

**School of Public and Environmental Affairs
Indiana University-Purdue University Indianapolis**

V560 Public Budgeting and Financial Management
Fall 2007
BS3015 TH 6pm- 8:40PM

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Office Hours: T, TH 10:30AM – 11:30AM or by appointment

COURSE DESCRIPTION

This course is an introduction to budgeting and financial management in the public sector. The course covers the following topics: 1) concepts and terminology in public budgeting and financial reporting; 2) major revenue systems, 3) the nature and characteristics of the budgetary processes in the U.S. governments; 4) capital budgeting and debt management, and 4) basics of budgetary and fiscal analysis.

Knowing how to use a spreadsheet program such as Microsoft EXCEL is highly recommended because that will save students time in handling some of the assignments. If you do not know how to use formulas in EXCEL, you may acquire the skills by reading some self-help books available in the market or use some of the online training resources available at IUPUI (<http://www.iupui.edu/~webtrain/tutorials.html>).

***Warning:** The course schedule is intense, and there are many weekly quizzes and assignments and a requirement of a short research paper at the end of the semester. Students who work full-time and are loaded with 6 or more credit hours are not advised to take this class.*

LEARNING OBJECTIVES

Students who complete this class are expected to acquire a broad knowledge of public budgeting and financial management issues and basic tools for budgetary analysis. As a core class of the MPA program, the course has the following objectives:

Competency Objectives	Course Features	Learning Outcomes
Enhance the understanding of globalization	<ul style="list-style-type: none"> - Introductory comparison of U.S. fiscal policies with other countries' policies - International case studies 	<ul style="list-style-type: none"> - Demonstrate understanding of the relationship between the global financial market and the U.S. fiscal policies in case study assignments -
Enhance the understanding of governance issues	<ul style="list-style-type: none"> - Discussion of the rising roles of the private and non-profit sectors in public service delivery and the impact on public spending - Discussion of the roles of citizens, interest groups, and partisan politics in the public budgetary process - Discussion of the importance of democratic institutions in public budgeting 	<ul style="list-style-type: none"> - Demonstrate the ability to analyze the fiscal and governance challenges of a state/local/nonprofit organization through case study assignments and the final paper
Equip students with skills in strategic analysis and action	<ul style="list-style-type: none"> - Introduction of political, economic, social, and ideological factors in public budgeting - Introduction of analytical techniques in budgetary analysis - Applications of these understanding and techniques in class assignments and projects 	<ul style="list-style-type: none"> - Demonstrate the ability to use a spreadsheet program to conduct budgetary and financial statement analysis Demonstrate the ability to analyze the impact of political, economic, and organizational factors on budgetary decision-making through case study assignments and the final paper

Equip students with skills in organizational management	<ul style="list-style-type: none"> - Discussion of organizational and human factors in budgetary decision-making and financial management - Application of organizational and leadership skills through group assignments and projects 	<ul style="list-style-type: none"> - Demonstrate the ability to analyze the impact of political, economic, and organizational factors on budgetary decision-making through case study assignments and the final paper
Reinforce the value of public service and professionalism	<ul style="list-style-type: none"> - Discussion of the importance of professionalism in public budgeting and financial management - Introduction of professional ethics and analytical techniques 	<ul style="list-style-type: none"> - Demonstrate the understanding of professional and ethical values in case studies and class discussion

The course content is designed primarily for current and aspiring government officials and policymakers, but many concepts and techniques discussed in the course are relevant to managers in nonprofit organizations.

Required Textbooks

1. Lee, Robert, Ronald W. Johnson, and Philip G. Joyce 2008. *Public Budgeting Systems, 8th edition*. Sudbury, MA: Jones and Bartlett Publishers.
2. Wang, Xiaohu 2006. *Financial Management in the Public Sector: Tools, Applications, and Cases*. Armonk, NY: M.E. Sharpe.
4. Supplemental reading pack (available at the university bookstore).

Evaluation

Online Quizzes (5 points x 4)	20 points
Discussion Forums (10 points x 4)	40 points
Final paper (a case report)	40 points
Total	100 points

I typically use 85 points as the benchmark for an “A” and the other grades are adjusted accordingly by a curve.

There will be 4 sessions of online asynchronous discussion. Students are expected to participate in all of them by preparing his or her own report, and then posting at least one response to the instructor’s questions and at least one response to other students’ comments. The instructor will wrap up a discussion forum in class by providing students feedback and comments. A student’s participation is graded on: a) the quality of his/her own report (5 points), b) frequency of participation in the discussion forums – e.g., the number of postings (max. 3 points), b) the quality of comments and effort of extraordinary participation (max. 2 points) – e.g., whether a student responds correctly to other students’ comments, whether he or she contributes any fresh idea, and whether the postings reflect accurate understanding of the class materials. The instructor will wrap up each session in class.

