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Navigating the California Public Sector Cliff

Presented Rory Vale
and Eric Russell

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About MGO

Global team of over 600 financial service professionals dedicated to delivering assurance, tax, consulting, outsourcing, and private client services.

1

Focus

MGO strives to differentiate itself by focusing on the public sector and how we treat those clients, collaborate internally, and achieve results.

2

Experience

Our experience spans various industries, including financial services, professional services, and government sectors. We prioritize needs, goals, and aspirations of our clients.

3

Global

Our global platform provides seamless support in real-time, anywhere in the world, enabling clients to navigate complex financial landscapes with confidence.

Your Instructors



Rory Vale
Senior Manager



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Director, ENJ PLLC

Agenda



Learning Objectives

By the end of this course, you should be able to:

- Explain the fiscal challenges facing the public sector in 2025, including the impact of expiring federal relief funds and shifting economic indicators.



01 Current Landscape



1

Transform

U.S. government funding landscape is undergoing significant transformations, impacting sectors nationwide. Pandemic-era funding is sunseting, and critical programs are ending.

2

Freeze

Concurrently, a federal government funding freeze has been implemented, primarily affecting the nonprofit sector and other critical social service entities and the people they serve.

3

Reduction

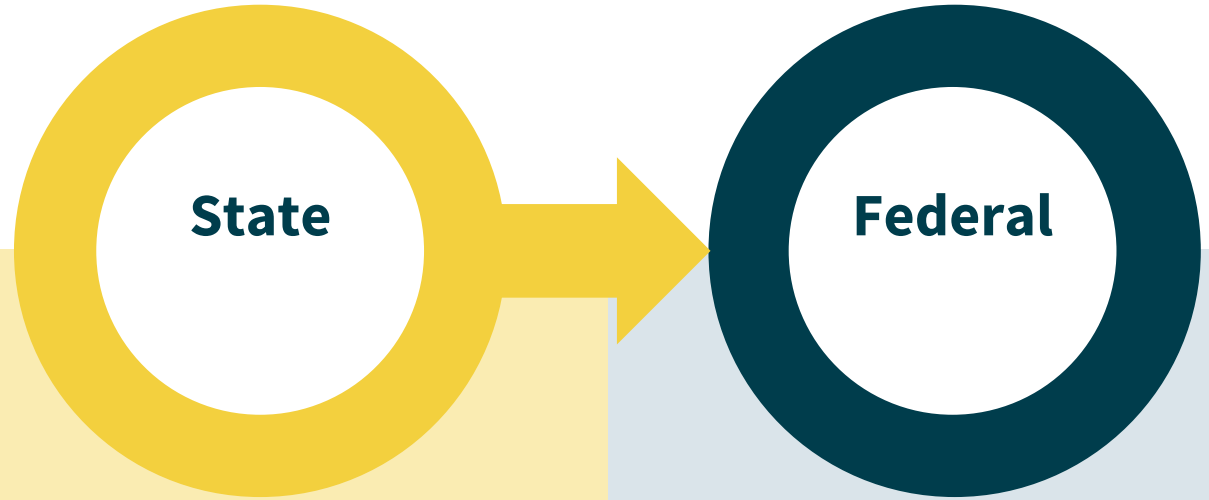
As of Spring 2025, 400 open federal grant opportunities were terminated within a four-week span, resulting in a \$5.87 billion freeze in grant funding.

The Current Landscape

Additionally, federal funding opportunities have experienced significant reductions.

State and Federal

Pandemic-era funding is drying up.



States are facing a tightening fiscal landscape, with budget deficits impacting healthcare, education, and social services.

At the federal level, funding landscape is shifting dramatically as pandemic-era relief programs expire and budget constraints tighten.

As federal priorities shift, states and municipalities must navigate a more austere funding environment with fewer resources and increasing demands.

State and Local Trends

In the United States



Gaps Across Sectors

Governments are facing a challenging financial landscape as pandemic-era funding dries up, leaving gaps across key sectors like healthcare, education, and social services.



Assistance

Meanwhile, food banks and essential NGOs are struggling as federal assistance programs face reductions, exacerbating food insecurity, disaster, and affordable housing crises.



