

PADP 8870: Seminar in Debt Management

Spring 2024

Department of Public Administration and Policy
School of Public and International Affairs
University of Georgia

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Office Hours: Monday 4:00-6:00pm \Rightarrow

Class Hours: Monday 6:15-9:00pm

Web: [SPIA Profile](#)

Course Cite: [eLC Site](#)

(Email me in advance by Monday 11am)

Class Room: 108 - Gwinett Campus

Required Textbooks and Other Class materials

1. *Johnson, Craig L., Martin J. Luby and Tima T. Moldogaziev / (2014) *State and Local Financial Instruments: Policy Changes and Management*. Cheltenham, UK: Edward Elgar Publishing. ISBN: ISBN: 9781783476169 / eISBN (e-book): 978-1783476176.
2. Additional readings are listed in the Class Schedule and are available on the Class site or can be found online using UGA Library resources.
3. Access to a computer station that has a range of necessary work applications (Word, Excel, Powerpoint, etc.). **Expertise with EXCEL is expected. Major home assignments will require the use of Excel and data analysis applications.**
4. Access to a basic data analysis application (e.g., Stata, SPSS, R or others) and familiarity with descriptive and quantitative approaches (e.g., univariate statistics, multiple regression methods, and hypothesis testing) is expected. It is highly encouraged that students enroll in this seminar after Data Applications in Public Administration (PADP 7120).
5. It is also highly encouraged that students enroll in this seminar after Public Financial Administration (PADP 6930). Those with public sector debt finance or economics experiences, economics, finance, or accounting majors can enroll without PADP 6930—please speak to the course instructor if you are unsure about your level of preparedness.

Course Description

This seminar is an advanced course on capital markets and debt management. The emphasis of the seminar is on using financial economic theories and financial management techniques to address issues regarding access to capital markets for sovereign, state and local governments to

finance infrastructure projects and cash flow needs, with special emphasis on major economic and financial theories related to intermediation and market regulation. Cost of capital and efficiency effects due to institutions (legal, fiscal, and political), debt management networks/intermediaries and practices, debt structure, primary/secondary market processes, and financial engineering.

Students will develop a thorough understanding of the fixed income municipal securities market, including how to analyze sophisticated credits, develop innovative financing techniques, and work through important public financial policy issues. Students will acquire the ability to create financial instruments and analyze capital financing decisions with the use of computer spreadsheet software.

Course Objectives

The seminar is designed for advanced graduate students interested in studying the issues and theories in managing access to capital for sub-national governments. The objective of the course goes beyond a simple introduction to the municipal market structure, participants, institutions, and regulatory architecture. Special attention is given to the theories of financial economics and markets, capital asset management and pricing, and cash flow management in the state and local governments.

Students are introduced to the seminal theoretical studies in debt management and policy. Moreover, the students are exposed to empirical literature on fiscal and non-fiscal institutions, economic and political factors, debt structure and valuation, debt networks and financial intermediaries, and regulatory environments. In addition, background readings for each topic will be provided for students who are unfamiliar with introductory material in capital markets or municipal securities. Every student is expected to finish all readings as preparation for the class; and each is required to participate in the discussion and critique of the reading material.

In addition to reading theoretical and empirical studies from the literature, students develop technical skills to evaluate different instruments that are frequently used for financial product development and engineering in sub-national capital markets. The research paper assigned to the class requires the use of theories relevant to debt management and policy, review of relevant literature on a pertinent public policy problem, and descriptive or inferential evaluation of that problem using relevant data sources.

Course Policies

Policies to adapt to the Current Circumstances

Coronavirus Information and Policies for the Class

We will follow an **in-person** methodology for this class without any restrictions. While class attendance is not mandatory, the likelihood of success without attending is substantially reduced. These are the current policies at the beginning of the semester, be attentive to university wide changes.

UGA adheres to guidance from the University System of Georgia and the recommendations from Georgia Department of Public Health (DPH) related to quarantine and isolation.

Since this may be updated periodically, we encourage you to review the latest guidance [here](#). Self isolation is the expectation for faculty, staff, and students who test positive for COVID-19:

- Isolate for 5 days.
- If you have no symptoms or your symptoms are resolving after 5 days, you can leave your house and return to class.
- Continue to wear a mask around others for 5 additional days.

If you have been in close contact with someone who is COVID-positive, but you are not sick, CDC and [GDPH](#) urge you "... to monitor your health for symptoms of COVID-19 during the 10 days following the last time you were in close contact with a sick person with COVID-19."

