PBAF 557: MANAGEMENT AND PUBLIC CAPITAL MARKETS
WINTER 2016

Instructor: Sharon N. Kioko, PhD
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206.221.6356
skioko@uw.edu

Class Hours: Tuesdays and Thursdays 3:30pm – 4:50pm, Smith Hall Room 309
Office hours: Tuesdays and Thursdays 1:00pm – 2:30pm and by appointment

Course site: https://canvas.uw.edu/courses/1036705

COURSE DESCRIPTION AND OBJECTIVES

This seminar is an advance course on capital markets and debt management. The emphasis of the seminar is on using financial and economic theories and financial management techniques to solve complex financing problems in the municipal securities market. The course will engage students on the market trends, structure, securities, and actors.

By the end of this course, students will

• be able to identify the key participants in the municipal bond market and principal borrowing instruments
• understand how the structure of the market affects an issuer's choice on the structure of a debt issue
• be able to estimate borrowing costs, debt service schedules, and any cost savings associated with bond refinancing
• be able to use a wide-variety of metrics to evaluate the credit quality of issuers (e.g., general purpose governments, single purpose governments, special purpose governments, and quasi-governmental entities).
• be able to identify major causes of fiscal insolvency and bankruptcy and the role of a wide variety of actors (e.g., federal courts, state governments, credit rating agencies etc.)
• have a general understanding of the regulatory framework that governs this sector of the capital markets

Materials covered in this course will be immediately relevant if you intend to work in the financial management function of a city, county, school, public authority, or other public entity that issues debt. MPA graduates who go to work as budget analysts, capital projects analysts, and other entry-level positions in budgeting and financial management often find it useful to know the fundamentals of the public capital markets. The course is especially useful for anyone who would like to work in other parts of the public capital markets. This includes the public sector divisions of the major credit rating agencies, municipal trading desks of investment banks and bond funds, independent public financial advisors, state
agencies responsible for oversight of public agency debt management or relevant oversight agencies including the Securities and Exchange Commission, Internal Revenue Service, Municipal Securities Rulemaking Board, or Securities Industry and Financial Markets Association.

**COURSE STRUCTURE AND EXPECTATIONS**

**Texts:** There is no required textbook, and all reading assignments will be posted to the course website. We will read excerpts from a few books:


I will also post a few additional readings throughout the quarter. Most will come from the Bond Buyer, Governing magazine, and other trade publications. Consider these additional readings required. Watch the Announcements section of the course Canvas site throughout the quarter.

I expect you will come to class having reviewed the assigned readings. In some instances, I will demonstrate the application of concepts using Panopto videos. These recordings are an especially effective way for you to learn the technical information, especially how you use Excel to implement many of the analytical tools you will learn over the next 10 weeks. You should review these recordings ahead of each class meeting.

In class session will focus on high-level discussion that will be informed by your review of the existing materials including your policy brief (see assignments below). I will also use the time in class to answer any questions you may have on the existing material and in some instances present additional material to further demonstrate key concepts or policy issues. Note that I will do little if any traditional lecturing on the basic course materials or readings.

As such, the class sessions are designed to clarify, integrate, and extend your knowledge. If you do the required preparation, you will have no trouble with key concepts or analytical tools. Our meetings will be most productive if we can have an open exchange of ideas. In that spirit, we will probably stumble on topics that are important but outside the scope of what we can cover in class. I will deal with those topics by putting them on discussion board on Canvas or provide suggested readings under the lecture topic. I am also happy to engage in a longer conversation on these topics during regular office hours.
COURSE PROTOCOL

1. Class will begin at 3:30pm and continues until 4:50pm. Please arrive promptly.

2. I encourage you to bring a notebook or tablet computer to class, but please do not spend your time in class sending emails, chatting on social media, or doing work unrelated to this class. If you can’t fully engage, stay home.

   If you have a cell phone, a watch with an alarm or other distracting noisemaking devices, please be certain they are on silent (or do not disturb) mode for the duration of our meeting.