Medical

Government's ambitious medical expansion is running multi-billion-dollar deficit, forcing budget reallocations.



FEMA

Disaster preparedness also at risk, with potential FEMA funding cuts, threatening the ability to respond to climate-driven emergencies.



Universities

Universities, including statewide systems, are bracing for potential federal funding cuts with hiring freezes and cost-saving measures.




Budget

As these fiscal pressures mount, leaders are navigating tough budget decisions to maintain services and economic stability.

Economic Indicators


Deficits, debt levels, relief funds, and rate pressures

Rising Federal Deficit



U.S. national debt now surpasses \$34 trillion, with growing concerns about interest payments outpacing spending on defense and social programs.

Expiring Relief Funds




American Rescue Plan Act (ARPA) & CARES Act funding provided temporary fiscal relief. These funds are set to expire 2024-2026, creating budget gaps.

Budget Shortfall




For example, California's budget shortfall in 2024-2025 is estimated at \$73 billion. This is driven by declining tax revenues and high spending commitments.

Interest Rates




Federal reserve interest rates remain elevated at 5.25-5.50%, increasing debt service costs for governments at all levels.

Revenue and Crisis



Consumer spending is shifting and tax revenue from retail sales is slowing. Falling office occupancy rates, especially in major cities, are eroding property tax revenues. Higher mortgage rates have cooled real estate transactions, reducing transaction-based tax revenues.

Contracts and Pensions



Many cities and states have locked in higher wage contracts, straining budgets. Public pension funds are facing lower-than-expected investment returns, increasing required contributions.

Times of Uncertainty

Question sometimes arises as to whether we can win the game

Recall the feel in the air, elephants in the corner, and maybe even your own personal thoughts and concerns during the following.

- Start of the COVID-19 pandemic
- Beginning of the great recession
- Days after January 6 as we closely monitored market positions and returns



During each of those historical events, there was a sense of surprise and great uncertainty.

- Now, we have lessons learned to leverage, and collectively, the public sector and government segment, specifically, are much better prepared.
- We sometimes feel alone, confused, and like we're barely hanging on.

It's Game Time

Special purpose funding is largely expiring, awards being closed, and funding undergoing focused audit and monitoring. Items we are seeing or expect include the following.

Modifies

October 2024 modifications to *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are fully effective and applicable to new awards.

Focuses

Focuses on close out for **both** prime and subawards, including adherence to period of performance requirements and liquidation deadlines in response to matters such as March 2025 ARPA-SLFRF notice from Treasury.



Execute

Federal agencies and PTEs execute required follow-up on audit and monitor findings and observations.

Funds

Funds are subject to de-obligation.

Bills

Bills for collection or equivalents for sustained questioned costs.

Also See Certain Matters Driving Uncertainty

These are all inputs to development of our game plan.

1

Matters

Matters pertaining to expected, normal change management considerations when transitioning to new administrations

2

Policy

Policy decisions unaccompanied by guidance supporting downstream decision-making and estimating