Attendance & Participation Policy

In general, I will not be taking attendance for this class with the exception of classes in which we have scheduled students participation, such as discussions, presentations, debates or exams. **While class attendance is not mandatory, the likelihood of success without attending is substantially reduced.**

It is expected that students attend classes. Work in graduate seminars is based on student attendance and participation. It is our common "job" to make sure that all of us are doing our part to teach ourselves and our peers the course materials assigned in the seminar. We must all participate, and we must do so in an ethical and respectful manner toward each other.

Some notes:

1. I do understand that we all have the days when we are late. Should you be late, don't be upset, you are very welcome to join the class. However, **chronic unexplained lateness** will be considered as negative participation and will be graded correspondingly (after a short while, it becomes obvious who is chronically late).
2. **Leaving class** early (without a serious reason or prior notice; i.e. before class) is very disrespectful. If you leave in the middle of the class without any substantive justification, your action will be considered as disruptive participation.
3. To reiterate, please participate in class discussions by using the widely expected and accepted norms of civility. Please adhere to the norms of university student conduct. If you are not sure what these are, please study the link: [Office of Academic Integrity](#).

A student that accumulates three instances of disruptive participation will see a 10% deduction from his/her final course grade.

Late Assignments

Late assignments will be accepted for no penalty if a valid excuse is communicated to the instructor before the deadline. After the deadline, assignments will be accepted for a 50% deduction to the score up to 2 days after the deadline. After this any assignments handed in will be given 0.

Non-Discrimination and Anti-Harassment Policy

The University prohibits harassment of or discrimination against any person because of race, color, sex (including sexual harassment and pregnancy), sexual orientation, gender identity, ethnicity or national origin, religion, age, genetic information, disability, or veteran status by any member of the University Community (as defined below) on campus, in connection with a University program or activity, or in a manner that creates a hostile environment for any member of the University Community. Incidents of harassment and discrimination will be met with appropriate disciplinary action, up to and including dismissal or expulsion from the University." UGA Non-Discrimination and Anti-Harassment Policy may be accessed at the [Equal Opportunity Office](#) web page. Any person who feels that he or she has been the subject of prohibited discrimination, harassment, or retaliation should contact the Equal Opportunity Office (EOO) at (706) 542- 7912, or via email at ugaeoo@uga.edu.

University Honor Code & Academic Honesty Policy

UGA Student Honor Code: "I will be academically honest in all of my academic work and will not tolerate academic dishonesty of others."

All academic work must meet the standards contained in "[A Culture of Honesty](#)." All students are responsible to inform themselves about those standards before performing any academic work. All students are expected to abide by the University Honor Code as found in A Culture of Honesty, which includes the following statement:

"The University of Georgia seeks to promote and ensure academic honesty and personal integrity among students and other members of the University community. A policy on academic honesty (and procedural guidelines for adjudication of alleged violations of academic honesty) has been developed to serve these goals. Academic honesty means performing all academic work without plagiarizing, cheating, lying, tampering, stealing, receiving assistance from any other person or using any source of information that is not common knowledge (unless that assistance or use is authorized by the person responsible for supervising that academic work or fairly attributed to the source of assistance or information)." Further details can be found at the following UGA site: (<https://honesty.uga.edu/>).

Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation. Questions related to course assignments and the academic policy should be directed to the instructor. Any violation will be reported to the Office of Academic Affairs. **ANY INSTANCE OF ACADEMIC DISHONESTY WILL NECESSARILY RESULT IN A GRADE OF F.** In addition, the instructor reserves the right to pursue further academic disciplinary action through all channels available in the department, school, and the university.

Accommodations for Disabilities

Students who require accommodations to participate in course activities or meet course requirements should contact the course instructor during regular office hours, by email or by appointment. To request academic accommodations due to a special need, you can also contact the Disability Resource Center, 114 Clark Howell Hall, 706-542-8719 voice, 706-542-7719 fax, or 706-542-8778. If you have a letter from Disability Services indicating you have a documented disability that requires academic accommodations, please present the letter to me as early as possible

so we can discuss the accommodations you might need for class. If we do not meet in person to review the form (which can be found at <http://drc.uga.edu>) two weeks prior to a major assignment you will not be assigned any accommodation for the assignment.

