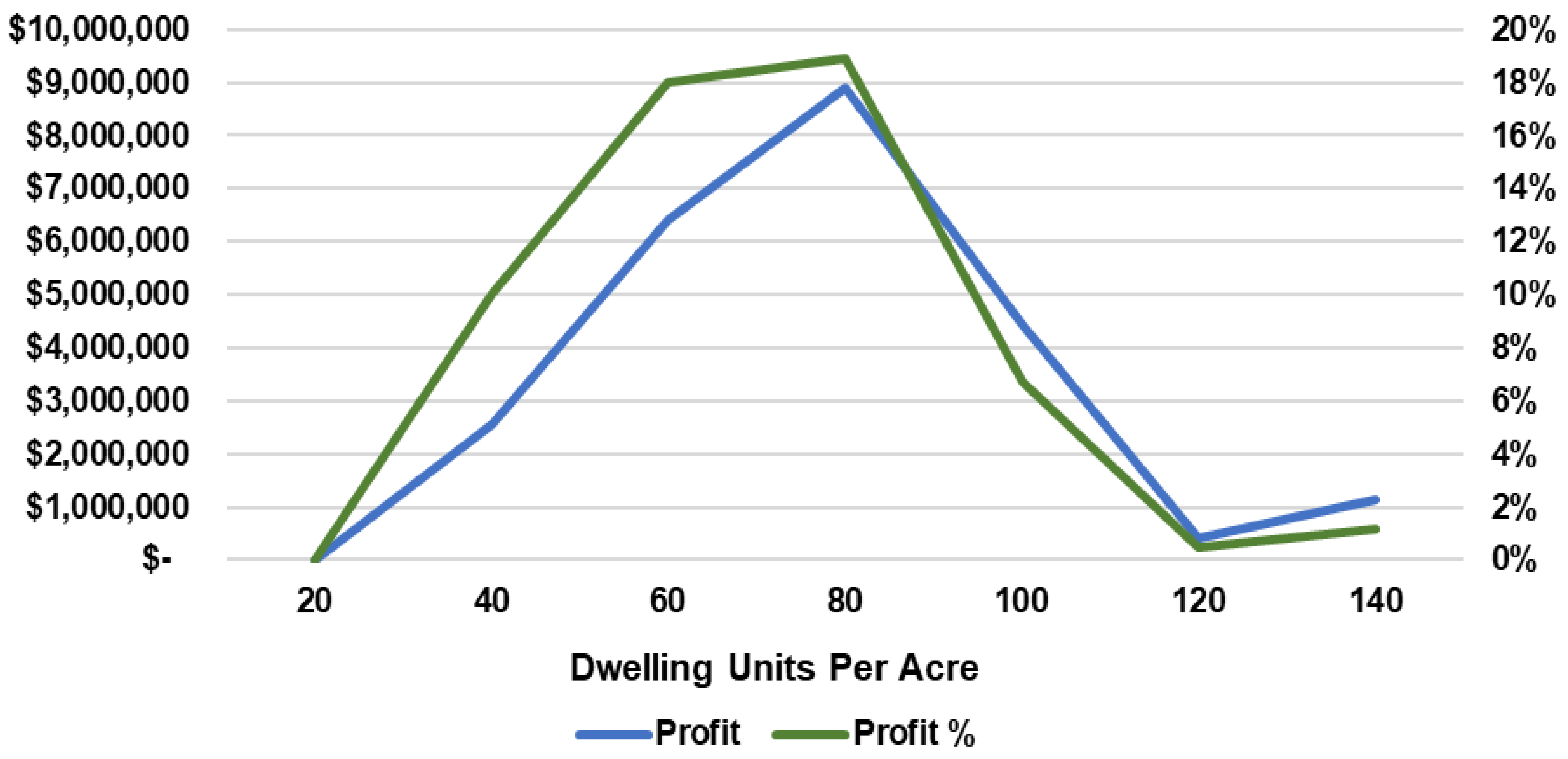
Value Capture Zoning™ Strategy: Hermosa Beach

- City recovers & reinvests land value increases via new approved residential zoning for redevelopment in the City's commercial districts.
- Market-rate housing developments will be required to pay **$76 - 104 per square foot to a Hermosa Beach fund** that aims to support development of affordable housing.