3. If you believe that you need accommodations for a disability, please contact the Disability Resource for Students (http://depts.washington.edu/uwdrs/). DRS is responsible for coordinating disability-related accommodations and will issue students with documented disabilities Accommodation Authorization Letters, as appropriate. Since accommodations may require early planning and generally are not provided retroactively, please contact DRS as soon as possible.

4. Try and communicate with me in person. I can probably address most of your questions before or after class or during office hours. The office hours listed on the first page are not the only times when I will be available to meet. If the listed times don’t suit your schedule, please send me an e-mail (skioko@uw.edu) and propose three alternative times you could meet with me and I will let you know which option works best for me. If you are unable to make it to Parrington Hall, please send me an email that concisely articulates your questions or concerns. I will check my e-mail regularly and make every effort to answer respond to your question(s) in a timely manner.

5. This course will be managed through an UW's internet-based course platform – Canvas. It will be the primary means of communication for this course. You will find the course announcements, course schedule, assignments, readings, Panopto recordings etc. on the course Canvas site (https://canvas.uw.edu/courses/1025195). The Canvas login page is at canvas.uw.edu. To login, enter your UW NetID and password. If you have not activated your UW account or have forgotten your password, you can activate or change your password at http://www.washington.edu/itconnect/security/uw-netids/about-uw-netids/. If you still are having problems, contact the university ITS Help Desk (help@uw.edu or 206-221-5000). Please take some time to learn how to use Canvas and get familiar with its contents.

6. You will need to complete 4 assignments in the next 10 weeks. Instructions for each assignment will be posted on Canvas the day the assignment is assigned. The assignments will be a mix of problem sets and research projects. You will be required to demonstrate your understanding of core material or provide review of contemporary policy issues. Your assignment files (Microsoft Word and/or Excel – no PDFs please) should be submitted via Canvas. Be sure to check you have submitted the correct files before completing your submission.

   Note, I do not accept late assignments. I also do not accept assignments submitted to me via email – all assignments should be submitted on the course Canvas site.
Moreover, all memos and worksheets should be the student's own work prepared for this class. You are strictly prohibited from reviewing materials from previous quarters or other sections of this class.

7. It is your responsibility to understand the definition of academic honesty, but if you are ever in doubt, please ask me before you do something that could put your academic career in jeopardy!

8. No extra credit.

**COURSE GRADE**

Final grades will be the weighted average of 4 assignments (3 individual assignments and 1 group assignment). Your weighted average will be used to determine your numeric grade point.

<table>
<thead>
<tr>
<th>Assignment #</th>
<th>Due Date</th>
<th>% of your grade</th>
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<tbody>
<tr>
<td>1 Assignment I</td>
<td>8:00am Jan 21</td>
<td>15%</td>
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<tr>
<td>2 Assignment II</td>
<td>8:00am Feb 2</td>
<td>25%</td>
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<td>3 Policy Brief</td>
<td>Various Dates</td>
<td>25%</td>
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<td>5 Group Research Project</td>
<td>8:00am Mar 8th</td>
<td>35%</td>
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<td><strong>TOTAL</strong></td>
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<td><strong>100%</strong></td>
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In assigning grades, I will follow the grading system required by University of Washington Graduate School (http://www.grad.washington.edu/policies/general/grading.shtml). Please refer to the Student Handbook regarding your course grades and overall grades in the program. Keep in mind that a minimum of 2.7 is required in any core course in the MPA curriculum and a minimum cumulative grade-point average of 3.0 is required for graduation.

