

**SPEA V560 (section 20519)**  
**Public Budgeting and Finance**

Fall 2007  
8:00 – 9:15 Monday and Wednesday  
SPEA 272

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**Course Overview:** This course will examine the fiscal role of government in a modern mixed market economy and will provide fundamental skills of public budgeting and finance. It covers the basic principles and logic of public finance (why markets fail, the public / private line, provision / production); Organization and management of budget process; Federal, state, local budget processes; Basic methods for preparation, analysis, control, managing, and audit of budgets; Capital budgets; Concepts of performance measurement and performance budgets; Budget classifications; Time value (PV, FV); Basics of revenue system and standards for evaluation; Personal and corporate income taxation; Consumption taxation -- value added, retail sales, selective excise taxation; Real and personal property taxation; Revenue administration and compliance; Fiscal federalism; Public debt and capital markets and institutions.

This course emphasizes material that is essential knowledge for mid- to senior-level public administrators and develops groundwork for the further study that is necessary for public finance professionals.

**Required Text and Additional Readings:** The required textbook is *Fiscal Administration: Analysis and Applications for the Public Sector*, Seventh Edition, by John Mikesell.

A few additional readings will be available from the web or on electronic reserve in the Business/SPEA Library. The password for the electronic reserves is “dollar.”

**Learning Outcomes:** No matter how you work in the public service, your success will depend on your capacity to build, defend, operate within, and obtain resources for a budget. The basic principles of financial management and control are exactly the same for governments and for non-profit organizations (plus for-profit firms as well, but that is somebody else’s concern). These principles of government finance and budgeting are applicable across levels of government and across governments of all nations, differing only in the institutional details.

In this course, you should expect to learn:

- (i) the basic concepts and nomenclature of public finance;
- (ii) the nature of the budget process and the sources and uses of public revenues (decisions about the budget and the revenue system are the locus for public policy in a democracy);
- (iii) to apply some basic government finance concepts, including the basic principles of fiscal sustainability; and
- (iv) to do simple fiscal analysis.

**Grades:**

Midsemester examination	30%
Exercises	5
Fiscal review and assessment: written report	15
Fiscal review and assessment: briefing	10
Final examination (comprehensive)	40

**Examinations:** The examinations will include a mixture of short answer questions and problems. There will generally be no long, general, speculative essays on the examinations. The examinations may require you to do calculations like those in the recommended exercises or like those done in class. No formulae will be provided for you on the examinations. Calculators will be permitted, but problems will be graded more heavily on correct set-up than on the complete solution. Because each model of calculator has its own peculiarities, it is a mistake to appear for an examination with a calculator that is different from the one you have used when you worked the exercises.

Make-up exams will not be given; any accommodation for extreme emergency must be arranged before the examination or before any other assignment is due.

**Academic Policies:** Students are expected to follow the SPEA standards for academic behavior regarding cheating and other violations of academic honesty. These are spelled out in detail at this SPEA website: [http://www.iu.edu/~speaweb/academics/ma\\_policies.php](http://www.iu.edu/~speaweb/academics/ma_policies.php) Violators are treated with absolutely no sympathy or mercy by your professor, by the Graduate Program Office, by the SPEA Academic Fairness Committee, by the Office of the Dean, or by Indiana University administration.

**Classes:** You are expected to attend each class, to be here when each class begins, and to treat class as a professional event. Most classes will take place at the regularly scheduled time. A few may occur at other times to accommodate guests or other special needs. Any special sessions will be announced with as much advance notice as possible and will be considered part of the regular work of the course.

**Cases:** The cases identified on the syllabus are to be prepared for possible discussion in class on the assigned date. You may wish to prepare written notes on the cases to solidify your ideas for class discussion but these notes will not be collected.

**Exercises:** You will be assigned some problems and exercises that illustrate principles and concepts discussed in the textbook and in class. Some will be from the textbook and some will be handed out in class. Some, but not all, of these exercises will be graded. These exercises are due at the beginning of class or may be emailed to me before class (the email strategy will economize on your printing allotment for the semester).

**Math Notice:** The course does not require math beyond algebra. The examinations will include computational problems that involve calculations not unlike those performed at times in class or on the assigned exercises. The examination problems will be graded more heavily on setting up the calculations than on getting the “right answer.” Some exercises are much simpler to do if you can use spreadsheets (Excel, etc.) – if you do not know how to use spreadsheets programs, it would be a good idea to learn now. Exercises that require spreadsheet power to be worked in a reasonable amount of time will not be on exams, but smaller versions may be.