To encourage all students to post early so that there will be more lively and in-depth discussion, you are required to email your first response to me by Mondays at noon. Then the discussion forum will be opened and you can post your first response for others to comment on. The forum will be closed on the following Mondays at noon. If you fail to email me the first response by the deadline, 1 point (out of 5) will be automatically deducted for each day. The quality of your postings, of course, still matters, and will be reflected in the final forum points.

The final paper is a case report that analyzes the financial status of a governmental organization. The case report should be written in concise and professional language. Graphs and tables should be used if they can help present the analysis. All source materials and references should be properly cited in the case report. Plagiarism is an inappropriate academic practice and, if found, will lead to penalties according to university policies.

Communication with the Instructor and office hours

The instructor will be available online as well as by phone (317-278-4898) on T, TH 10:30AM – 11:30AM. He can also be reached during the week by Oncourse e-mail and will try to respond to students' questions within 48 hours.

Class Schedule (subject to modification by the instructor)

Week 1. Overview of the public sector and public budgeting (Aug. 23)

- Distinctions regarding public budgeting, historical development of U.S. budgetary systems, overview of U.S. fiscal policies and international comparison.

Readings: Lee, et al., ch. 1 -2.

Week 2. Rationales of government (Aug. 30)

- Why should government be involved in certain activities? Why should the government fund or regulate certain activities?

Readings: Supplemental reading online, lecture outline in PDF format

Discussion Forum I: Rationales of Government (10 points) – check Oncourse for more details

-- Forum opening: Aug. 27 (Mon)

-- First response due Sept. 3 (Mon.) at noon

-- Discussion Forum closed Sept. 10 (Mon)

Online test quiz (not graded)

Week 3. Revenue systems, part I. (Sept. 6)

- Overview of revenue sources, administrative and policy issues related to property tax.

Readings: Lee, et al., ch. 4; supplemental reading (Fisher).

Week 4. Revenue systems, Part II (Sept. 13)

- Policy and administrative issues related to sales taxes
- Resource development analysis

Readings: supplemental pack -- "Taxes on Goods and Services" (Mikesell), Wang, Ch. 2.

Discussion Forum I – Wrap-up discussion in class.

Discussion Forum II: Revenue Analysis (10 points) – check Oncourse for more details

-- Forum opening: Sept. 10 (Mon)

--1st response due: Sept 17 (Mon) at noon

-- Forum closed Sept. 24

Week 5. Overview of public accounting and financial reporting (Sept. 20)

- Concepts and terminology in public budgeting and financial reporting, an overview of the budgetary process in the U.S. federal, state, and local governments
- The balance sheet

Readings: Lee, et al, ch. 4 & 5

Wang, Ch. 9

Week 6. Financial reporting, part II – Statement of Activities (Sept. 27)

- Understanding the statement of activities and fund-level statements

Readings: Lee, et al., Ch. 11

Wang, Ch. 10.

Discussion Forum II – wrap-up discussion in class

Online quiz 1 (5 points – Due: Oct 4 noon)

Week 7. Financial reporting, part III – Financial condition analysis (Oct. 4)

- Financial statement ratio analysis

Readings: Wang, Ch. 7, 12.

Online quiz 2 (5 points – Due: Oct. 11)

Week 8. Basic budgetary analysis (Oct. 11)

- Percentage change analysis, revenue and spending analysis in constant dollars, forecasting
- Performance measurement

Readings: Lee, et al., ch. 7; Wang, Ch. 1.

Online quiz 3 (5 points -- Due Oct 18)

Week 9. Introduction to public budgeting (Oct. 18)

- Wrap-up discussion of budgetary and financial statement analysis
- Discussion of the environment for public budgeting, the role of the budget office, the budget review and approval process, the roles of citizens and partisan politics.

Readings: Lee, et al., Ch. 6 – 9

Week 10. Budget execution and program management (Oct. 25)

- Miscellaneous issues related to program delivery, downsizing, privatization, management control, pension management, and tax collection.

Readings: Lee, et al., ch. 10

Supplemental readings online

Discussion Forum 3: President Bush's PART (10 points) – check Oncourse for more details

-- Forum opening: Oct. 22

-- Forum 1st response due: Oct. 29 (Mon) at noon

-- Forum closed: Nov. 5 at noon

Week 11. Capital budgeting and debt management (Nov. 8)

- Planning and budgeting for capital improvements, techniques for evaluating spending priorities, overview of debt policies and management.

Readings: Lee, et al., ch. 12; Wang, ch. 6.

Online Quiz 4 (5 points – Due Nov. 15)

Discussion Forum 3: Wrap-up discussion in class

Week 12. Miscellaneous budgeting issues (Nov. 15)

- Federal budgetary challenges, intergovernmental fiscal relations

Readings: Lee, et al., ch. 14-15

Discussion Forum 4 (10 points) – check Oncourse for more details

-- Forum opening: Nov. 12 (Mon)

-- Forum 1st response due Nov. 19 (Mon) at noon

-- Forum closed: Nov. 26 (Mon) at noon

* * * Nov. 22 – Thanksgiving holiday. No class.

