

ELECTIVES IN ECONOMICS, BUDGETING AND FINANCE

**Course Number 26:834:520 Course Credit (3)
MUNICIPAL FINANCE ADMINISTRATION
PROFESSOR GERALD J. MILLER**

**RUTGERS UNIVERSITY
SYLLABUS**

DESCRIPTION OF THE COURSE: This financial management course places the student in the role of a member of a budget department staff asked to prepare a budget for presentation, debate and ultimately acceptance by a publicly elected legislative body. The work requires one to acquire knowledge of and apply financial management techniques used in local governments as well as construct new methods as the situation may require. The course uses local governments as context, although the techniques may be used at all levels of government and in many nonprofit organizations.

OVERALL DESCRIPTION OF THE COURSE: The course concerns the development of budget, accounting, and auditing systems to meet the needs for planning and management of government programs at the municipal level.

SPECIFIC OBJECTIVES OF THE COURSE:

1. To become familiar with basic terms of financial management
2. To become acquainted with city socioeconomic phenomena by researching general factors such as socioeconomic growth and specific factors such as revenue sources using a dataset.
3. To grasp the nature of city operations by researching the five-year expenditure histories of specific city departments, by examining departmental operations in detail, and by playing the role of a staff specialist for one or more departments,.
4. To understand the nature of city revenues by researching the history of each source of funds for a five-year period and by playing the role of a budget staff member, researching the revenue history of *all* funds.
5. To be able to plan a presentation and then speak intelligently and informatively before peers and superior officers about expenditure and revenue histories, especially highlighting trends and patterns gained from a dataset.
6. To be able to project future city revenues, by choosing appropriate projection methods for each line-item revenue source from the revenue sources most commonly used today by municipal governments.
7. To develop information for the capital improvements section of a city's annual operating budget and to design a one-year program incorporating large-scale projects--buildings, land, and equipment--for the next fiscal year.
8. To estimate expenditures for municipal government departments, based on an analysis of a five-year history of expenditures already analyzed and incorporating capital budget information previously developed, personnel and information, and information on new projects, project extensions, program curtailments, or significant spending departures from historic patterns.

9. To determine collectively, as a group, the revenue amounts that a city may reasonably expect for the forthcoming fiscal year.
10. To prepare individual reports on proposed expenditures for departments and to present these reports orally.
11. To integrate, through small groups, collective decision making techniques, individual department requests and to draft a city budget, reconciling budget and expenditure requests with revenue projections.
12. To understand the dividing line between systematic, detailed, financial analysis and political analysis as well as the positions on budget issues held by budget staff members, the chief executive officer, and the local government legislators.
13. To prepare a final version of the budget document for submission to the chief elected officials.
14. To review and comment upon the budgeting laboratory experience, evaluating what has been learned through the information on budgeting as well as the process of designing a city budget.

CONDUCT OF THE COURSE: The sequence of events in the course follows a budget preparation calendar similar to that followed by budgeters in local government. That is, individuals examine revenue and expenditure objects and decide through analysis, appropriate budgets.

In addition, members of the class, as a group of individuals on a task force, examine several cross-cutting issues influencing budget action.

Describing and assigning both the expenditure accounts and the task force projects will be one of the main items of business at our second meeting (Step 1, see Calendar below). Task forces will be formed at that time.

PRIOR PREPARATION FOR THE COURSE: If you have a working knowledge of microcomputers and a spreadsheet (usually Lotus 1-2-3), you will have all the preparation needed for this course. If you do not have this working knowledge, I highly recommend delaying taking this course until you have it. You will not need to have had statistics, although it might help.

TEXTS FOR THE COURSE: The texts for the course are:

For purchase from the bookstore:

Rabin, Hildreth and Miller, *Public budgeting laboratory: Workbook* (1994) and, on 3 1/2 inch disks, the *Public budgeting laboratory: Data Supplement* (1994);

Rabin, Hildreth and Miller, *Budgeting*. Athens, GA: Vinson Institute of Government (1994).

Miller, *Government Financial Management Theory*. New York: Marcel Dekker (Optional)

Other articles will be provided from time to time to help with your work.

In addition to textbooks, you will be required to produce copies of your work for other members of the class. This informs other students of the work each person does, but it also imposes on the individual the cost of reproduction. One way of producing copies of your work is through use of the computer lab (discussed below) and the printer available there. This will require that you invest in at least two superior quality floppy disks (5 1/4 inch or 3 1/2 inch, double sided, double density).

