Course Overview: This course will provide you with basic skills to analyze and assess the financial condition of general-purpose state and local governments. The assessment process covers the entity’s short-term financial position, revenues, expenditures, debt, and pensions. We consider the influence of economics, demographics and political/administrative factors on each of these elements. The analysis takes account of the entity’s trends in relation to the trends of a peer group of entities as well as “rules of thumb” and medians developed by credit-rating agencies and other analysts.

Instructor: Martin Ives. I am available in the adjunct’s offices (3rd floor of the Puck Building) on Mondays before class from about 3:50 to 4:30 PM. You can also reach me at (914)271-9041.

Logistics: We meet on Mondays 4:55 PM to 6:35 PM each week from November 2 through December 14. Your final assignment (take-home) must be turned in (at the Puck Building) no later than 11:00 AM, Tuesday, December 22.

Texts (available at NYU bookstore):

Grading: Your grade will be based on two take-home assignments, as follows:
1. Short-term financial position and revenue portions (due Dec. 7) - 46 points
2. Remainder of financial condition analysis (due Dec. 22) - 54 points

Conduct of Classes: Classes will be part lecture and part discussion of the weekly Scopi County assignment. I expect you to do the assigned readings and to work out the Scopi County assignment (in Chapter 9, Appendix B) for the week. Come to class prepared to discuss both the assigned readings and the Scopi assignment.

The Scopi assignment has two elements: (a) crunching the numbers and (b) assessing the implications of the resulting ratios based on Scopi’s trends, the peer group’s trends, and other considerations such as credit-rating agency rules of thumb. I have done the numbers crunching for you. Make sure you understand how the numbers are derived, because the two take-home assignments require you to do the numbers crunching. Then, analyze the numbers and assess their implications for Scopi’s financial condition. I won’t collect your analyses, but I expect you to come to class prepared to discuss them.
Class Topics and Homework Assignments

The readings and problem assignments (including the graded take-home assignments) are to be done in anticipation of the dates shown in the syllabus.

1. Nov. 2. Introduction: meaning of financial condition; who analyzes financial condition; manifestations of sound financial condition; indicators of fiscal stress; factors influencing municipal financial condition; meaning of “balanced budget” in relation to financial condition.

   Financial condition analysis methodology: time-series analysis; comparative analysis (peer group and other comparisons); data conversion techniques (including conversion to amounts per capita, percentage change over time, and ratio analysis).

   Information content of governmental reporting: fund-level financial statements and implications of their measurement focus and basis of accounting; government-wide statements; notes to financial statements; management’s discussion and analysis.

   **Reading:** Ives Chapters 1, 2, and 3
   Berne Chapter 3 (optional)

2. Nov. 9. **Short-term financial condition indicators:** We cover budgetary cushion indicators (such as unreserved fund balance / revenues); operating results indicators (net change in fund balance / revenues; “one-shot” financing sources / revenues; tax-financed capital expenditures / revenues); cash liquidity indicators (such as cash and cash equivalents / current liabilities); real property tax collection experience (such as real property taxes receivable / real property tax revenues). This session also covers “one-shot” financing sources and interfund transfers.

   **Reading:** Ives Chapter 5
   Berne Chapter 8 (optional)

   **Scopi Problem:** See Ives Chapter 9, Appendix B for data. Do the short-term financial condition indicators portion of the problem.

3. Nov. 16.

4. Nov. 23.) **Revenue influences and indicators:** Analysis is discussed through four interrelated aspects: trend of actual revenues; trend in the behavior of the entity’s revenue base; trend in the relative tax bite; and effect on revenues of underlying economic and demographic bases. Major revenue sources and limits on the ability to tap into them; significance of the tax revenue bases; alternative computations of relative tax bite. Key economic and demographic indicators: population size, age and education; personal income and poverty rates; employment and unemployment rates; employment and employee earnings by industry; employer and taxpayer diversity. (I expect to cover actual revenue trends and behavior of revenue base on November 16 and the other elements on November 23.)

   **Reading:** Ives Chapters 4 and 6
   Berne Chapter 4 (optional)

   **Scopi Problem:** Ives Chapter 9, Appendix B for data. Do revenue portion.
5. Nov. 29. **Expenditure influences and indicators**: Analysis of expenditure trends by program; expenditure growth relative to increase in resident personal income and increase in inflation; ability to control expenditure growth. Potential for expenditure growth; causes of expenditure pressures; ascertaining operating expenditure needs based on performance measurement reporting; ascertaining capital asset needs based on asset condition reporting; ascertaining service needs based on demographic and economic indicators.

**Reading**: Ives Chapter 7
Berne Chapter 5 (optional)

**Scopi Problem**: Ives Chapter 9, Appendix B for data. Do expenditure portion.

6. Dec. 7. **Graded take-home assignment: short-term financial position and revenue parts. Must be turned at start of class; counts toward final grade.**

6. Dec. 7. **Debt Obligations and Debt Service Expenditures**: Why governments borrow; legal constraints on borrowing; scope and forms of long-term debt, including tax-financed debt-like arrangements and debt sold by specially created entities supported by diverted revenue; overlapping debt of other jurisdictions; legal debt margin; debt burden indicators, such as debt per capita, debt as a percentage of full value of taxable real property, and debt as a percentage of personal income; debt service burden indicators, such as debt service as a percentage of revenues and percentage of long-term debt to be amortized in next five or ten years.

**Reading**: Ives Chapter 8
Berne Chapter 6 (optional)

**Scopi Problem**: Ives Chapter 9, Appendix B for data. Do debt portion.

7. Dec. 14. **Pension and Post-employment Healthcare Obligations and Expenditures**: Types of pension plans and how they are financed; pension mathematics; elements of pension expenditures (normal cost and supplemental cost); meaning of actuarial accrued liability and unfunded actuarial accrued liability (UAAL); implications of varying actuarial assumptions, actuarial funding methods, and methods of amortizing the UAAL. Pension analysis ratios: funded ratio; ratio of unfunded actuarial accrued liability to annual covered payroll; quick ratio; benefits coverage ratio; investment earnings as a percentage of benefits; consideration of actuarial methods and other factors. Nature of post-employment healthcare benefit obligations and expenditures.

**Reading**: Ives Chapter 9

**Scopi Problem**: Ives Chapter 9, Appendix B for data. Do pension portion.

8. Dec. 22. **Final assignment paper must be put in my mail box or turned in to me personally no later than 11:00 AM, Tuesday, December 22.**
Welcome to P11.4210. If you want to do advance reading in anticipation of our first class on November 2, this memo lets you know what material I will cover during that class.

I will use the text *Assessing Municipal Financial Condition*, which I recently wrote and published. On November 2, I will cover Chapters 1 and 2 and all or part of Chapter 3 of the text. The text is available at the University Bookstore at LaGuardia Place. These chapters provide background material for the detailed analyses that we will make in the ensuing weeks.

I look forward to working with you.