The following communities have implemented or are considering Value Capture Zoning™ / DOR®:

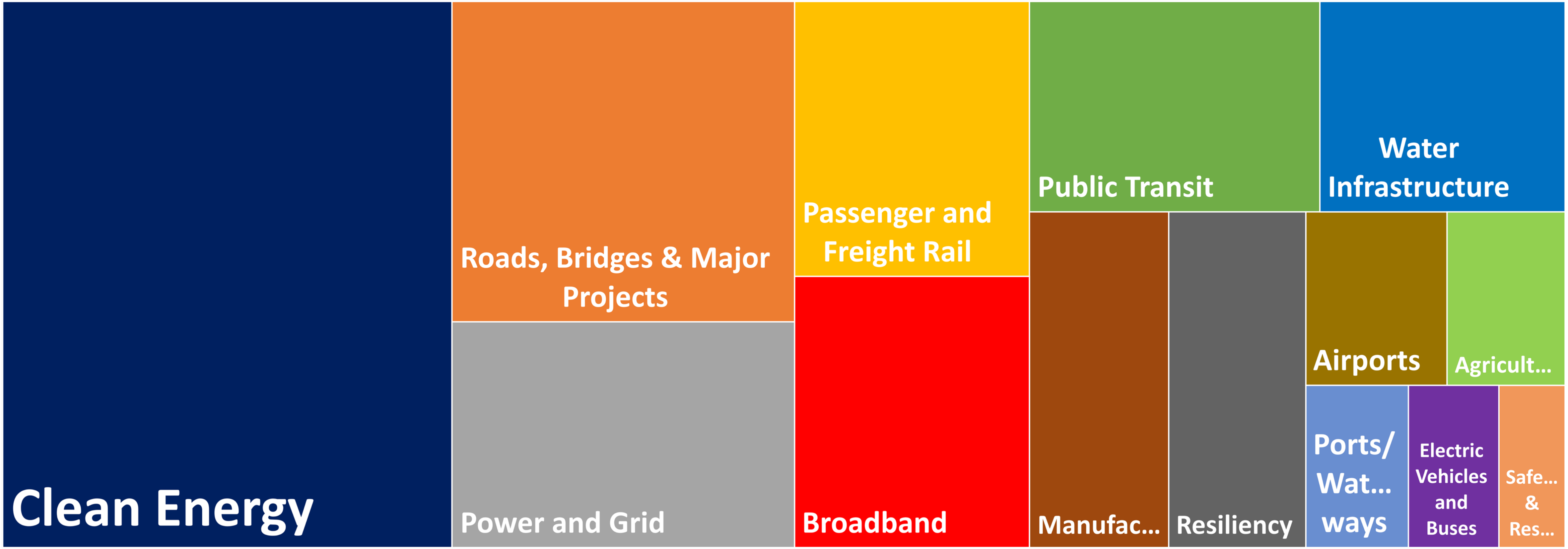
- El Monte
- Temecula
- Palmdale
- Buellton
- Placentia
- Burbank
- Seaside
- Jurupa Valley
- Scotts Valley
- Hermosa Beach

Practical Limits to Density



Above 4 stories – requirement for subterranean parking and/or a more expensive construction type required by height.

