

**University of Chicago**  
**Harris School of Public Policy Studies**  
**Draft 9/05/2019**

**Economic Analysis III: Public Finance and Budgeting    Fall 2019    Public Policy 58103**

Lecturer: David H. Schabes

Prerequisites: None

Dates: October 2, 2019 – December 9, 2019 (Final Exam December 11)

Time: 6 PM – 8:50 PM Location: 1871 Classroom: 3.12

Office: 3.14 at 1871

**Instructor Information:**

Office Hours: Wednesday 4:30 PM-6:00 PM

E-mail: [dschabes@uchicago.edu](mailto:dschabes@uchicago.edu).

Cell: 630-738-0034

**Teaching Assistants:**

Shengyi Ma. email: [shengyi@uchicago.edu](mailto:shengyi@uchicago.edu)

Victor Vazquez Cortes. email: [vazquezcortes@uchicago.edu](mailto:vazquezcortes@uchicago.edu)

Office Hours: TBD 5:00 PM to 6:00 PM

**Course Description**

This course presents an introduction to financial analysis and budgeting for public sector entities. The focus will be on US state and local municipal entities, but the tools are applicable to a broad array of public sector, nonprofit and national government entities. These principles are critical to understanding the nature of how government and private sector entities present their financial condition, finance themselves and manage their financial risks. We will examine sources of revenue and how money is allocated to different departments and programs. Further, financial structure, evaluation of new projects, financial planning and governance will be discussed. Perspectives will include those of debtholders, and other key stakeholders. The problems presented will be typical of those faced by the Chief Executive Officer, Chief Financial Officer and Treasurer of such entities. Additional material relating to the public policy issues that certain executive decisions create will be considered. There will be problem sets almost every week to support most areas. Lastly, we will examine one case which illustrates the consequences of poor financial and risk management oversight. Most classes will be approximately 50% lecture and 50% working through homework or examples.

**Grading**

There will be an in-class mid-term examination after week 5 and a final examination during finals week. There will be eight graded problems sets and access to additional ungraded problems during the term. The value of each will be as follows:

- Homework: 30%
- Mid-term: 30%
- Final Exam: 30%
- Class Participation: 10%

Texts to be purchased:

Jorion, Philippe. *Big Bets Gone Bad, Third Edition*. Bingley, UK: Emerald, 2008. [Jorion Amazon Link](#)

Menifield, Charles E. *The Basics of Public Budgeting and Financial Management, Third Edition*. Lanham, MD: Hamilton Books, 2017. [Menifield Amazon Link](#)

Other Readings:

Transcript of Mayor Lori Lightfoot State of the City Address August 29, 2019. Crain's Chicago Business. <https://www.chicagobusiness.com/node/863276/printable/print>

City of Chicago, *Comprehensive Annual Financial Report for the Year Ended December 31, 2017*. Rahm Emanuel, Mayor, June 29, 2018. [City of Chicago Budget 2017 Link](#)

Government Finance Officers Association. "Best Practice" [www.gfoa.org](http://www.gfoa.org)  
<http://www.gfoa.org/debt-issuance-transaction-costs>  
<http://www.gfoa.org/expenses-charged-underwriters-negotiated-sales>  
<http://www.gfoa.org/primary-market-disclosure>

Jones Day. "White Paper An Overview of Chapter 9 of the Bankruptcy Code: Municipal Debt Adjustments", August 2010. <https://www.jonesday.com/an-overview-of-chapter-9-of-the-bankruptcy-code-municipal-debt-adjustments-08-15-2010/>

Public Policy Institute of California. "When Government Fails: The Orange County Bankruptcy, A Policy Summary." March 18, 1998. <http://www.ppic.org/publication/when-government-fails-the-orange-county-bankruptcy-a-policy-summary/>

Date/Readings	Lecture Topics and Assignments
September 25	<i>Introduction to Excel</i>
October 2  Menifield Chapter 1  Lightfoot Address	<i>Introduction to Public Sector Budgets and Accounting</i> <ul style="list-style-type: none"> <li>• Purpose of Public Sector Budgeting and the Budget Cycle</li> <li>• Structure of Public Sector Budgets</li> <li>• Accounting Methods</li> <li>• Revenue Funds</li> </ul> <i>Homework Problem 4</i>
October 9  Menifield Chapter 2	<i>Budget Preparation</i> <ul style="list-style-type: none"> <li>• Budget Cycle</li> <li>• Budget Proposals and Justification</li> <li>• Budget Components</li> </ul> <i>Homework Problem 1</i>
October 16  Menifield Chapter 3	<i>Personnel and Operating Budgets</i> <ul style="list-style-type: none"> <li>• Budget Considerations</li> <li>• Budget Defense</li> </ul> <i>Homework Problems 4 and 5 (plus pension value)</i>
October 23  Menifield Chapter 4	<i>Capital Budgets and Introduction to Financing Decisions</i> <ul style="list-style-type: none"> <li>• Capital Budget Preparation and Defense</li> <li>• Capital Improvement Plan Evaluation</li> <li>• Introduction to Bond Financing</li> </ul>
October 30  Menifield Chapter 5	<i>Governmental Entity Funding</i> <ul style="list-style-type: none"> <li>• Funding State and Local Budgets</li> <li>• Revenues – Property and Income Taxes, Transfers, Gaming and Fees</li> </ul>
November 6  Mid-term Exam	<i>Governance</i>
November 13  Menifield Chapter 6	<i>Budgeting Techniques and Financial Analysis</i> <ul style="list-style-type: none"> <li>• Revenue Forecasting</li> <li>• Cost-Benefit Analysis</li> <li>• Financial Decision-making Tools</li> </ul>
November 20  Menifield Chapter 7  GFOA Best Practices Documents	<i>Financial Management</i> <ul style="list-style-type: none"> <li>• Financial Condition</li> <li>• Cash Management and Risk Management</li> <li>• Procurement and Cutbacks</li> <li>• Debt and Investment Management</li> <li>• Distress and Bankruptcy</li> </ul>
November 27	<i>Thanksgiving Day Holiday – No Class</i>
December 4  Baldassare.  Jorion (as much as you can manage).	<i>Case Study: Orange County</i> <ul style="list-style-type: none"> <li>• Root Causes</li> <li>• Role of Financial Instruments</li> <li>• Consequence for the County and Recovery Process</li> <li>• Policy Lessons Learned (and Not Learned)</li> </ul>
December 11	Final Examination

