Bond Case Briefs

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Cities, States Need Top Financial Talent, but Fall Short on Pay.

Help wanted: Top-notch financial talent needed to face intense regulatory scrutiny; no bonuses or equity awards; modest civil servant's paycheck.

That is not a job that would appeal to most of the nation's best and brightest financial executives, who enjoy the big cash and stock incentives—not to mention the prestige—offered by the private sector. But states and towns increasingly need such executives to manage bond sales and pension deficits, as they come under closer government oversight.

"Getting people in government is not easy," said Robert Mayer, chief fiscal officer for the town of Fairfield, Conn. "They're all making more than the mayor."

Municipal finance chiefs in the Midwest earn between $85,000 and $160,000, depending on the town's size and affluence, while those working on either coasts can expect slightly more, said Heidi Voorhees, head of GovHR USA LLC, an Illinois recruiter for the public sector and nonprofit groups. By contrast, the median compensation package—salary, bonus and stock options—for public-company finance executives was valued at $3.57 million, based on proxies filed as of late June.

"It's always our toughest recruitment," said Ms. Vorhees.

Adding to the difficulty: Municipalities and for-profit businesses follow very different bookkeeping and budget rules, she said.

One thing many public-sector CFOs have in common with private-sector peers is that they have to answer to the Securities and Exchange Commission. The agency regulates municipal-bond sales, as well as corporate offerings, and can impose fines for violations.

While most corporations have the resources they need to monitor compliance, SEC disclosure rules pose a special challenge for cash-strapped states and cities, which are under pressure to do more with less. While disclosure rules are less stringent for municipalities than for companies, that doesn't get them off the hook for even small lapses.

If a municipality is 30 days late in filing its budget with state and federal regulators, the SEC considers that a disclosure violation, even if the delay is unlikely to harm its bondholders.

The SEC is "really naive in their understanding of what municipalities are capable of," said Jeffrey Esser, chief executive of the Government Finance Officers Association, which has about 18,000 members in the U.S. and Canada.

In August, the SEC reached settlements with 71 municipalities and other public entities across 45 states over alleged bond-disclosure violations. Many of the parties that settled had voluntarily reported their violations, such as failing to disclose a change in tax-revenue forecasts.

The town of Fairfield was among those that self-reported, a move that tends to win leniency. It settled with the SEC without admitting or denying wrongdoing or paying a monetary penalty.

Mr. Mayer, Fairfield's fiscal chief, is a career finance executive who left Wilkes-Barre, Pa., where he held a corporate job as a divisional chief executive, to be closer to his wife and daughters, who didn't want to relocate.

"To keep myself a little bit busy I ended up getting into local politics," he said. In 2012, Fairfield's first selectman appointed him chief of staff. When the CFO job later opened up, Mr. Mayer was asked to step in. "Most good CFOs could make a positive impact," he said of government service.

Most towns, hard-pressed to find money for such projects as pothole repair, park upgrades or a new public-transportation extension, are reluctant to spend precious cash staffing up their finance departments to ensure regulatory compliance. "The attention isn't there, the budget isn't there," Mr. Mayer said.

Despite such pressures, municipalities and related entities don't get a free pass, Andrew Ceresney, director of the SEC's enforcement division, said at a conference last week. They have a total of over $3.7 trillion in outstanding debt, spread across about 44,000 issuers, compared with the about 8,600 corporate issuers the SEC regulates, he said.

Mason Neely, finance chief of East Brunswick, N.J., voluntarily reported to the SEC that his town failed to let investors know that S&P Global Ratings dropped coverage of the town's sewer bonds when it decided to pay them off early. He said that while he takes responsibility for not immediately informing bondholders, the violation was minor.

Another potential pitfall for public-sector CFOs is that their predecessors often leave them with decades worth of financial information they know little about. When their town or regulators want to investigate something, "Well, I didn't know that" is a common refrain, said J.T. Klaus, a partner at Kansas law firm Triplett Woolf Garretson LLC.

Succession planning is also nearly impossible for some towns and cities, said Mr. Klaus, who represents Andover, Kan., one of the 71 municipalities and related nonprofits that recently settled with the SEC. "There are not enough people living in the community who can do the job," he added.

Mr. Klaus declined to discuss specifics of the town's settlement.

To lure financial talent, towns need to modernize and be more flexible when it comes to issues like work-life balance, given they lack the pay scale to compete with the private sector, said Elizabeth Kellar, CEO of the Center for State and Local Government Excellence, a research group focused on helping municipalities meet staffing needs. "The governments that are making the best decisions are upgrading on technologies," she said.

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