Tailor Your Efforts Around Available Funding

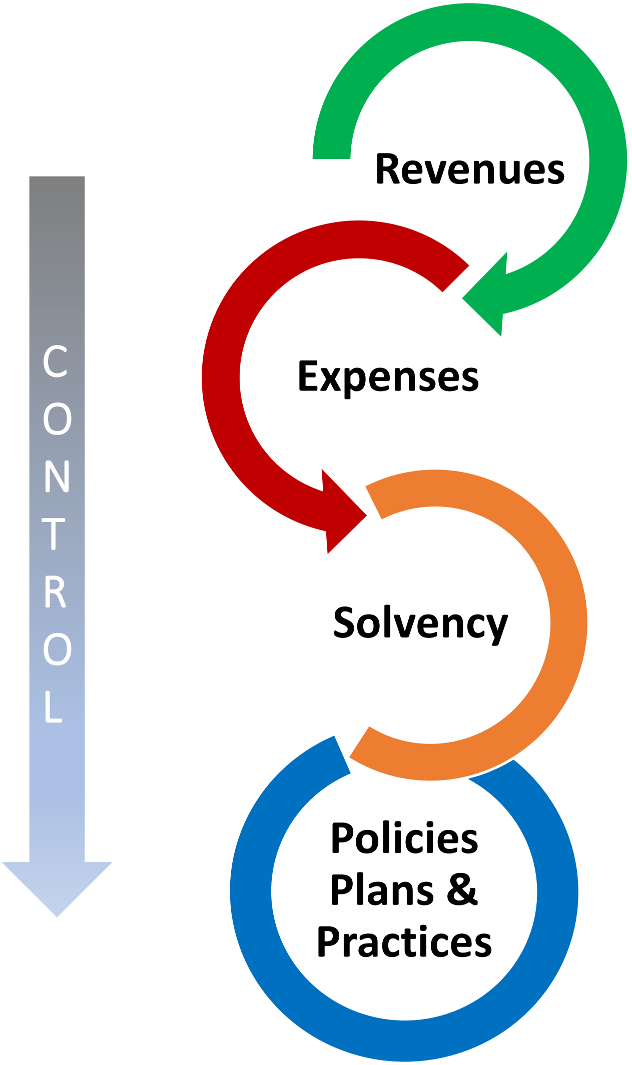


$1.6 trillion over the next five (5) years

Converting Data into Management Information

Your Role in No Longer as Accountant

Financial Scorecard



100 Points

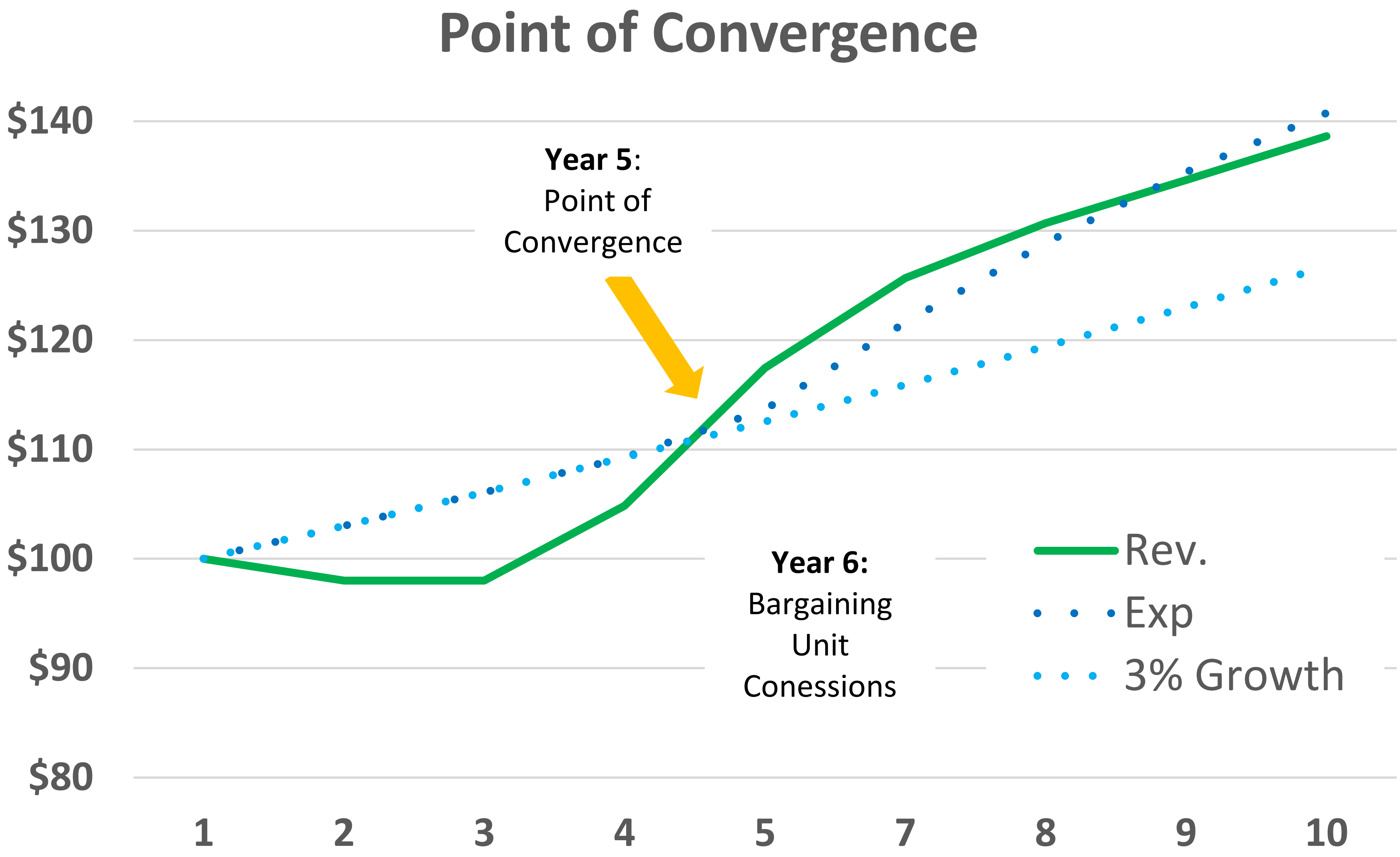
1. **Revenues - 20**
2. **Expenses - 30**
3. **Solvency - 35**
4. **Polices Plans & Practices - 15**