**International Students:** Yes, much of the class will be based on the example of the United States. The processes here serve as a case study of the internationally accepted model and the many violations of that model that the United States has managed to get away with. Your instructor is well aware of both international standards and the specific processes in place in a number of nations. The fact that we will work mostly with the U. S. model does not mean that you will not be learning principles applicable to your country.

**Fiscal Review and Assessment:** This assignment will involve intensive investigation into the budget, revenue, and financial management practices and processes of a local government in the area or of a local not-for-profit organization.

Steps in the Assignment:

1. You will form small consulting firms of five or six members each; you may select your own groups so that those with similar interests may work together. You will create these groups and inform me of members of your group by September 12. One member of your group should send me an email with the names of group members and the name of the entity you intend to analyze.
2. You will pick an entity to analyze. This entity may be a local government (a city or town, a county, a township, a school district, a solid waste district, a library district, etc.) or a not-for-profit organization located in this area (Stone Belt, Hoosier Trails Boy Scouts, Sycamore Land Trust, a church, etc.). (Most governmental agencies, e.g., the city police department, will not fit the requirements of this assignment – they propose and execute budgets, but are not responsible for all aspects of the fiscal process.) The entity should be chosen because of the firm’s interest in the service provided by that entity and because the entity will cooperate with your review and assessment. You cannot do this assignment properly without the cooperation of the entity; if the entity you want to examine is not interested in cooperating with you, move on to another entity. You will need to visit the entity and talk with its administrators possibly three or four times, meeting for an hour or two each time, depending on the entity. Before each visit, you should prepare a review guide that identifies what information or documents you intend to request and what questions you intend to ask at that interview. The better organized are your visits, the fewer and shorter your visits will need to be – and the less you will be in the way of the entity as it does its job.
3. Investigate the budget, revenue, and financial management processes and practices of that entity. The topics that should be investigated include, but are not limited to, the following: (a) budget process – how is the budget developed, what is the cycle, how are decisions made in developing the budget, what is the review procedure, who adopts the budget, how was the process established, what is the style / nomenclature of the budget and what is its usefulness to budgetary decisions, are processes transparent, is there a separate capital budget and budget process, are there extrabudgetary funds or earmarked revenues, are appropriate internal controls in place, what is the external audit arrangement, etc.; (b) budget analysis – explore expenditure patterns and trends to the extent possible, analyze inputs and performance results; (c) revenue analysis – from what sources does the entity collect revenue (taxes, charges, donations, etc. – provide disaggregated data), examine trends and shifts, explore limits and controls that the entity may face, review process by which revenue decisions are made; (d) debt analysis – does the entity have debt outstanding, analyze the type and rating (if any), examine debt service schedule. Make sure you identify outputs and outcomes (or results) for the entity.
4. On the basis of your investigation, what do you conclude about the fiscal situation, processes, and procedures of the entity? Be specific. Link your conclusions to the information developed in your analysis. Identify any fiscal vulnerabilities in the agency: future revenue stream, cost containment, debt burden, internal controls, etc. Outline and defend your proposals for reform or restructuring of the entity you have examined.

5. Prepare a written report of your findings, analysis, and proposals. The report should not exceed twenty pages, including tables and figures, and should also include an executive summary of no more than two paragraphs. This report is due December 1. All partners in your consulting firm will receive the same grade, unless there is reason otherwise. Some examples of reports from previous years are on electronic reserve.
6. Briefing. The firm will present its findings to the class in a ten minute professional presentation at the end of the course. The briefing will summarize the findings of the review. Important points could include entity spending by type of service, sources of revenues, budget process and fiscal management, and material weaknesses discovered. Any briefing that exceeds ten minutes will be docked one letter grade for both the briefing and the written report. Budget your time wisely!

Some General References to Guide Your Review and Assessment:

*Recommended Budget Practices of the National Advisory Council on State and Local Budgeting* ([www.gfoa.org](http://www.gfoa.org))

World Bank, *Public Expenditure Management Handbook*  
([www1.worldbank.org/publicsector/pe/english.htm](http://www1.worldbank.org/publicsector/pe/english.htm))

World Bank, *Public Expenditure Reviews*  
([www1.worldbank.org/publicsector/pe/p1pers.htm](http://www1.worldbank.org/publicsector/pe/p1pers.htm))

International Monetary Fund, *Manual on Fiscal Transparency*  
([www.imf.org/external/np/fad/trans/manual/index.htm](http://www.imf.org/external/np/fad/trans/manual/index.htm))

The World Bank and International Monetary Fund documents outline standards for nations, but most of the principles also may be applied to any public entity.

