Public policy managers need to know something about the financial aspects of government. This course covers the basics in the state and local financial world -- and also connects such information to the finances of the federal government.

Tough budget choices have been made this year by most state and local governments. BUT, they have not solved the problem, and indeed the problem cannot be solved at any single level of government. Instead we need an entirely different conversation about what we want in public services, how much we are willing to pay for them, and how much we are willing to accept changes in those services to preserve their intrinsic value.

The purpose of the course is to discuss both the academic and practical aspects of state and local government finance – with the emphasis on the practical -- so that we can better consider the above problems and possible solutions. We will discuss the major financial processes of (1) budgeting (2) taxation (3) tax policy (4) capital and debt (5) cash management, and (6) pensions. Our framework will be the budgeting and tax process in which these seven elements occur.

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 a principal focus of the course.

In the aggregate the expenditures at the state and local government world approximate the expenditures of the federal government. And, never before in our history, has the structure and fiber of state and local government been more stressed and challenged than they are today.

Funding for public programs is inseparable from its operation. Whether one is an official immersed in budgeting and finance on a day-to-day basis, or one who makes policy choices, an understanding of major processes of finance is important to personal success and the success of ones organization.

The course will involve: lectures, the use of a case study, two problem/policy sets, class discussions and a short group presentation. Each class will begin with a short inter-active discussion of current state and local finance events / issues (see below for sources).
The following cites should be consulted for discussion articles at the beginning of each class -- and for your understanding of current state and local finance issues:

- www.stateline.org
- www.rockinst.org
- www.pewcenteronthestate.org
- www.cbpp.org
- www.brook.edu
- www.urban.edu
- www.aei.org
- www.crfb.org

**COURSE GRADING:**

- EXAM (take home) or Research Paper 65%
- Class participation, including final policy presentation 35%

**TEXTS for COURSE:**

- “Memos to the Governor-An Introduction to State Budgeting,” Dall Forsythe, 3rd Edition, 2012 (a short and pithy 100 page set of memos)
- “Public Budgeting Systems,” Robert D. Lee and Ronald W. Johnson, 9th edition – principal text. (8th edition is also acceptable)

**OTHER REQUIRED READINGS for COURSE**

- Case Study--Kennedy School: “Oregon Governor Takes on Fiscal Reform” (on Blackboard).

**OTHER TEXT BOOKS for GENERAL REFERENCE:**

- “State & Local Public Finance, Ronald C. Fisher
- “Fiscal Administration: Analysis & Application for the Public Sector,” John Mikesell.
COURSE OUTLINE

Lecture # 1 – September 16  CURRENT STATE & LOCAL FISCAL ISSUES

KEY TERMS

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.

Dangerous fiscal signs exist in the federal government. There are just as many financial issues in the state and local arena - and we will also discuss how federalism is now at a significant financial crossroads -- perhaps a more ominous crossroad then at any times in our past.

PREPARATION:

-Lee, Johnson & Joyce Text— Chapters 1, & 2.

-Short articles – ON Blackboard:
  - Unlikely Duo--Cuomo & Daniels
  - Deficits & current services
  - Opinion – Making of a Budget
  - Budget Gimmicks
  - Strategic Planning and Budgeting in Abu Dhabi
  - Abu Dhabi --Recommendations

Lecture # 2  PLANNING & SPENDING of RESOURCES

Management role and decision-making responsibilities of the various players in the state and local budgeting process will be discussed. Detailed discussion on budget planning and development, budget adoption, budget execution and post audit—process and theory.

PREPARATION:

- Forsythe text—READ ALL 100 pages.

- Lee, Johnson, Joyce -- Chapters 4, 7, 8, 10, 11 &12

-Handouts / Blackboard:
  - Budget calendar chart & timeline
  - Chart on Surplus, Revenues and Expenditures
  - Budget structures and hierarchy
Lecture # 3  

Where Does the Money Come From?

Discussion on the major revenue sources in state and local governments -- especially property, income and sales taxes. Plus: gasoline, inheritance, gambling, etc.
Discussion on tax equity and related issues.
Discussion on tax estimating -- problems and issues.

PREPARATION:
- Lee, Johnson & Joyce -- Chapters 5 & 6.

-Handouts/Blackboard:
  - Complexity of taxes chart
  - Cannons of Taxation chart
  - Tax equity -- Vertical & Horizontal equity
  - Revenue estimating
  - Case for Earmarking
  - Tax Discussion --sales, Income, etc.
  - Concept of Effective Tax rate
  - Steps in establishing Income tax Liability
  - Property Tax discussion and terms
  - Case for Earmarking

Lecture # 4  

BRINGING REVENUE & SPENDING TOGETHER

Discussion of spending options, including solving projected shortfalls.
Discussion of zero-based budgeting v. incremental budgeting.
What does a Current Service Budget Model look like?
How does policy and finance come together?

PREPARATION:
- Case Study --“Oregon Governor Takes on Reform”

-Handouts / Blackboard:
  - Memo from the Big Consultant
  - Analyzing & Solving a State Budget dilemma
  - Development of a Current Services Budget
  - Spread- sheet building and analysis process
  - Budget Balancing exercise
  - Budget and Performance Linkage
  - Budget Policy Decision Matrix
Lecture # 5  CAPITAL FINANCING & PENSION FINANCING

Discussion of the capital planning and financing process. How does one determine capital needs? How are bonds issued and who are the major players in the process, including Wall Street, Bond Counsel, the rating Agencies?

Discussion of major ideas in capital financing – re-financing; GO debt v. Contract debt, asset monetization, public private partnerships

Discussion of major pension issues facing state and local governments, including options for solutions.

Discussion of the investment of funds, and cash flow analysis.

PREPARATION:
-- Lee, Johnson & Joyce -- Chapters 13 and 14.

--Handouts/Blackboard:
- Article: “The Case against Appropriation Debt.”
- Article: “Anatomy of an Upgrade”
- Article: “Debt Management -- by Ms. Cristol
- Bond OS (Official Statement)
- Bond Sale Announcement in Tennessee
- Bond Yields & Prices
- Cash Flow examples
- Credit Rating Guidelines
- Toll Road paper
- Pension problems & reform options

Lecture # 6  STATE & LOCAL PRESENTATION & DISCUSSION

Tough budget choices have recently been made by many state and local governments. But, such actions have not totally solved the problem, and indeed, I would argue, the problem cannot be solved at any single level of government. Instead we need a different conversation about what we want in public services, how much we are willing to pay for them, and how much we are willing to accept changes in service delivery and content.

This is a pretty abstract statement. But, recently a non-partisan group of former NJ government officials in their report “Facing Our Future” concluded the following: “If we do not proactively address the imbalance between the cost of services and likely revenue, we will end up in five years with a hollowing out of services at ALL levels of
government, by a minimum of 20% --even before we take into account the corrosive cost pressure of inflation.”

On a much broader scale, the State Budget Crisis Task Force -- Co-chaired by Paul Volker and Richard Ravitch released a report in July, 2012 (www.statebudgetcrisis.org) which highlights the problems facing states and proposed a series of recommendations. In developing the report they used six states as ‘models” –New York California, Texas, New Jersey, Virginia and Illinois.

**ASSIGNMENT & PREPARATION:**

Students will read the SUMMARY of the above reports and be prepared to discuss & present the problems facing state and local governments and propose solutions to fix these long term fiscal and tax issues.

Issues such as current and future sources of revenues, tax equity, intergovernmental relations, school finance, consolidation of governments and services, and budget impacts at each level of government -- and more -- will be considered, and discussed.

More focused direction to be discussed before presentation.

**REVISED: July, 2015**