4 Areas / 4 Levels 42 subcategories:

- GFOA
- Fitch/Moody's/ S&P
- Brookings Institute
- Pew Charitable Trust
- LAEDC
- ICMA
- League of Cities
- Kosmont

	CONCERN	IMPROVE	STABLE	STRENGTH			
REVENUES							
Revenue Diversity					4.5	6.0	Strength
Revenue Volatility					3.5	8.0	Stable
Self-Funding Charges					1.5	2.0	Stable
Transfers & Subsidies					3.8	4.0	Strength
Stable	**6 & Under**	**6 - 11**	**11 - 16**	**16-18**	**13.3**	**20.0**	
				Additional Points	*3.0*	-	
EXPENSES							
Staffing Patterns					7.3	8.0	Stable
Retirement Costs					3.3	8.0	Improve
Long-Term Debt					5.8	8.0	Stable
Capital Needs					1.8	6.0	Improve
Stable	**8 & Under**	**8 -16**	**16-24**	**24-32**	**18.0**	**30.0**	
				Additional Points	*5.5*	-	
SOLVENCY							
Liquidity					10.5	10.0	Strength
Reserves					7.5	10.0	Stable
Operating Budget					8.3	10.0	Stable
Liability Management					3.0	5.0	Improve
Stable	**10 & Under**	**10 -20**	**20-30**	**30-40**	**29.3**	**35.0**	
				Additional Points	*1.0*	-	
POLICIES & PRACTICES							
Financial Policies					1.2	4.0	Improve
Financial Plans					1.5	4.0	Improve
Financial Practices					1.5	7.0	Stable
Improve	**4 & Under**	**4-6**	**6-8**	**8-10**	**4.2**	**15.0**	
				Additional Points	-		
BASELINE	**28**	**28-53**	**54-80**	**80-100**	**64.7**	**100.0**	**Stable**
				Additional Points	*9.5*		
ADJUSTED	**28**	**28-53**	**54-80**	**80-100**	**74.2**	**100.0**	**Stable**