3

FAQs

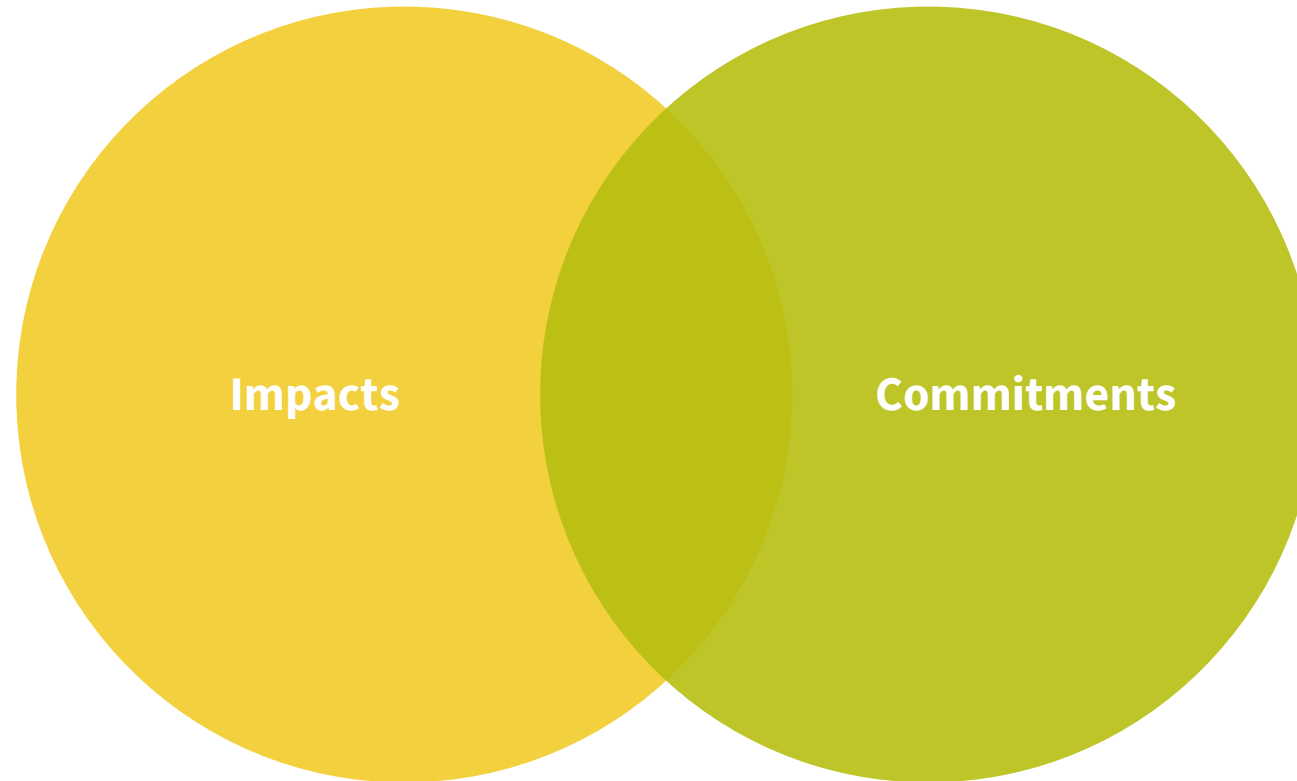
Management by FAQ
coupled with staying power or lifeline of certain new and modified administrative requirements

Risk and Current Environment

Impacts and commitments

How might these items impact our approaches to financial management, cost control, and cash balances?

- Any non-financial impacts?
 - Impact on procurement?
- External funding applications?
- Other items?



Any current commitments pulling on undesignated fund balances, for example, any out-year commitments for ARPA-SLFRF activities?

Risk and Current Environment

Six risks within the current environment



Opportunities to Manage Fiscal Unknowns

Example: Indirect Cost Recovery

Entity: State of Louisa Boudreaux, Department of Community Development, Pets, and Fireworks

Recovery

Recovery of indirect costs contained in annual statewide cost allocation plan (SWCAP) is sought by central finance.

Department

Department receives \$48 million in direct funding annually from the U.S. government.

Purchases

All department-wide purchases for supplies and all director’s office costs are charged to CDBG administrative cost account up to 20% cap.

Allocation

Allocation bases have been carried forward for the past 10 years.

Backlog

There is a four-year backlog in negotiations and approval of SWCAPs.

Unit, Expenditures, Basis, Rate, and Allocation

Central Service Unit	Total Expenditures	Allocation Basis and Chargeback Rate	Department of Community Development, Pets, and Fireworks SWCAP Allocation
Information Technology Services	\$8,010,500	\$1,602 per FTE workstation	\$801,000
Dept of Finance: Division of Accounts	\$2,550,000	\$10,200 per program (federal and non-federal)	\$306,000
Dept of Human Resources: Compensation and Benefits	\$12,795,030	\$1,828 per FTE	\$1,142,500
Totals	\$22,355,530		\$2,249,500

Considerations

Three considerations before we look into factors, accounts, impacts, and steps



Look

Let's look at considerations for upcoming federal award applications and budgets.

