

**PSPA 510**  
**Local Government Budgets and Financial Management**

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The focus of this course is local budgeting and financial management. Budgeting includes topics such as how to organize the budget office and what to put into budget preparation manuals, how to lay out a budget, what kind of accounting to do throughout the year, and how to make the budget more accountable. We will review a variety of reforms and examine the effect they have had on budgeting. Financial management includes topics such as revenue, projections of revenue and expenses, intergovernmental finances, borrowing, drawing up a budget calendar, and implementing the budget. We will also deal with some topics in greater depth, such as economic development financing. Most of the text material deals with municipal budgeting, because it is the most complex, and the best worked out. If you can do municipal budgeting, you can budget for counties, hospitals, school districts, etc., with only minor updating and reference to the relevant statutes. Feel free to introduce examples from your experience into the class discussion, regardless of whether your experience is at the local government level, state, or federal level, or with a private or non profit agency.

There are three required texts, all available through the bookstore: Management Policies in Local Government Finance (the green book); Bland and Rubin, Budgeting A Guide for Local Governments; and Richard Bingham, Edward Hill and Sammis White, Financing Economic Development.

There is a budget exercise to do on the computer, Yasuo Ikari, the lab assistant, should know what you need to do to get up and running, and he should give you the exercises (if they don't give them to me to give to you) and a floppy with the data on it. You can do the exercises on any spread sheet, though they are currently designed for excel. Students must demonstrate facility with spread sheets; if you are not familiar with spread sheets, ask for a tutorial in the lab and teach yourself. You need not do the exercises in the lab, you can do them in the office or at home if you have spread sheet software, but in the lab the assistants can help you if you get stuck. The lab is on the first floor of the building on the north east corner of Lincoln and Carol, (opposite the pizza hut) the PA staff offices are on the second floor. You can do the exercises early in the semester if you wish, but you should plan to have the first half of the exercises done by no later than the midterm, and plan to finish up no later than two weeks before the end of the semester to avoid end of semester pile up for the lab assistants. You may redo the exercises as many times as needed until you get them correct. Please hand in the exercises to the lab assistants; they will grade them, hand them back until you get them correct, and then report to me that you have finished or that you have not finished. The problems are chosen to demonstrate how useful spreadsheets are in common budgetary analysis--they are not complicated. Some demonstrate common spreadsheet features, while others emphasize the reasoning that goes into the kinds of analysis frequently done by budget officials and analysts at all levels of government.

To ensure that students are prepared to read budgets and analyze them, the class includes two in class workshops, one on reading budgets and the second on preparing and justifying budget requests.

To prepare for the workshop on justifying budget proposals, you need to pretend you are a department head, and ask for a new or expanded program. You have to justify to the council why they should give you more money. We will talk more in class about how to do this but you should have a one page presentation, with handouts, (if you can provide a handout for each member of the class do so, otherwise make a few copies for me and the class) on the day of the workshop. These presentations will be handed in, so write them neatly or type them out. You may

talk to people who have made budget requests to try to get some clues as to how it is done, but do not bother people extensively with questions.

To prepare for the workshop on reading budgets, students need to get hold of a local budget--not an appropriations ordinance, but a full fledged budget--of at least a million dollars. It may be a city or a village budget, or that of a school district, public hospital, county, or special district, depending on your interests. If you pick a social service agency, make sure you have revenues as well as expenditures, or you don't really have a budget. So if you are doing a county, you will have to get the whole county budget, even if you are only interested in single department, just as if you were interested in public works in a city, and had to get the whole city budget to study public works. Some students may even prefer national budgets, but as the course is focused on local governments, do try to get a local budget. You may get a previous year's budget if you cannot get a current one; you can get one from where you work, or where you live, or where relatives live, get them to send you one. Begin now, as it can take time to find a real budget that you can use. Sometime before the workshop, look over the budget you found, see how much of it you can follow, and write down questions about what it is you could not understand. Do not panic if none of it is clear, that is not unusual. Hospital budgets are hard to get and provide very little information, be forewarned.

There is a paper requirement for this class, but it does not require any library work. Students have to analyze some budget or budgets, by posing and answering meaningful questions, such as how good a budget is this, is it really balanced, what has been the effect of inflation on revenues, what is happening to revenue (trends), how are current political events or managerial decisions affecting the budget, how does this department compare to that one, how have the budgets changed over time, etc. You may use one or several budgets, or compare budgets and audits, and so forth. Plan early to choose a good question and get hold of the relevant material, since if you cannot get the materials you will have to change topic. If you cannot think of a topic, see me. I have plenty of topics to research. The papers are intended to be short and to the point, they should be no more than ten pages, although you may wish to append copies of the raw data or your calculations. You will probably want to wait until the middle of the semester, when you have learned to read a budget, before you begin the actual analysis; doing the computer exercises first may also give you a few ideas that you can try for papers. Run your paper topic by me for feasibility. Also, aim for depth, rather than breadth in your analysis: it is generally better to understand more about how the sales tax works than a little bit about a half dozen revenue sources. If your initial analysis turns up questions, try to pursue them with your data.

I try to stick as close as possible to the syllabus, although I spend more time discussing matters that students express interest in or clearly misunderstand, and sometimes weather derails the schedule. I normally do not give makeup exams, and do not shift the timing of exams. If you see a problem looming, please let me know as far in advance as you can.

## **GRADING**

There will be a midterm exam, the computer exercises, the term paper, and a final exam. The midterm is not weighted heavily, it is primarily a walk through for the final so that you will know how to study for it. The midterm also should ensure that you are up to date on the reading and it will give me feedback on what you do not understand. The midterm is 20 percent of the grade, the computer exercises ten percent, and the term paper and the final exam are 35% each. Outstanding classroom participation will lift a grade by the equivalent of a plus; failure to perform a check off task, such as the budget justification exercise or the performance measurement analysis, will lower your grade by the same amount (such as a to a-, or b+ to b.)