The Point of Convergence

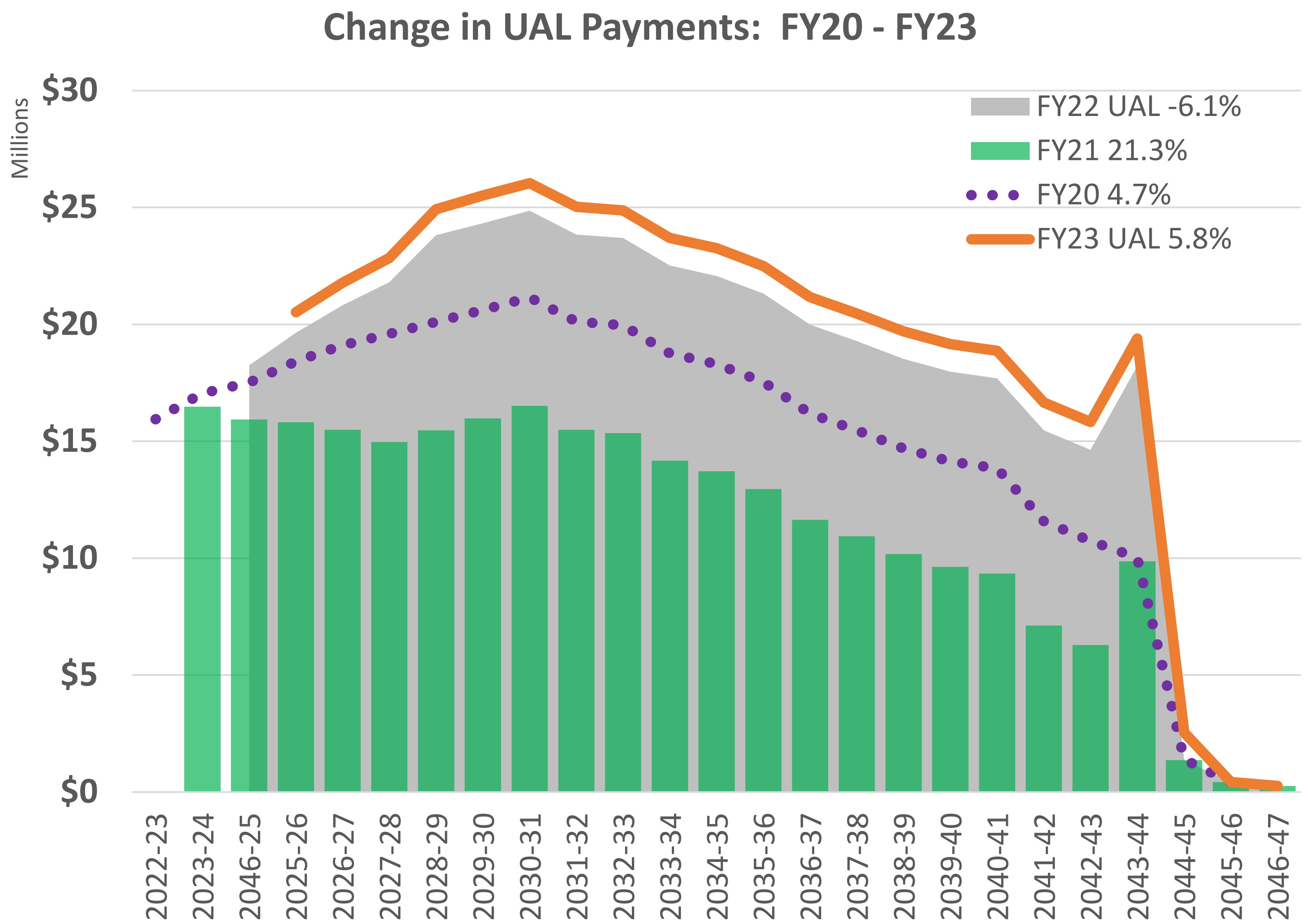


Keep Your Eye on the Cash Register

"I don't get it. We had all those meetings."

Prior Pension & OPEB Costs straddle Future with Debt

Return of the “Peak”