01

02

Table

Table on previous slide presents several environment factors specific to 2025 and applicable budgetary account in typical federally funded SF 424.

Discuss

Let's discuss potential impacts and actions steps.

03

Factors, Accounts, Impact, and Steps

Environmental Factor	Federal Award Budgetary Account	Potential Impact and Action Step
Tariffs are being placed on countries with specific products unidentified and timeframe unknown.	Construction, capital assets, and supplies	In the absence of detailed guidance and policy, estimate contingency costs and incorporate into award budget requests. Is this allowable?
Employees' stress levels and mental health concerns are expected to present absenteeism and other concerns.	Fringe benefits and other direct costs	Employee Assistance Program (EAP) and Employee Welfare (EW) costs are expected to increase along with training costs. Assume EAP and EW costs have not been included in fringe rate as fringes follow the person approach, used since 2015.
Risk of noncompliance and fraud increase	All	Project increases in direct administrative expenses and consider direct allocations for monitoring to relieve ICR pressure.

Risk + Opportunity

Equals Innovation

Assessing Your Financial Risk

Public sector organizations such as state and local governments, public agencies, and municipalities operate under strict fiscal constraints while providing critical services.

Assessing financial risk and exposure is essential to ensuring long-term stability, maintaining public trust, and prevent crises.

Identifying Operational Opportunities

When public sector organizations face financial risk whether from budget shortfalls, economic downturns, or shifting policy landscapes, traditional cost-cutting measures alone may not be enough.

Creative problem-solving allows governments to not only survive fiscal challenges but to adapt, innovate, and emerge stronger.

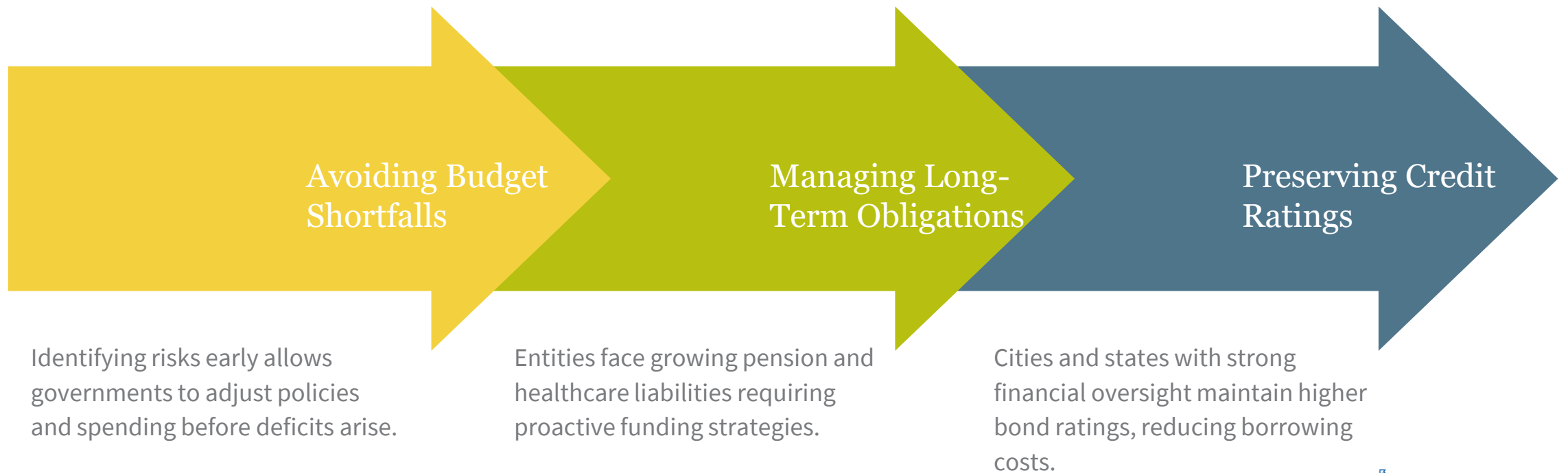
Innovating for Resilience

The real challenges and opportunity lies in leveraging those innovations to create lasting fiscal resilience.