Your analysis of the expenditures, budgeting, internal control, revenue, debt, and cash management practices of the entity will be improved by reading the appropriate chapters of your textbook, even if the class has not reached that point by the time you are preparing that portion of your review.

For the entity you select, you will need to talk with the administrators responsible for the entity's finances, to analyze budget preparation materials, budgets, and annual financial reports, and to examine laws or other documents establishing and governing the entity's framework. You may locate other source materials on some entities (debt rating reports, newspaper stories, etc.).

## **Topics and Readings**

### **Public Goods and Public Finance**

#### **TOPICS:**

Basic Principles of Public Finance  
Elements of Nonappropriability  
Nature of the Public Sector

**Readings:** Mikesell, Chapter 1.

**Cases:** Mikesell, 1: 1.  
“Bloomington Trash Stickers” [RESERVE]

### **Fundamentals of Budgets and Budgeting**

#### **TOPICS:**

Size and Growth of Government in West  
Purposes of Budgeting: What Budget Processes Need to Accomplish  
Generic Budget Cycle: Who Does What, When, and Why

**Reading:** Mikesell, Ch. 2, pp. 31 – 56.

### **Budget Process and Procedures**

#### **TOPICS:**

The Roles of Budgets: Plans, Resource Allocation, Management, Control, Historical Record, Accountability, Fiscal Sustainability, Transparency

**Reading:** Mikesell, Ch. 2, 56 – end.

**Cases:** Mikesell, Ch. 2: 1, 2.

### **Federal Budget Systems, Institutions, and Processes**

#### **TOPICS:**

Federal Spending Patterns and Trends  
Federal Budget Process  
Institutions of Federal Budget Process  
The Federal Cycle  
Entitlements, Surpluses, Deficits and Debt  
Aging, Generational Accounting, Revising Budget Systems

**Readings:** Mikesell, Ch. 3, pp. 79 - 118.

For complete documentation of the federal budget process: U. S. Office of Management and Budget, *Budget Systems & Concepts*,: (<http://www.whitehouse.gov/omb/budget/fy2008/pdf/apers/concepts.pdf>)

The full federal budget appears at the Office of Management and Budget website: [www.whitehouse.gov/OMB](http://www.whitehouse.gov/OMB) Two other important federal budget websites: [www.cbo.gov](http://www.cbo.gov) and [www.gao.gov](http://www.gao.gov) .

Fisher, “A Presidential Item Veto” [RESERVE]

**Case:** Mikesell, Ch. 3, 3-1.

## **State and Local Budget Systems**

### **TOPICS:**

Patterns of State and Local Expenditure  
Diversity of State – Local Fiscal Structures and Processes  
Extraordinary Controls on State – Local Government Finance

**Reading:** Mikesell, Ch. 3, pp. 118 – 131 and Appendix 3 – 1 and 3 – 2...

Many states have placed their budget instructions, manuals, and final documents on the Internet. Pick a state and take a look.

The Indiana budget process is described at [http://www.in.gov/sba/committee/budget\\_process.html](http://www.in.gov/sba/committee/budget_process.html)

## **Some Basic Budgeting Techniques**

### **TOPICS**

Cost Estimation  
Budget Justification  
Budget Review  
Gimmicks, Cooking, and Phantom Balance (Don’t try these without supervision!)  
Budget Management and Execution

**Reading:** Mikesell, Ch. 4 and Appendix 4 - 1,

**Cases:** Mikesell, Ch. 4: 1 and 2.  
“Policy Choices and Budgets: Ballet and Opera” [RESERVE]

## **Budget Classification and Budget System Reforms**

### **TOPICS:**

Weaknesses of Traditional Budgets  
Alternative Classifications: Performance, Program, Zero-Base  
New Performance Budgets: Results-Oriented

PART

**Reading:** Mikesell, Ch. 5 and Appendix 5 – 2.

GAO, “Performance Budgeting: Opportunities and Challenges” (September 2003) (GAO-02-1106T) (Walker statement) [GAO website]

GAO, “Performance Budgeting: Current Developments and Future Prospects” (April 2003) (GAO-03-595T) (Posner statement) [GAO website]

Mullen, “Performance-Based Budgeting: The Contribution of the Program Assessment Rating Tool (PART)” *Public Budgeting & Finance*, Vol. 26 (Winter 2006). Access through library electronic journals.