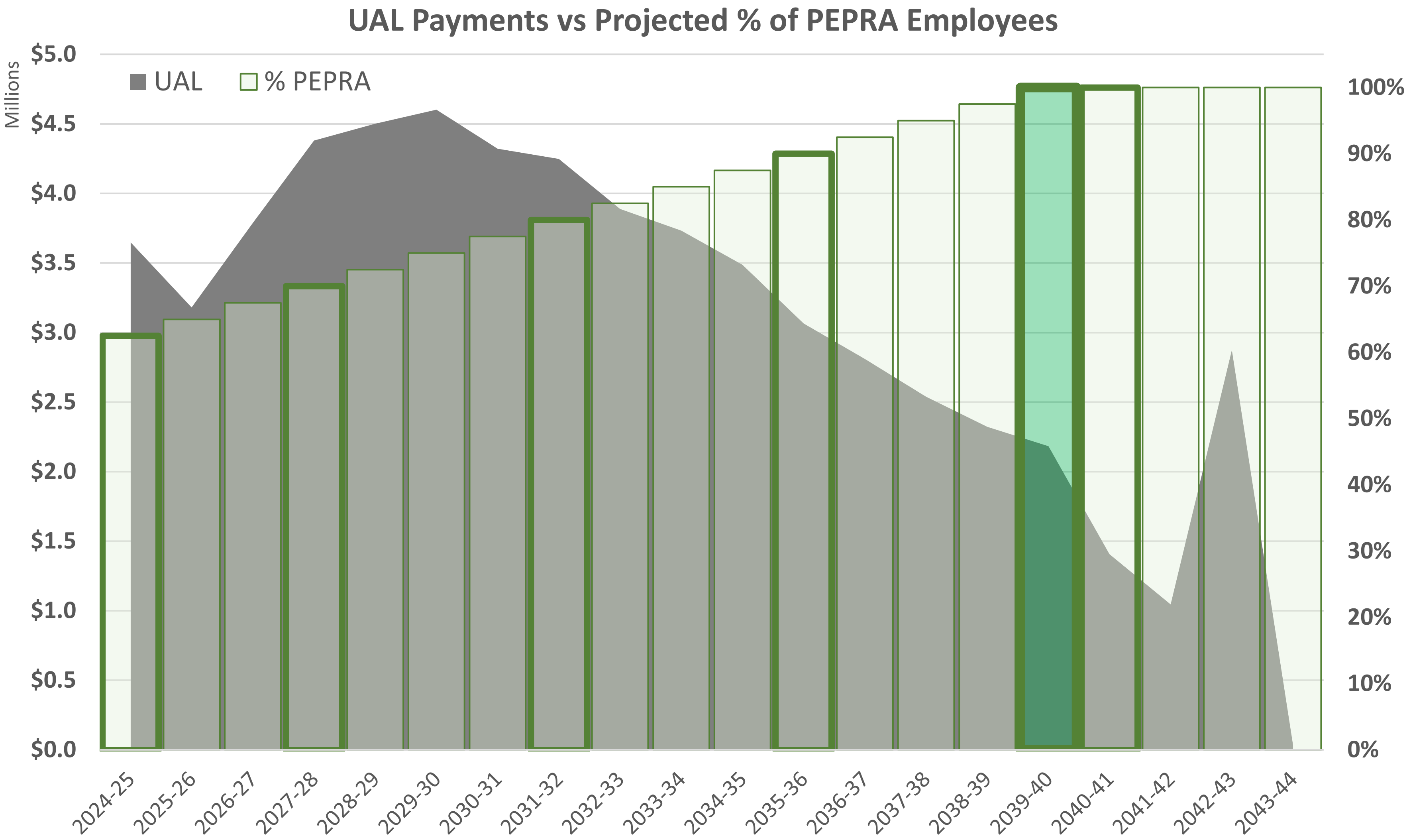


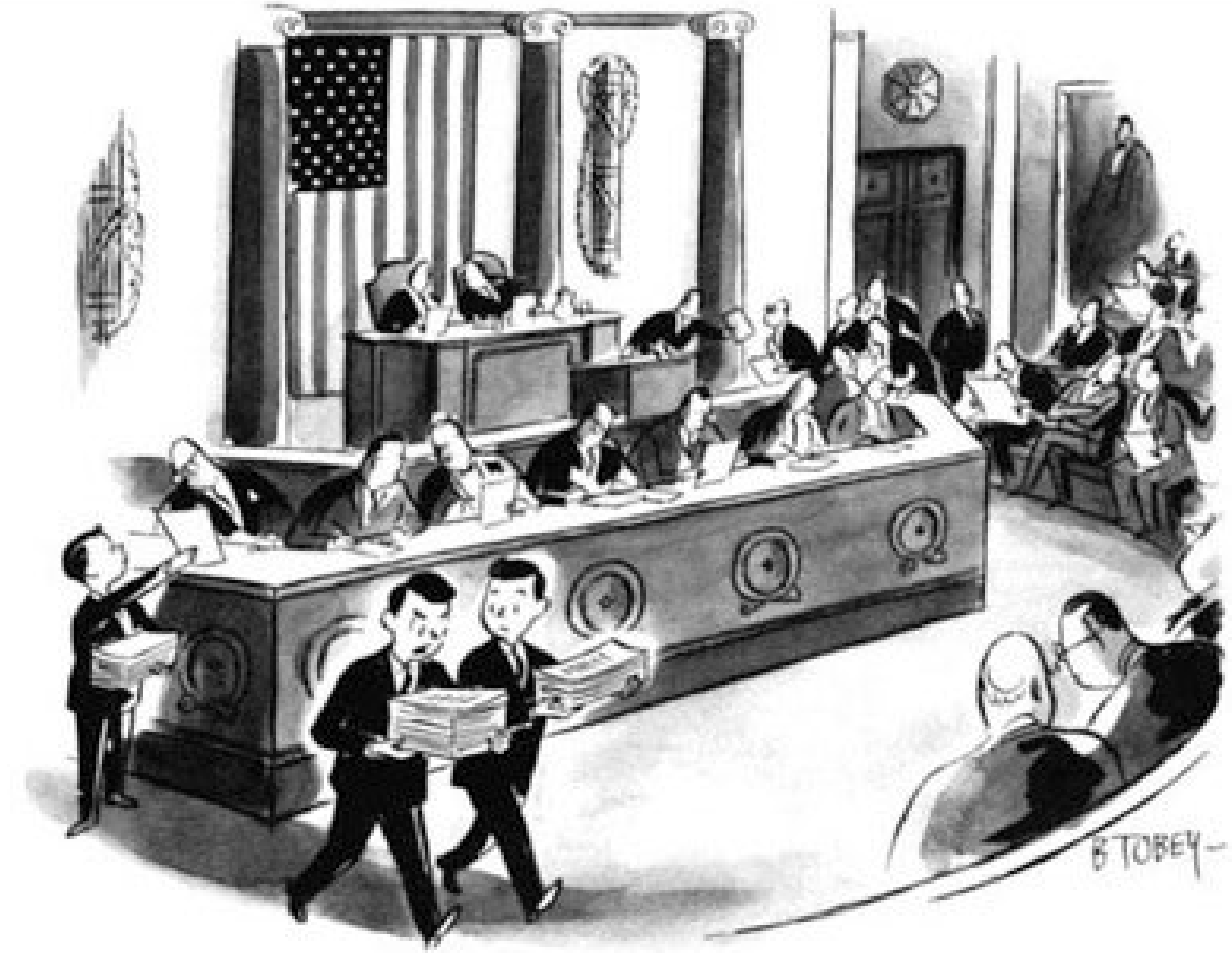
		FY20 4.7%	FY21 21.3%	FY22 -6.1%	FY23 5.8%
	2022-23	15,935,590			
	2023-24	17,045,072	16,476,192		
	2046-25	17,515,231	15,926,794	18,242,542	
1	**2025-26**	18,415,495	15,808,698	19,632,957	20,517,644
2	**2026-27**	19,105,540	15,482,647	20,815,415	21,774,182
3	**2027-28**	19,594,736	14,959,936	21,801,213	22,834,063
4	**2028-29**	20,097,385	15,462,210	23,811,996	24,918,924
5	**2029-30**	20,613,857	15,978,542	24,328,328	25,509,340
6	**2030-31**	21,144,532	16,509,334	24,859,122	26,040,132
7	**2031-32**	20,111,631	15,491,143	23,840,930	25,021,946
8	**2032-33**	19,954,954	15,342,604	23,692,389	24,873,405
9	**2033-34**	18,758,422	14,164,491	22,514,279	23,695,289
10	**2034-35**	18,299,492	13,716,378	22,066,165	23,247,177
11	**2035-36**	17,528,063	12,959,201	21,308,988	22,490,007
12	**2036-37**	16,180,267	11,632,640	19,982,425	21,163,437
13	**2037-38**	15,461,199	10,927,875	19,277,661	20,458,674
14	**2038-39**	14,691,326	10,172,195	18,521,982	19,702,991
15	**2039-40**	14,128,952	9,621,171	17,970,957	19,151,968
16	**2040-41**	13,839,415	9,339,556	17,689,345	18,870,358
17	**2041-42**	11,579,043	7,119,254	15,469,039	16,650,054
18	**2042-43**	10,726,811	6,287,543	14,637,328	15,818,343
19	**2043-44**	10,016,578	9,862,770	18,212,556	19,393,562
20	**2044-45**	1,382,124	1,361,509	1,361,509	2,542,518
21	**2045-46**	427,157	420,590	420,590	420,590
22	**2046-47**	257,809	254,117	254,117	254,104
23	**2047-48**				
24	**2048-49**				
	TOTAL	$ 322,314,788	$ 242,874,404	$ 392,469,291	$ 415,348,708
	UAL	$ 202,020,154	$ 167,538,068	$ 234,187,986	$ 245,571,050