***YOU MUST READ THE ASSIGNMENTS BEFORE THE DAY WHEN THEY ARE DUE.*** This is an absolute requirement of the class because the class operates primarily but not exclusively on a discussion basis. Students must read the material and formulate questions about what they do not understand. The questions do not have to

be well formulated or intelligent sounding, and they can be as simple as "I got lost on page 46 in the middle. I can't understand that paragraph." Please do not worry about sounding foolish: your classmates will undoubtedly be relieved that someone asked the question. If you do not feel comfortable asking questions in class then see me after class or in the office, or call me or email me. Being confused initially is fine, staying confused is not. I usually respond to email the same day, unless I am out of town, sick, or the computer is down. If you are planning to submit papers via email, please remember to translate to a text format (ascii); I cannot read either encoded material or WordPerfect files or word files that have been sent as appended materials. They often come through jumbled. Please copy the material you want to send and paste it into the body of the email message unless it is very long--too long for your mail system to accommodate. If so, divide the file in half and send me both halves. In Windows, pasting into the email will automatically remove the formatting and any possibility of conveying a virus.

To put text file in the body of the email, in a Windows environment, click edit, select all, copy, and paste into the body of the email. It is really very simple. You can practice on short files to make sure you can do this before sending something you want credit for.

Students will come to this class with very different backgrounds. If you have not had much finance or budgeting background, plan to spend more time on this course than otherwise. The course does not assume prior work in the field, but it does assume that those without background will make the effort to fill in what they do not know. It may require several readings of the text, for example, before it starts to make sense; be prepared to spend the time to read the material more than once. You may want to read the material once before class and then once after you get explanation in class. I repeat however, that you may not wait until after class to read the material for the first time.

## **Syllabus**

**January 16.** Introductory Lecture. Values of Public Financial Managers: fiscal conservatism, fiscal integrity, maintaining a paper trail. Keeping your resignation in the bottom drawer. Basic concepts: budget versus appropriation ordinance; fiscal years; budgetary balance; accountability. Home rule. Intergovernmental fiscal relations.

Students read for next time: Bland and Rubin, Chapters 1 and 2.

**January 23.** The Politics of Public Budgeting, what makes budgets political? Combining political and technical aspects of budgeting. Conflicts. The legal environment of budgeting, the social and economic environment of budgeting. Designing a budget process.

Students read for next time, Bland and Rubin, chapters 3 and 4.

**January 30.** Budget Preparation and Adoption. Hearings. Budget and policy making. Handling controversy.

Students read for next time, Bland and Rubin, chapters 5 and 6.

**February 6.** The budget as a management tool. The budget as a financial control tool. Budgeting and accounting; fund accounting, types of accounts, reporting.

Students read for next time. Bland and Rubin, chapters 7 and 8.

**February 13.** Capital Budgets and budget documents.

Students read the SEA report for the state of Illinois, fy 1999, on line at <http://www.ioc.state.il.us/office/Project/index2.html>. If you have trouble finding this site, you can start at the Illinois Office of the Comptroller, <http://www.ioc.state.il.us/> and look for the button on the accountability project. The whole report is 99 pages long. Begin with the introduction, and then pick two of the six policy areas described, depending on your interests, and read them in detail. Answer the following questions, in writing, prepare to hand in.

1. Do the goals and mission match the performance measures?
2. Are there good measures of quality?
3. Is program effectiveness measured appropriately?
4. Are the external benchmarks effective in showing strengths and weaknesses of the program?
5. Do performance measures reflect the variety of goals by different political actors that real programs have to meet?
6. Are there weaknesses in the performance measures that you could fix, what improvements would you make? Would you add different ratios, for example, or substitute them for existing measures? Could you simplify any of the measures and get as good an indicator of performance?
7. If productivity is going up, what is the impact on performance quality, can you tell?
8. Are the measures primarily for show, to indicate how good the program is, or do they reveal weaknesses and problems as well as strengths and accomplishments?
9. Are the performance measures such that if more resources were put into achieving higher scores, the results might be perverse, with gross unintended side effects?

**February 20.** Reading the Budget Workshop. Students bring their budgets to class.

For next time, students prepare their budget justifications, with handouts summarizing the main points.

**February 27.** Budget justification workshop.

Students study for midterm exam.

**March 6.** Midterm exam.

Students read for next time, green book chapter 8 and 9.

**March 13.** no class, spring break.

**March 20.** Revenue forecasting. Politics of Revenue. The distribution of the tax burden. Criteria of equity, efficiency, reliability, elasticity. Introduction to mechanics of property taxes. Property and sales taxes.

Students read for next time, green book, chapter 10 and 11

**March 27.** User charges, special districts, enterprises, Introducing Economic Development

Students read for next time, green book chapters 12 and 17

**April 3.** Managing Debt, borrowing, bonds, tax free status, capital budgeting.

Students read for next time, green book chapters 13 and 16.

**April 10.** Collective Bargaining and Pensions

Students read chapters 14 and 15

**April 17.** Purchasing, risk management and cash management

Students read for next time Bingham White and Hill, parts one and two, through p. 100.

**April 24.** Economic development: tools and costs, appropriate public role and effective (and ineffective) tools.

Students read for next time, Bingham, Hill and White, p 101-159. Draw up review questions.

**May 1.** *PAPERS DUE TODAY* Summary and Review, and sharing of paper results.

Students study for final exam.

**May 8.** Final Examination. (Exam will be comprehensive, but will emphasize more the second half of the course.)