Optional for those interested in developing countries: United Nations Capital Development Fund, *Achieving Results: Performance Budgeting in the Least Developed Countries* [download at [http://www.uncdf.org/english/local\\_development/documents\\_and\\_reports/thematic\\_papers/pbb/index.php](http://www.uncdf.org/english/local_development/documents_and_reports/thematic_papers/pbb/index.php)]

**Cases:** Mikesell, Ch. 5: 1, 4.

**Capital Budgeting**

**TOPICS:**

Capital Budgets Versus Operating Budgets  
Time Value: Compounding (Future Value), Discounting (Present Value), Annuities

**Reading:** Mikesell, Ch. 6 (through p. 263 only).

**Case:** Mikesell, Ch. 6: 1.

**Revenue in the Budget Process**

Baseline Forecast, Tax Estimates (“Scoring”), Tax Expenditures

**Reading:** Mikesell, Ch. 13.

**Revenue Policy Criteria and Their Application**

**TOPICS:**

Revenue Structures: International Comparisons, Federal, State, Local  
Policy Criteria: Equity, Adequacy and Disparity, Collectibility, Economic Distortion, Transparency  
“Corrective” Taxation

**Reading:** Mikesell, Ch. 7 and 12.

**Case:** Mikesell, 7-1.

## **Income Taxation**

### **TOPICS:**

Why Tax Income?

Individual Income Taxes: Defining the Base, Rate Structures, Effective Rates

Corporate Income Taxes: Defining the Base, Apportionment, Rates

Payroll Taxes: Rate Structure, Equity

**Reading:** Mikesell, Ch. 8.

Publication 17 *Your Federal Income Tax for Individuals* from the IRS website provides details on the federal tax. It is updated each year.

State income tax materials – individual and corporate – are usually posted on revenue department websites. They may be found from [www.taxesites.com](http://www.taxesites.com). Take a look at a state of your choice. The Indiana Department of Revenue provides a computer-prompted system that will take the information you enter, prepare your return, and file it for you at no charge.

## **Goods and Services Taxation**

### **TOPICS:**

Why Tax Consumption?

Structural Issues: Direct, Indirect; General, Selective; Unit, Ad Valorem; Single, Multiple Stage

Retail Sales and Use; Value Added

Selective Excises: Luxury, Sumptuary, Quasi-price

**Reading:** Mikesell, Ch. 9

Mikesell, “State Taxation and Electronic Commerce: A Review of Some Critical Issues,” Indiana Commission on Taxation and Financing Policy, Indianapolis, August 10, 2000. (RESERVE)

**Case:** Mikesell, Ch. 9: 2.

## **Property Taxation**

### **TOPICS:**

Why Have Property Taxes? People Hate Them!

Property Tax Structure: Real and Personal Property

Property Tax Rate Setting, Limits and Controls

Property Tax Assessment

Relief Mechanisms: Exemptions, “Circuit Breakers,” Abatements, Deferrals

**Reading:** Mikesell, Ch. 10

“An Alternative Scheme for Taxing Property to Finance Local Services:  
Banding.” [RESERVE]

**Cases:** Mikesell, Ch. 10: 3, 4.

## **Government Borrowing and Debt Management**

### **TOPICS**

Structure and Purpose of Federal, State, and Local Government Debt

Simple Mathematics of Bonds

Institutions of the Municipal Debt Market

**Readings:** Mikesell, Ch. 15 Appendix 15 - 1.

Caro, *The Power Broker*, Ch. 28 “The Warp on the Loom” (RESERVE)

## **Tentative Class Schedule**

The number of sessions devoted to each topic is approximate and will be adjusted according to the flow of the class and developments that might interest me through the semester.

August 27	Introduction and Organization
August 29	Public Goods and Public Finance
September 3	Fundamentals of Budgets and Budgeting
September 5	Budget Process and Procedures
September 10	Logroll simulation
September 12	Federal Budget Systems, Institutions, and Processes
September 17	Federal Budget Systems, Institutions, and Processes
September 19	State and Local Budget Systems
September 24	Some Basic Budget Techniques
September 26	Some Basic Budget Techniques
October 1	Budget Classification and Budget System Reforms
October 3	Budget Classification and Budget System Reforms
October 8	Capital Budgeting, Compounding, Discounting
October 10	Capital Budgeting, Compounding, Discounting
October 15	Examination
October 17	Revenue in the Budget Process
October 22	Revenue Policy Criteria and Their Application
October 24	Revenue Policy Criteria and Their Application
October 29	Income Taxation
October 31	Income Taxation
November 5	Goods and Services Taxation
November 7	Goods and Services Taxation
November 12	Property Taxation

November 14 Property Taxation  
November 19 TBD  
November 21 Thanksgiving Vacation  
November 26 Government Borrowing and Debt Management  
November 28 Government Borrowing and Debt Management  
December 3 Fiscal Review Briefings  
December 5 Fiscal Review Briefings  
December 14 FINAL EXAMINATION (8:00 – 10:00 AM)