NO, HIS 100TH BIRTHDAY PARTY WAS LAST MONTH. NOW HE'S CELEBRATING PAYING OFF HIS STUDENT LOANS!

Pension Funding Target Date - 2040

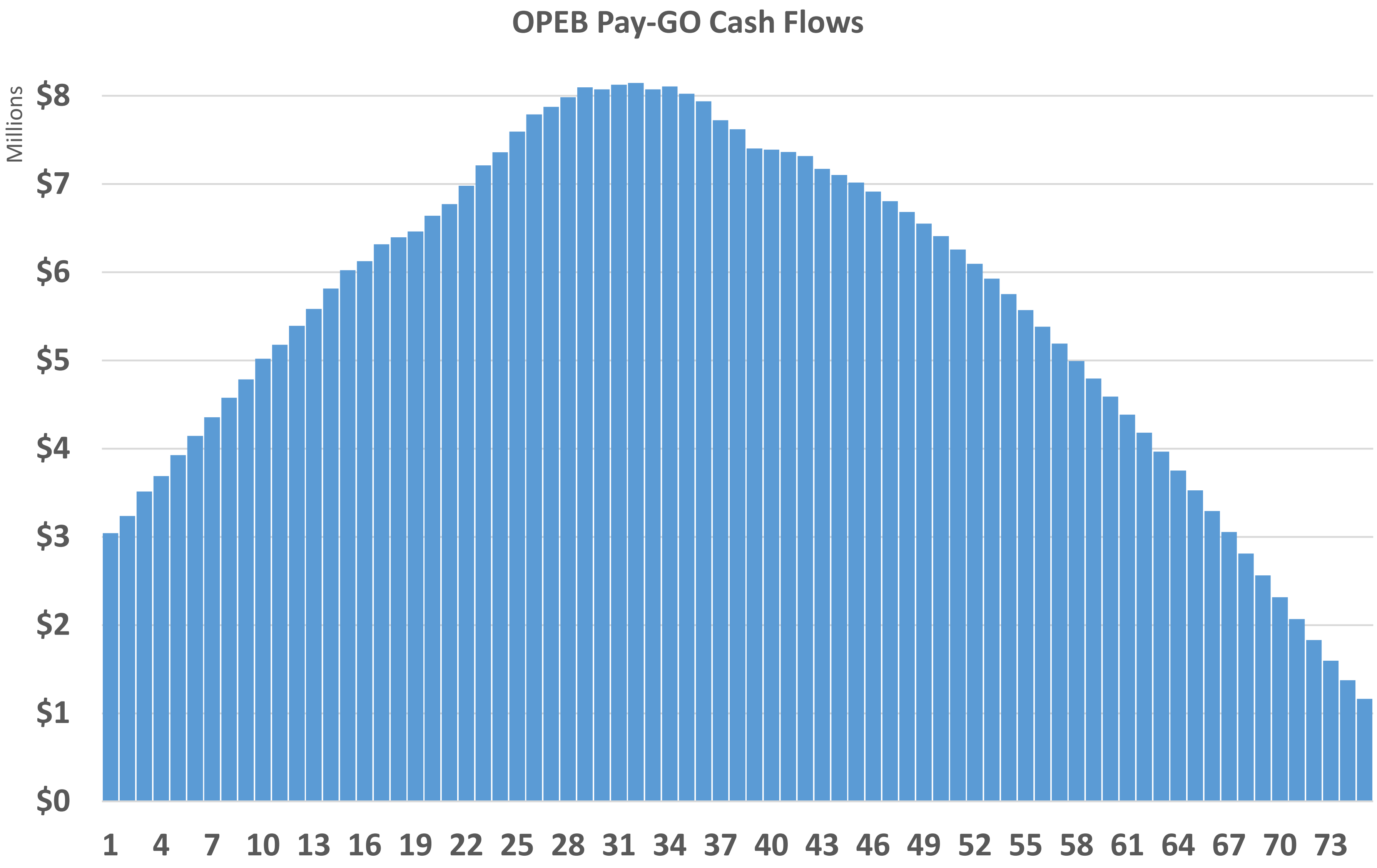
- PEPRA Employees projected to be 100% of payroll by 2040
- OPEB Pay-Go Costs will increase 2x-3x
- Pension Funding Policy should set final maturity of all amortization bases to 2040 or Earlier





"Well, here's another two-hundred-million-dollar debt they're saddling our generation with."

Retiree Medical (OPEB) Pay-Go Cash Flows



Public Private Partnerships

P3s- Threshold Questions

The City of Los Angeles
Office of the City Controller

Special Study to Assess Opportunities to Develop Public-Private Partnerships

December 2008

- Airports
- Animal Shelters
- Golf Operations
- Solid Waste Collection
- Fleet Operations & Maintenance
- Parking Lots & Structures
- Water & Wastewater Operations
- Real Estate – Joint Development

- Does private sector competition already exist?
- Is there a policy reason that requires the City to own the asset or provide the specific service?
- What is the impact on stakeholders (including labor)?
- Does the asset have significant untapped market value?
- Is the private sector able to provide better service delivery than the City?
- Does the asset require significant capital investment?
- Is there any operational expertise or new technology from which the City can derive benefit?
- Might the private sector be in a better position than the City to manage the risks?
- Are contracts already in place for portions of the asset or service?
- Is the project implementable sooner with a private partner?
- Does a partnership have the potential to lead to further economic development?

P3 Study – Lesson Learned

The public sector/local government agency…

- Allowed to compete (with the private sector) / make adjustments to become more competitive.
- Evaluates & places $ value on both quantitative/qualitative risks & benefits.
- Adequate staffing and resources committed to meet its obligations under the contract.
- Engage stakeholders early to obtain buy-in from labor unions and advocacy groups.
- Implements a transition plan that involves ongoing customer service.
- Contract provides flexibility to adjust to market conditions and enable innovation in service delivery.
- Performs research and due diligence to ensure they are well-informed of their business arrangement.
- The local government monitors the contractor’s performance and payments.

The P3 opportunity…

- Limited in size in order to attract focus from bidders and limit the local government’s liability and risk.
- Phased-in over time to allow project (P3) to become acclimated and generate public acceptance.

The private partner….

- Stable and committed finances & proven track record of performance (P3s)

The Critical Role of Soft Skills

Most Important Soft Skills

Top 5:

- Communication
- Emotional Intelligence
- Leadership
- Negotiation and Conflict Resolution
- Problem-Solving and Adaptability

Why Soft Skills?

- Collaborative Leadership
- Communication and Public Relations
- Adaptability and Change Management
- Emotional Intelligence
- Team Leadership and Delegation

THANK YOU

APPENDIX