Temporary fixes may provide short-term relief, but sustainable financial health requires structural improvements, strategic investments, and long-term planning.

Ensuring Fiscal Sustainability

Financial risk everyone is trying to mitigate



Enhancing Transparency and Public Trust

Financial risk everyone is trying to mitigate



01. Accountability to Taxpayers

Proactively addressing risk ensures efficient use of public funds.

02. Data-Driven Decision-Making

Regular assessments provide insights for policymakers and finance officers to make informed choices.

03. Avoiding Scandals and Mismanagement

Proper risk oversight reduces the likelihood of fiscal mismanagement or corruption.

Protecting Essential Public Services

Financial risk everyone is trying to
mitigate

Avoiding
Service
Disruptions

Financial instability can lead to cuts in public safety, education, infrastructure, and healthcare.

Building
Reserves
and Rainy-
Day Funds

Resilient governments set aside emergency funds to handle unforeseen events.

Maintaining
Workforce
Stability

Fiscal uncertainty can lead to hiring freezes, layoffs, or pension gaps.

02 Innovation and Resilience



Actions That Could Impact the Now

Identify opportunities to stack funding but watch out for potholes	<ul style="list-style-type: none">▪ Be specific and intentional when describing activities and scope components for awarding agencies.▪ Most restrictive requirements continue to apply such as environmental and historic preservation reviews.<ul style="list-style-type: none">▪ Watch closely for prevailing wages, eligibility, periods of performance, cost share, and out-year requirements.
Incorporate additional elements of cost into budget proposals submitted with grant and cooperative agreement applications	<ul style="list-style-type: none">▪ Allowances for tariffs, warehouse and storage space, and information security costs.<ul style="list-style-type: none">▪ Contingency fees.
Re-assess Cost Allocation Methodologies and Recovery Strategies	<ul style="list-style-type: none">▪ Indirect cost rates determine whether change in case of application or cost poll would relieve significant pressure potentially.▪ If your organization currently only considers cost allocation plan amounts for indirect cost recovery, consider developing and submitting an indirect cost rate proposal for added flexibility.<ul style="list-style-type: none">▪ Can shared cost models extent to group's of municipalities or nonprofits?
Consider these additional items	<ul style="list-style-type: none"><ul style="list-style-type: none">▪ Anticipated increases in fringe benefit rates.▪ Avoid urge to downplay compliance and audit risk.▪ Observe staff more closely in event some individuals struggle with stress.

The Future is Coming

As a result of previous significant events, a multitude of lessons learned were observed.
Lessons learned include the following but are not all-inclusive.

Look Forward

Looking forward to and acknowledging the matter ends and funding opportunities return as well.

Set Aside

Setting aside or otherwise making resources available to support unhoused and those who may develop or have resurfacing mental concerns.

Invest In

Invest in capacity building with respect to community nonprofit organizations.

Review

Review and consider revising or re-focusing certain projects within annual entitlement and non-entitlement funding packages to offset potential increase in housing needs, job training, and other community development initiative that helps to mitigate risk.

Cross-Train

Cross-train personnel regarding both operational and funds management roles, responsibilities, tasks in anticipation of potential retirements, separations, and significant increases in quantity of projects.