Week 13. Ethics and Professional Values in Public Budgeting & Financial Management (Nov. 29)

-- Professional ethics and values in public budgeting and financial management

Reading: Supplemental reading online

Discussion Forum 4 – wrap up discussion in class

Week 14. Project Day – Dec. 6 – NO CLASS *****

- Appointment with the instructor to finalize the project paper

Week 15. Submission of the final paper – Due: Dec. 13

Final Paper (Due: Dec. 13, 2007)

Governor Mitch Daniels recently presented a policy proposal to reform Indiana’s property tax system, which includes the following features:

- Capping residential property tax at 1 percent of the assessed value, rental property tax at 2 percent of the AV, and business property tax at 3 percent of the AV
- Reducing local governments’ (especially school districts’) reliance on property tax by shifting to the state the full cost of school operations and transportation, child welfare.
- Ending local government property tax credits
- Limiting the growth in local spending to growth in a county’s average personal income over a six-year period.
- Subjecting all significant local construction projects to a public referendum
- Paying the costs of all these changes by raising the state sales tax to 7 percent

Suppose you were a fiscal analyst for the Indiana Legislature. You were asked to analyze whether this proposal is fiscally feasible in 2008 and how it may impact Indiana state government’s short-term and long-term financial health. Specifically, these are your key tasks:

1. Please estimate the sales tax revenues in 2008. Table 1 shows the trend of general sales tax revenue for the past decade.

FY	General Sales Tax Revenue in millions	Source of data
1997	\$ 3,042.87	Census of govt 1997
1998	\$ 3,156.27	Annual survey of govt 1998
1999	\$ 3,308.19	Annual survey of govt 1999
2000	\$ 3,651.40	2004 June rev. report
2001	\$ 3,693.90	2004 June rev. report
2002	\$ 3,761.40	2004 June rev. report
2003	\$ 4,172.60	2004 June rev. report
2004	\$ 4,694.87	2006 CAFR
2005	\$ 4,963.33	2006 CAFR
2006	\$ 5,352.13	2006 CAFR
2007	\$ 5,472.10	2007 Nov. revenue report estimate
2008	?	

a) Please try the transformed moving average method and the time-trend regression method to estimate the sales tax revenue in 2008. Which forecasting method gives you a better estimate? [Please use MAPE to justify your answer.]

b) Assuming that Hoosiers’ consumption behaviors will not change significantly when the tax rate of the general sales tax increases from 6 percent to 7 percent (a highly optimistic assumption). Please

adjust upward your sales tax revenue in 2008 so that the estimated revenue increase will be proportional to the tax rate increase. What is your revised estimate of sales tax revenue in 2008?

Task 2. Evaluate the fiscal implications of these policy changes.

a) Please provide a brief assessment of the current liquidity and solvency situation of the Indiana state government based on the information provided in the FY2005 and FY 2006 CAFRs.

b) Assume that the proposal by Governor Mitch Daniels will be passed by the Indiana Legislature, and assume that in 2008, Indiana state government will give close to \$8,000 million to local school districts and other local units of government for various spending needs. However, it will also stop giving local property tax credits to local governments, which is estimated to be about \$2,000 million. Given these estimates, how would this proposal impact the state finance in the short run? Will these policy changes create any deficit pressure and impact the net assets of the state government negatively? Will these policy changes create any liquidity concerns?

3. What are the pros and cons of raising the sales tax from 6 percent to 7 percent? Please assess this policy change from the perspectives of economic efficiency, equity, revenue generation, and revenue administration. Should Indiana legislators support this proposal?

4. Suppose along with the proposal of state financing of school operating needs, there is a proposal to impose some performance measures on local school districts to ensure greater accountability in education spending. These performance measures include:

- A school district's drop-out rates
- A school district's student graduation rate
- A school district's average reading and mathematics scores in certain state-administered tests at certain grades;
- A school district's student absence statistics
- Percent of teachers who pass certain professional tests
- A school district's average student-teacher ratio / class size statistics
- The level of annual per-student spending (instructional and non-instructional)
- The ratio of annual capital spending to annual operating spending
- Percentage of high school graduates who are admitted to colleges or universities

Should the legislature support such a performance measurement initiative and require school districts to report these statistics biennially to the state legislature and to the public (e.g., on the district's website) before they will receive state appropriations? What are the advantages and risks associated with this performance measurement proposal?

In your analysis, please consider not only the merit and problems of the performance measurement movement discussed in the literature, but also the interests of various interest groups and stakeholders who may pay close attention to this proposal. Hence, your recommendations should not only be theoretically sound but also be politically sensitive. Please lay out clearly some of the key political concerns Indiana legislators should consider in evaluating this performance measurement initiative.