

Woodrow Wilson School of Public and International Affairs

WWS 594s - Public Finance and Capital Markets **Joseph S. Fichera**

Through lectures and case studies, the course will analyze the interactions between national, state and local governments and the private capital market institutions that provide public finance. One goal of the course is better to acquaint future government officials with the range of avenues available for public finance and with the analytic tools necessary for beneficial choices among them. Another goal is to deepen students' ability to analyze policy issues concerning the private provision of public finance.

Prerequisites include WWS 511 (any track) and comfort with net present value calculations and concepts. There will be a few presentations by outside practitioners and site visits. Requirements include a paper analyzing a financial market policy issue.

Suggested topics for student policy papers to be discussed in the course include:

- What are the appropriate uses of the tax-exempt status of bonds for government versus the private sector?
- What are the issues surrounding connections between the raising of capital from Wall Street for government finance and the raising of capital from Wall Street for political campaigns (also known as "pay to play")
- How are negotiations with underwriters and Wall Street structured so as to be potentially disadvantageous to the government?
- Should state and local government sell state assets to raise cash to fund government operations? What are the benefits and risks to taxpayers?
- Should disclosure principles applied to corporate issuers be equally applied to municipal issuers?
- How are policies and practices of transparency (or the lack thereof) in pricing and trading of municipal securities affecting the way government finances itself at the least cost to taxpayers?
- Are the recently claimed episodes of price fixing in (municipal) guaranteed investment contracts (GICs) symptomatic of a larger systemic problem, or isolated cases of possible abuse?
- Is the development of municipal hedge funds a good or bad development for the cost of financing state and local governments?
- Is self-regulation of the industry through the Municipal Services Rulemaking Board (MSRB) an outdated approach to integrity in the capital markets and should there be a more federal presence in establishing and enforcing rules on market behavior?
- Are the problems that led to the Orange County bankruptcy approximately 10 years ago resolved in the market or is the potential for another such crisis still present and possibly increased?
- Is greater differentiation among credits in state and local finance to create more efficiency in pricing something to be encouraged or avoided?
- Foreign capital is also entering the US municipal market through the use of derivatives and the increasing need for state and local governments to issue taxable bonds. Does this development help or hurt government finance? What are the risks and benefits?

Specific course topics will include:

- Types of markets available to governments to raise debt capital (also known as bonds or "fixed income securities") either in the United States or overseas;
- Characteristics of these markets including state and local government regulation;

- Structure of fixed and floating rate securities issued by governments;
- Alternative capital raising products including project financings and asset-backed securities;
- Evaluation of alternatives' costs of financing based on maturity and the yield curve;
- Basic option theory as applied to public debt securities;
- Derivative securities (e.g. swaps and hedges) used in public financing management;
- How rating agencies assess the risks for investors in government securities;
- Bond offering methods such as competitive auctions and negotiated processes.

The instructor, Joseph Fichera, is the CEO of Saber Partners, LLC, a Wall Street firm that specializes in arranging public finance. He is a WWS BA and has an MBA from Yale.