The Future is Coming

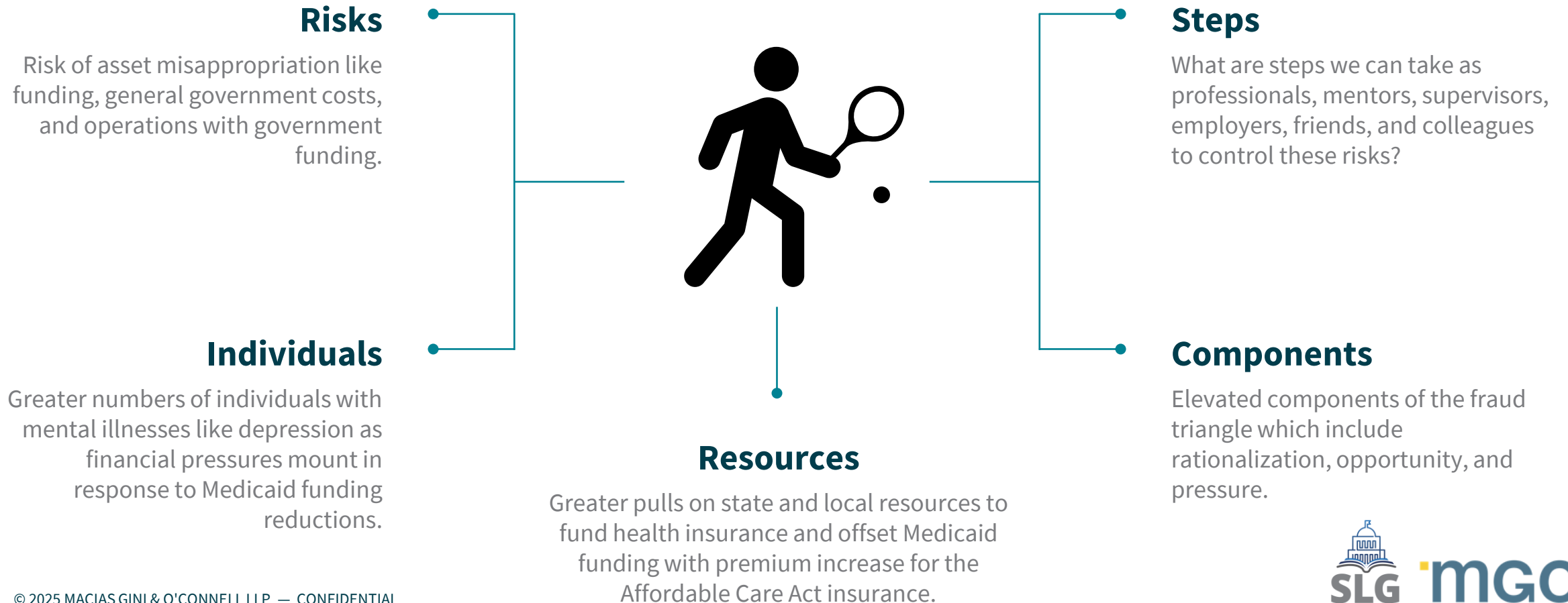
Considerations and options

- In consideration of current events and thinking through our lessons learned, what are some steps that could be taken?
- Potential options include the following.
 1. Identify potential professional project partners to collaborate on affordable housing and other HUD-funded projects.
 2. Set-aside funds to reserve for cost share requirements on anticipated future projects.
 3. Initiate marketing plan to support and encourage pursuit of careers in the public sector.



Internal Controls: Keep Holding the Ball

Challenging economic and political times with considerable unknowns open the door to certain risks. Risks one may consider to be the elephant in the corner.



Cases of Innovation

City of Seattle, Washington

- In 2021, the city of Seattle explored various municipal financing tools, including a blended capital stack and outcomes base financing to support projects in the Duwamish Valley Resilience District.
- This initiative aimed to generate funds for infrastructure and community development projects, focusing on creating a sustainable and resilient urban environment.
- The city's approach included pursuing upfront financing for projects to be repaid through specific revenue streams, emphasizing the importance of blending different sources of investment capital.



Cases of Innovation

City of Denver, Colorado

- In November 2024, Denver voters approved a \$570 million bond measure aimed at revitalizing the downtown area.
- The funds were designated for investments in housing, support for local entrepreneurs, public space enhancements, and business attraction efforts.
- This strategic move addressed the economic downturn experienced during the COVID-19 pandemic, showcasing Denver's proactive approach to fostering economic recovery and fiscal resilience.



Cases of Innovation

City of West Sacramento, California

- In August 2024, West Sacramento authorized the issuance of up to \$233 million in bonds to fund infrastructure improvements within the Bridge District.
- This initiative leveraged an Infrastructure Financing District (IFD), allowing the city to utilize existing tax revenues without imposing new taxes.
- The bond proceeds were earmarked for maintaining and enhancing infrastructure, reflecting the City's commitment to sustainable development and fiscal responsibility.



Your Instructor

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[Click link to Rory's Bio](#)