Mental Health and Wellness Resources

- If you or someone you know needs assistance, you are encouraged to contact Student Care and Outreach in the Division of Student Affairs at (706) 542-7774 or visit <https://sco.uga.edu/>. They will help you navigate any difficult circumstances you may be facing by connecting you with the appropriate resources or services.
- UGA has several resources for a student seeking:
 - [mental health services](#)
 - [crisis support](#)
- If you need help managing stress anxiety, relationships, etc., please visit [BeWellUGA](#) for a list of FREE workshops, classes, mentoring, and health coaching led by licensed clinicians and health educators in the University Health Center.
- Additional resources can be accessed through the UGA App.

Other

- Devices
 - I understand that the electronic recording of notes will be important for class and so computers will be allowed in class. Please refrain from using computers for anything but activities related to the class.
 - Phones are prohibited as they are rarely useful for anything in the course. They should be on “vibrate” or “silence” mode before the class starts.

Course Structure

Grading Policy

The grade will count the assessments using the following proportions:

Assignments	Total Points	Due Dates
Participation & Reading Memos (x11)	20	On Calendar
Assignments (HW) (x2)	30 (15 each)	Feb 18 & Apr 1
Inverted Classroom (IC)	20	TBA
Final Project	30	Apr 29
Total	100	

Reading Memos

Completing the readings is essential to attain full grade in participation. This is a very simple task, that intends to guide you in your reading. For each class in which you are not responsible for an inverted classroom, select two of the empirical readings available and prepare a one-page memo for each one addressing the following questions:

1. What is the narrow question of the paper?
2. What is the broad question of the paper?
3. What data they use?
4. What is the main narrow finding of the article?
5. Does the paper offer a quasi-experimental identification strategy? The treatment and control units are easily identified?
6. Any praises or any critiques?

The memos are due at **midnight on Sunday before the class is held**. I will not review all the submitted memos. Occasionally, I will select some and review them. If they do not address the matter at stake or if you don't submit a memo, will reduce 3 points of your participation grade. **Submitting all of them will be required to achieve 100% in your participation grade.**

Not attending mandatory sessions will also affect your grade in the same way. It is mandatory to attend to the classes in which you are assigned some responsibility or your colleagues are presenting.

Assignments

There will be two assignments that will be distributed after the required material is covered, with more instructions. You will have approximately four weeks to complete each assignment. You can submit your assignments before if you prefer to do so in eLC. The assignments should be submitted individually.

Inverted Classroom

From one of the classes labeled with IC in the schedule you can make your choice of one of the topics. You will be in charge of presenting the material for the class, developing an activity and leading the discussion. I will provide you with a chapter from SIFMA (2011) "The Fundamentals of Municipal Bonds". You need to prepare a presentation for the class and an activity. Combined they should be around 1h to 1h 15 mins. You also need to guide the discussion considering the papers that all others students read for that week. On the Friday, ten days prior to your Inverted Classroom, you need to send me a brief email communicating me your plan for the class, and by the Thursday prior, the materials you will be using.

Final Project

You can make your choice for a final project from this list:

- Research Paper (encouraged for Ph.D. Students)
- Replication piece
- Financial Analysis

You can advance a piece of research of your own in this class, as long as you can make your usual policy or public administration topics intertwined with the financial conditions of the units of governments you usually analyze. If you decide to advance a research piece of your own you can work in groups (2-3) and need to get a literature review, data, and some analysis. You can select instead, a piece of research to replicate. This is a great exercise to get hands on experience on qualitative research and familiarize with a particular dataset. Finally, you can advance a through financial analysis of a recent bond issue. If this is your choice I will provide further instructions, providing you with a particular case to analyze.

We will have a brainstorm session (Week 7) where we can discuss the different approximations and get students started. A final decision has to be made a week following the brainstorming session. We will also have a session (Week 12) where you will have some time to advance in your Final Project. Your review should be considerably advance by then

