

## **PUBLIC POLICY 524**

### **Public Sector Financing**

#### **Purpose**

This course is about money. It covers financial management in public agencies, with the primary focus on state and local government. Four principal topics are covered: 1) capital project analysis, financing, and management; 2) debt issues and structures; 3) cash management and investment of public funds, including pension and retirement systems; and 4) special financial tools such as property tax levies, local improvement districts, and tax credit financing. The course content includes both theoretical concepts and examples of how the concepts are applied in practice.

Public finance is critical to understanding how contemporary governments deliver many public services, including transportation, transit, utilities, housing, and education. Public finance also affects non-profit organizations because facilities used for arts, culture, housing, and recreation programs often are built or redeveloped with government-issued or guaranteed debt. Many current policy issues involve project analysis and public finance, including:

- How can we finance transportation infrastructure in our region, such as expanded light rail?
- Can state and local governments provide economic stimulus through capital projects?
- How could governments finance new tourism-related facilities, such as an expanded Convention Center?
- How should governments and non-profit organizations invest to ensure their pension funds are adequate to meet obligations to current and future retirees? Or, do they need to create less generous programs or shift the investment risk to employees?
- How can governments more effectively support the development of low-income housing?

#### **Instructor**

Dwight Dively has been the Director of King County's Office of Performance, Strategy and Budget since 2010. He previously was the Director of Finance for the City of Seattle for nearly 16 years. He also has been the policy director for the Seattle City Council and held staff positions for a state agency and a consulting firm. Dwight has been an affiliate faculty member at the Evans School since 1989.

#### **Expectations**

Students are expected to have a basic understanding of algebraic concepts such as exponents (powers) and trend analysis. No complex statistical analysis will be needed. Many of the exercises and the final exam will require the use of spreadsheets. PUBPOL 522 and 523 are useful pre-requisites but are not required.

#### **Contacts**

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#### **Course Requirements and Grading**

Assignments (4, with varying weights)	60%
Final Exam (take home)	40%

Course scores typically will range from about 92-99.5 points (fewer than 10 students have gotten 100 points in this class in 28 years). The mean course grade likely will be around 3.7.

Feel free to work in groups on the assignments. Each student needs to do her/his/their own work on the final.

## **Readings**

There is no assigned textbook or reading packet for the course. Readings are available online and are noted in the syllabus. Some additional readings may be assigned during the quarter.

A good book on the history of stock and bond markets is:

Niall Ferguson. The Ascent of Money, 2008.

## **Course Schedule and Assignments**

### **March 29**      **Course Introduction, Introduction to Capital Budgeting, and Life-Cycle Cost Analysis**

Review of capital and operating budgets, basics of capital budgeting, and basic cost-benefit analysis  
Analyzing a proposed project and comparing projects

***HOMEWORK #1 DISTRIBUTED***

### **April 5**      **NO CLASS – Dwight is Traveling**

### **April 12**      **Capital Financing Techniques**

Types of government bonds: voter-approved, non-voter-approved, etc.

Securities Industry and Financial Markets Association. Glossary of Bond Terms.  
<http://www.sifma.org/education/glossary/>

Securities Industry and Financial Markets Association. Investing in Bonds.  
<http://www.investinginbonds.com/learnmore.asp?catid=8>

***HOMEWORK #1 DUE***

### **April 19**      **Debt Structures, Debt Limits, and Debt Service Calculations**

Level debt service, interest only, and zero coupon bonds; synthesis with capital project analysis

Jensen, Randall. “California Capital Appreciation Bonds Have Unintended Consequences.” The Bond Buyer,  
September 20, 2012.

[http://www.bondbuyer.com/issues/121\\_183/california-school-districts-capital-appreciation-bonds-consequences-1044196-1.html?zkPrintable=true](http://www.bondbuyer.com/issues/121_183/california-school-districts-capital-appreciation-bonds-consequences-1044196-1.html?zkPrintable=true)

***HOMEWORK #2 DISTRIBUTED***

### **April 26**      **Bond Issuance Process and Complex Project Analysis**

How governments issue debt  
Using complex bond structures for major projects (toll facilities, stadiums, etc.)

***HOMEWORK #2 DUE***

***HOMEWORK #3 DISTRIBUTED (Note: this one is hard! You will have two weeks to complete.)***

### **May 3**      **Cash Flow Analysis and Short-Term Financing**

Cash management techniques; use of lines of credit and anticipation notes

Idaho State Treasurer’s Office. Tax Anticipation Note.  
<https://sto.idaho.gov/Debt-Management/Tax-Anticipation-Notes-TAN>

May 10

**Investment of Public Funds; Pension and Retirement Systems**

Governmental and fiduciary funds, basic investment analysis, and pensions

Washington State Treasurer's Office. Eligible Investments for Public Funds.  
[http://www.tre.wa.gov/documents/inv\\_elig.pdf](http://www.tre.wa.gov/documents/inv_elig.pdf)

Center for State and Local Government Excellence. State & Local Pensions, January 2013.  
<http://slge.org/wp-content/uploads/2013/01/2013-State-Local-Pensions-An-Overview-of-Funding-Issues-and-Challenges.pdf>

***HOMEWORK #3 DUE***

***HOMEWORK #4 DISTRIBUTED***

May 17

**Special Financing Tools**

Special levies, Local Improvement Districts (LIDs), and use of non-profit intermediaries

Municipal Research and Services Center. Local and Road Improvement Districts Manual, October 2009.  
<http://mrsc.org/getmedia/4233f39b-f38b-4766-8c22-a0f0d9340d91/lid-rid09.pdf.aspx>

Preston, Gates and Ellis LLP. City and County Options for Creative Financing, April 2003.  
<http://mrsc.org/Corporate/media/MediaLibrary/SampleDocuments/ArtDocMisc/PDA-PFDfinan.pdf>

***HOMEWORK #4 DUE***

May 24

**Tax Credits**

Washington State Housing Finance Commission. 4% Housing Credit with Bonds.  
<http://www.wshfc.org/mhcf/4percent/index.htm>

May 31

**Synthesis and Review**

***FINAL EXAM DISTRIBUTED - DUE AT 5:00 PM ON MONDAY, JUNE 5, OR POSTMARKED THAT DAY***