

WWS 593j—State and Local Finance
Fall Term- 2008 Thursday ---1 to 4 PM
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COURSE EXPECTATIONS and REQUIREMENT

The purpose of the course is to review both conceptual and technical aspects of public finance as they relate to state and local government. The course will follow the major processes of (1) taxation (2) budgeting, (3) tax policy, (4) capital and debt, (5) money management, (6) pensions, and (7) financial systems.

Budgeting is perhaps the most important of these financial processes. The budget establishes the Chief Executive's goals and objectives to carry out the pledges made during the political campaign. But, sometimes the reality of the fiscal and economic situation limits what can be accomplished. How a Governor or Mayor goes about the process of building the budget and just as importantly, establishes his/her fiscal, tax, capital and program policies is the principal focus of the course.

Funding for public programs is inseparable from the operation of programs. All public managers, therefore, find themselves needing knowledge and skills in the basic principles of finance and budgeting. Whether you become an official who is immersed in budgeting and finance on a day-to-day basis, or you become an official who must make policy based on the relationship between dollars and program goals and objectives, an understanding of major processes of finance is vital to both your personal success and the success of your organization.

The course will involve lectures and the use of case studies. Each class will begin with a short inter-active discussion of current state and local finance events / issues.

Each student will be required to do a 10-15 page final paper on a budgeting or finance topic. Possible topics will be discussed on the first day of class. You will need to write a paragraph describing the proposed topic for prior approval of the professor, which is due at the end of the third class.

Students will be expected to: (a) attend all classes and come prepared for all class discussions, (b) submit a final paper, and (c) do a short mid-term test in class. Students will be graded based on how they meet these expectations as follows:

Mid-Term Test	30%
Research Paper	40%
Class participation	30%

Texts for Course

- “Memos to the Governor-An Introduction to State Budgeting,” Dall Forsythe, 2nd Edition, 2004 (85 pages)
“Public Budgeting Systems,” Robert D. Lee and Ronald W. Johnson, 8th edition. NEW EDITION
“New Realities in State Finance,” Ronald Snell, National Conference of State Legislatures, 2004 (90pages)

Other Required Readings for Course

- Case Study--Kennedy School: Budgeting in State Government.
Case Study--Kennedy School: Oregon Governor Takes on Fiscal Reform.
Tax Policy Study--NJ State and Local Expenditure and Revenue Policy Report.*
www.politicsnj.com -- for class discussion
www.stateline.org – for class discussion
Selected articles from journals and magazines---Provided by Professor

- * -- To find the report – Go to Goggle and enter 1998 SLERP Commission
-- Click on JCSFTOC intranet (which is about the 3rd entry on the page)
-- Go to section 2 O entitled “Final report of the SLERP Commission.”
-- NOTE: this section 2 has other info of interest on the subject of school finance

Other Text Books for Reference

- “Public Budgeting in America,” Thomas D. Lynch, 1995
“Fiscal Administration: Analysis and Application for the Public Sector,” John Mikesell, 1998.

Course Outline

November 6 Major elements of state and local finance. Federalism at a Crossroads.

The first class will provide an overview of the major elements of state and local finance—budgeting, revenue, tax policy, debt management and capital budgeting, cash flow and investments, pension issues and accounting for funds and how they interrelate. The major differences between federal financial issues and state and local finance will also be discussed.

Think there are dangerous fiscal signs on the federal horizon? There are just as many in the state and local arena and we will see how federalism is now at a significant financial crossroads—perhaps a more ominous crossroad than at any times in our past.

Centralization of authority and impact on state and local finance will be discussed as well as Preemption Issues

Preparation: Lee Text—Chapters 1, 2,3,14

November 13 Budget Process: Part I--Planning and Spending

Discussion on the role and decision-making responsibilities of the various players in the state and local process. We will discuss, in detail, budget planning and development, budget adoption, budget execution and post audit—process and theory.

Preparation: -- Forsythe Book--pp 1-90.
-- Lee -- Chapters 6, 7,8,10 and 11.

November 20 Budget Process: Part II--Where the Money Comes From--Revenue and Taxes

Discussion on the major revenue sources in a state government as well as the major source of revenue for local governments---the property tax. Discussion on tax equity and related issues. Also, discussion on tax estimating problems and issues.

Preparation: Lee—Chapters 4, 5.
National Conference of State Legislatures –pp1-90
Article: The Case for Earmarking
Keevey---Revenue Estimating Processes
Keevey---Revenue Estimating: Recommendations

November 27 Budget Process: Part III--- Revenue and Spending Coming Together.

SHORT MID-TERM

Developing budget options. Current Service Budgets vs. Zero-Base analysis—are they in Conflict? Budget formats and their importance. Solving projected shortcomings. A recent presentation by a state government to one of the Credit Rating Agencies in New York will also be analyzed and discussed.

Preparation:

- Article—“How to fill a \$ 3 Billion Budget Gap”
- Kennedy Case study—“Budgeting In State Government.”
- Kennedy Case study—“Oregon Governor...”
- Article: Managing Fiscal slack
- Formats from a typical State Budget
- Development of a Current Services Budget--Spread- sheet building and analysis.
- Establishing a Governor’s Management Agenda—Process and Contents

December 4 Capital Budgeting, Debt Management and Bonding

Discussion on the capital planning and budgeting process. Discussion on the major terms and concepts associated with issuing debt and financing capital projects. The role of the Rating Agencies, the players in the bond issuing process, and concepts such as coupon, yield, present value, discount, etc. will also be discussed

Pension financing, Investment policy and cash flow will be part of the presentation.

Preparation:

- Lee and Johnson—Chapters 12, and 13.
- Article: Impact of Management Practices on Municipal Debt
- Article: The Case against State Appropriation Debt
- Article: Anatomy of an Upgrade
- Case Study: Financing the Dulles Corridor Rapid Transit Project: Pros and Cons

December 11 Tax Policy Options: Expenditure and Revenue Trade-offs

State governments frequently review how they and their school districts, municipalities and county government raise revenues to pay for services

Issues such as what services are provided at what level of government and who pays for the service are important considerations. School financing and related equity issues are usually a major component of such discussions as is the burden of the local property tax and most importantly, how to achieve the best balance between state and local taxes and the most equitable distribution of the tax burden among the citizenry.

Students will need to obtain the report of the NJ State and Local Expenditure and Revenue and Policy Commission (see information on how to obtain the report under “Other Readings for the Course”) as well as related reports and papers from other states. Students will be given a list of questions to guide their readings. The class will be devoted to a discussion of key topics such as: who should pay for what governmental services; what functions are best provided at what level of government; how should school costs be distributed and financed; how much should the business community contribute to the cost of government; how best to

formulate a tax structure without discouraging business development; and related tax and spending issues. No formal presentation is required.

The author of the report and the Executive Director of the Commission will be present for discussion

Preparation:

-- NJ State and Local Expenditure and Revenue Report

-- Article: Tax Reform : The Commission Approach

-- Tax Options for Arkansas

--Florida State Tax Reform Task Force Report

-- Newspaper articles: Decision Time in Virginia / Governor Pushes Tax Mix

NOTE:

Final Class Paper must be received by e-mail Rfkeevey@yahoo.com (my Yahoo address) with a note to my Princeton e-mail address that you have mailed it by no later than January 15, 2009