Class Schedule

WEEKS(DATES)	OBJECTIVES/TOPICS/READINGS *!* Finish ALL readings before class.	DUE
Week 1 (Jan 8)	Course Introduction Review of basic financial concepts and calculations: - Time Value of Money - Interest Rates - Amortization - Bond Valuation - JLM (2014). Appendix A.	
No Class (Jan 15)	MLK Day	
Week 2 (Jan 22)	The Subnational/Municipal Debt Market - JLM (2014) Chapter 1 - Hildreth, W. B. & Zorn, C.K. 2005. The Evolution of the State and Local Government Municipal Debt Market over the Past Quarter Century. <i>Public Budgeting and Finance</i> 25(4S): 127-153. - Bessembinder, H., Spatt, C.S. & Venkataraman, K., 2020. A survey of the microstructure of fixed-income markets. <i>Journal of Financial and Quantitative Analysis</i> .	RM 1 Practice
Week 3 (Jan 29)	The Tax Exemption of Municipal Debt JLM (2014) Chapter 2 - Hildreth, W. B. 1993. State and Local Governments as Borrowers. <i>Public Administration Review</i> 53(1): 41-49. - Johnson C.L. & Rubin M. 1998. The Municipal Bond Market: Structure and Changes. In F. Thompson and M.T. Green (eds), <i>Handbook of Public Finance</i> , pp. 483-522. - Ang, A., Bhansali, V. & Xing, Y., 2010. Taxes on tax-exempt bonds. <i>The Journal of Finance</i> , 65(2), pp.565-601.	RM 2
Week 4 (Feb 5)	Public Debt: Issuers & Federalism - IC JLM (2014) Chapter 3 & 4 - Poterba, J.M. & Rueben, K.S. 2001. Fiscal News, State Budget Rules, and Tax-Exempt Bond Yields. <i>Journal of Urban Economics</i> 50, 537-562. - Prunty, R. 2013. The State Credit Rating Process: How Healthy Are State Public Finance Systems?. Lexington, KY: <i>The Council of State Governments, The Book of the States</i> . - Moldogaziev, T. & Guzman, T. 2015. Economic Crises, Economic Structure, and State Credit Quality Through-the-Cycle. <i>Public Budgeting and Finance</i> 35(4): 42-67.	RM 3
Week 5 (Feb 12)	Subnational Government Debt Financial Management I: Financing Principles and Policies JLM (2014) Chapter 5 & 6 - Stiglitz, J.E. and Weiss, A. 1981. Credit Rationing in Markets with Imperfect Information. <i>American Economic Review</i> 71(3): 393-410. - Stiglitz, J.E. 1985. Credit Markets and the Control of Capital. <i>Journal of Money, Credit and Banking</i> 17(2): 133-152. - Peng, J. & Brucato, P.F. 2004. An Empirical Analysis of Market and Institutional Mechanisms for Alleviating Information Asymmetry in the Municipal Bond Market. <i>Journal of Economics and Finance</i> 28(2): 226-238.	RM 4

WEEKS(DATES)	OBJECTIVES/TOPICS/READINGS *! Finish ALL readings before class.	DUE
Week 6 (Feb 19)	Subnational Government Debt Financial Management II: Bringing an issue to market - IC JLM (2014) Chapter 5 & 6 - Leland, H.E. & Pyle, D.H. 1977. Informational Asymmetries, Financial Structure, and Financial Intermediation. <i>The Journal of Finance</i> 32(2): 371-387. - Millon, M.H. & Thakor, A.V. 1985. Moral Hazard and Information Sharing: A Model of Financial Information Gathering Agencies. <i>The Journal of Finance</i> 40(5): 1403-1422. - Martell, C. and Guess, G.. 2006. Development of Local Government Debt Financing Markets: Application of a Market-Based Framework. <i>Public Budgeting and Finance</i> 26(1): 88-119.	RM 5 HW 1
Week 7 (Feb 26)	Mathematics of Bond Pricing JLM (2014) Chapter 7, Appendix B - Lawrence, E.R., and Shankar, S. 2007. A Simple and Student Friendly Approach to the Mathematics of Bond Prices. <i>Quarterly Journal of Business and Economics</i> 46(4): 91-99.	Final Project Brainstorm
No Class (Mar 4)	Spring Break	
Week 8 (Mar 11)	Financial Advising, Credit Ratings and Underwriting JLM (2014) Chapter 5 & 6 - Luby, M.J. & Hildreth, W.B. 2014. A Descriptive Analysis of the Municipal Advisors Market. <i>Municipal Finance Journal</i> 34(4): 69-98. - Moldogaziev, T. & Luby, M.J. 2016. Too Close for Comfort: Does the Extent of Municipal Advisor and Underwriter Relationships Impact Bond Borrowing Costs? <i>Public Budgeting and Finance</i> . - Johnson, C.L., Abbas, Y. & LaFontant, C.E. 2016. The Impact Of Dodd-Frank On Credit Ratings And Bond Yields: The Municipal Securities' Case. Working Paper	RM 6
Week 9 (Mar 18)	Inverted Classroom Preparation Day - No class	
Week 10 (Mar 25)	Debt Structure & Refinancing - IC JLM (2014) Chapter 10 - Perez, J.J. & Prieto, R.. 2015. Risk Factors and the Maturity of Subnational Debt: An Empirical Investigation for the Case of Spain. <i>Public Finance Review</i> 43(6): 786-815. - Moldogaziev, T. & Luby, M. 2012. State and Local Government Bond Refinancing and the Factors Associated with the Refunding Decision. <i>Public Finance Review</i> 40(5): 614-642. - Chalmers, J.M., 2006. Systematic risk and the muni puzzle. <i>National Tax Journal</i> , pp.833-848.	RM 7
Week 11 (Apr 1)	Enhancing Municipal Credit - IC JLM (2014) Chapters 11 & 12 - Guzman, T. & Moldogaziev, T. 2012. Which Bonds Are More Expensive? The Cost Differentials by Debt Issue Purpose and the Method of Sale: An Empirical Analysis. <i>Public Budgeting and Finance</i> 32(3): 79-101. - Drake, P.P. & Neale, F.R. 2011. Financial Guarantee Insurance and the Failures in Risk Management. <i>Journal of Insurance Regulation</i> 30(2): 29-76. - Ely, T.L. (2012). No Guaranties: The Decline of Municipal Bond Insurance. <i>Public Budgeting and Finance</i> 32(1): 105-127.	RM 8