<table>
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<tr>
<th>Weighted Average</th>
<th>Numeric Grade Point</th>
<th>Letter Grade</th>
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<th>Weighted Average</th>
<th>Numeric Grade Point</th>
<th>Letter Grade</th>
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<tr>
<td>100%</td>
<td>4.0</td>
<td>A</td>
<td>89.9% - 88.0%</td>
<td>3.4</td>
<td>B+</td>
<td>77.9% - 76.0%</td>
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<td>99.9% - 98.0%</td>
<td>3.9</td>
<td>A</td>
<td>87.9% - 86.0%</td>
<td>3.3</td>
<td>B</td>
<td>75.9% - 74.0%</td>
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<tr>
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<td>A-</td>
<td>85.9% - 84.0%</td>
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<td>73.9% - 72.0%</td>
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<td>81.9% - 80.0%</td>
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**COURSE OUTLINE**

*All readings are posted on canvas*

**JAN. 5th**

**COURSE INTRODUCTION**

*Lecture Goal(s)*

Review course syllabus
Distribute instructions for policy brief and group project
JAN. 7\textsuperscript{th} & 12\textsuperscript{th}
INTRODUCTION TO THE U.S. MUNICIPAL BOND MARKET

\textit{Lecture Goal(s)}

Provide an overview of the municipal bond market (issuers, intermediaries, investors)
Provide an overview of the state and local government debt options including issuance authority and repayment pledges

JAN. 14\textsuperscript{th} & 19\textsuperscript{th}
FIXED INCOME MATHEMATICS AND BOND PRICING

\textit{Lecture Goal(s)}

Provide a basic review of Time Value of Money concepts.
Determine bond price given yield, maturity, and coupon.
Understand the term structure of interest rates and how to express it through the yield curve.
Understand how market dynamics affect bond price or yield.

\textbf{ASSIGNMENT #1 – DUE JANUARY 21\textsuperscript{ST}}

JAN. 21\textsuperscript{st} & 26\textsuperscript{th}
BOND STRUCTURE AND TRUE INTEREST COSTS

\textit{Lecture Goal(s)}

Demonstrate how to estimate True Interest Cost (TIC)
Demonstrate how to calculate a debt service schedule and review the impact of a new bond issue on cash flows
Review the frameworks for debt refinancing

\textbf{ASSIGNMENT #2 – DUE FEBRUARY 2\textsuperscript{ND}}

JAN. 28\textsuperscript{th}
PRIMARY MARKET

\textit{Lecture Goal(s)}

In-depth review of the municipal bond market including a review of financial intermediaries (e.g., underwriter, financial advisors, credit rating agencies, legal counsel, financial consultants etc.)
In-depth review of the bond options including issuance authority and repayment pledges

FEB. 2\textsuperscript{nd} & 4\textsuperscript{th}
SECONDARY MARKET

\textit{Lecture Goal(s)}

Provide an overview of principal investors in municipal bonds
Provide a review of the regulatory framework (issuers and intermediaries)
FEB. 9th & 11th
CREDIT ASSESSMENT OF GENERAL PURPOSE GOVERNMENTS

Lecture Goal(s)
Review of rating criteria -- general purpose or single purpose governments with taxing authority
Understand how budget processes and fiscal rules and limitations affect credit quality
Understand how pension and other-post employment benefit obligations affect solvency and credit ratings

FEB. 16th & 18th
CREDIT ASSESSMENT OF SPECIAL AND SINGLE PURPOSE GOVERNMENTS

Lecture Goal(s)
Identify key sectors and review rating criteria of governmental/quasi-governmental entities without taxing authority
Identify performance metrics in key sectors
Understand frequently used bond covenants and restrictions

FEB. 18th & 23rd
CREDIT ENHANCEMENT

Lecture Goal(s)
Identify credit enhancement instruments and their significance in the municipal bond market

MAR. 1st & 3rd
FISCAL EMERGENCIES, INSOLVENCY, AND BANKRUPTCY

Lecture Goal(s)
Identify causes of fiscal insolvency and bankruptcy and the role of a wide variety of actors (federal courts, state governments, credit rating agencies etc.)

MAR. 8th – KEY TAKEAWAYS AND COURSE WRAP UP
GROUP PROJECT – DUE MARCH 8TH

MAR. 10th – NO CLASS MEETING