WEEKS(DATES)	OBJECTIVES/TOPICS/READINGS *!* Finish ALL readings before class.	DUE
Week 12 (Apr 1)	Data & Final Project Workshop After the Data Workshop, you can work on your final project. Your final project review should be substantially advanced. Bring the material you have reviewed and that you plan to review, and any additional questions you may have.	Data Workshop HW 2
Week 13 (Apr 8)	Financial Disclosure - IC - Reck, J.L. & Wilson, E.R. 2006. Information Transparency and Pricing in the Municipal Bond Secondary Market. <i>Journal of Accounting and Public Policy</i> 25(1): 1-31. - GAO. 2012. Municipal Securities: Options for Improving Continuing Disclosure. Washington, D.C.: United States - <i>Government Accountability Office Report</i> GAO-12-698. - Gabaldon, Theresa A. 2009. Financial Federalism and the Short, Happy Life of Municipal Securities Regulation. <i>The Journal of Corporation Law</i> 34(3): 739-769. - Johnson, C.L., Kioko, S. & Hildreth, W.B. 2012. Government-wide Financial Statements and Credit Risk. <i>Public Budgeting and Finance</i> 32(1): 80-104.	RM 9
Week 15 (Apr 15)	Secondary Markets - IC - Green, R., Hollifield, B. & Schurhoff, N. 2007. Dealer Intermediation and Price Behavior in the Aftermarket for New Bond Issues. <i>Journal of Financial Economics</i> 86(3): 643-682. - Green, R., Hollifield, B. & Schurhoff, N. 2007. Financial Intermediation and the Costs of Trading in an Opaque Market. <i>The Review of Financial Studies</i> 20(2): 275-314. - Green, Richard, Dan Li, and Norman Schurhoff. 2010. Price Discovery in Illiquid Markets: Do Financial Assets Prices Rise Faster Than They Fail? <i>The Journal of Finance</i> 65(5): 1669-1702. GAO. 2012. "Municipal Securities: Overview of Market Structure, Pricing, and Regulation. Washington, D.C.: United States - <i>Government Accountability Office Report</i> GAO-12-265.	RM 10
Week 15 (Apr 22)	Sovereign and Subnational Bond Markets Internationally - IC Martell, C.R. Municipal Government Accountability in Brazil. <i>International Journal of Public Administration</i> , 30(12-14): 1591-1619. - Reinhart, C.M. and Sbrancia, M.B., 2015. The liquidation of government debt. <i>Economic Policy</i> , 30(82), pp.291-333. - Moldogaziev, T.T., Espinosa, S. and Martell, C.R., 2018. Fiscal governance, information capacity, and subnational capital finance. <i>Public Finance Review</i> , 46(6), pp.974-1001. - Romero, J.V., Vargas, H., Cardozo, C., Murcia, A. 2020. How foreign participation in the Colombian local public debt market has influenced domestic financial conditions, BIS Papers chapters, in: <i>Bank for International Settlements</i> , volume 113, pages 83-119.	RM 10
Week 16 (Apr 29)	Final Project Manuscript & Presentation Submit an electronic copy of your final project and presentation on eLC by Apr 29 .	Final Project
Final Week (May 6)	Final Project Live Presentation Submit an electronic copy of your final presentation on eLC by May 6 at noon .	