INVESTMENT IN THE COURSE: Every student deserves to know ahead of time what investment he or she must make in a course to succeed. Because this course is a laboratory, rather than a lecture course, it requires different, and not necessarily more, investment than other courses.

The course requires that you purchase the two budget books and the three floppy disks. I estimate the cost of the budget set at under \$50.

Next, you should make provision for either a photocopy budget (about \$10 should cover it).

More important than the dollar cost is the time investment. The most important investment is that required for our once-a-week meetings. The laboratory requires that you not miss a single class. Second, the necessity to master computer hardware and software requires additional time in a computer lab if you do not have a microcomputer at your direct disposal. Finally, much of the work of the class will be accomplished outside, alone or with task force group members. As a rule of thumb (that does not take into consideration your prior knowledge, motivation, concentration or intensity), you should spend one hour out of class for each hour inside.

GRADING: The course is a blend of individual and task force work. Individual work, dealing with individual departments or accounts, differs from task force work which deals with cross cutting and supplemental issues. Both, however, carry grade weight:

Individual work	Expenditure history	15%
	Revenue history	15%
	Revenue projection	20%
	Budget submission	
	Oral	10%
	Written	25%
Class-as-a-whole work	Budget submission	15%
		100%

HOMEWORK AND CLASS PROJECTS: Homework ground rules are:

1. Make sure you know what you're doing; I assume you do until you ask.

2. Make the work legible and understandable if you want the benefit of the doubt.
3. Hand it in on time.

Note to everyone about your handed in work: Keep copies of *everything* you give me; I will hand back graded work but will ask for it back to keep in my files. If you want copies of your work; make copies. For your grade at the end of the course, I will count only the work I have in my files.

Work handed in late will carry a penalty. I will not return your work to you, except to provide you with comments and critical analysis of what you have done. If you want a copy for your own files, make one.

OFFICE HOURS: My office is 720 Hill Hall. I'll set up office hours after we get the class started. I will always be available just before and just after class, as well as those times when we are both in the computer labs. Call the Department office to get in touch (648-5093).

COMPUTER LABORATORY HOURS: This course will make use of microcomputers for processing data or number crunching. You can use the department's computer lab on the 1st floor, Hill Hall 128. This lab is used during daytime class hours (roughly 9-5) and on Wednesday nights. I have the keys for our use on Thursday nights before and after class. The computer lab down the hall from the department's own lab, *and especially the lab in Engelhard Hall*, and others that may be found in one place or another, are at your disposal.

You will use a DOS-based operating system and software, not Apple or others.

CLASS SCHEDULE: See the Budget Calendar below from the *Public budgeting laboratory: Workbook*.

BUDGET CALENDAR

CLASS	DATE	STEP	READINGS (All from the text <i>Budgeting</i> except where marked)
		Step 1 Introduction to Budgeting	<ul style="list-style-type: none"> a. Mendonsa, "Budgeting" b. Duncombe, "Zero-Base Budgeting" c. Price Waterhouse, "Accounting and Administration Controls" d. Reny, "Municipal Accounting" e. State of Rhode Island, "Cost Accounting" f. Pivnicny, "A Primer on Reading Local Government Financial Statements" g. Steinberg, "Understanding Municipal Financial Audits" h. U.S. General Accounting Office, "Standards for Audit of Governmental Organizations, Activities, and Functions" i. Cancellieri and Enstrom, "The Expanded Scope of Government Auditing" j. State of Massachusetts, "The Municipal Audit: Choice and Opportunity"

Step 2 Introduction to
the City

- a. National Association of Counties Research, Inc. "Living with Mandates"
- b. Levine, "Cutback Management in an Era of Scarcity"
- c. Governmental Finance Research Center, "Measuring Governmental Financial Condition"
- d. Government Finance Research Center, "State and Local Debt Policy and Management"
- e. Review the specific limits on indebtedness applicable to the City presented in the *Data Sourcebook*.

Step 3 Development of
the
Expenditure
History of the
City

- a. Governmental Finance Research Center, "State and Local Debt Policy and Management"
- b. Hildreth and Miller, "Risk Management"

Step 4 Report to Staff
on Expenditure
Histories

Step 5 Development of
the City's
Revenue
History

- a. Mendonsa, "Revenue Sources"
- b. Governmental Finance Research Center, "Federal Grants and Management"
- c. Downing, "User Charges and Service Fees"
- d. Introduction to Unit II
- e. Steinberg and Tashner, "Cash Management for Local Government"

Step 6 Report to Staff
on Revenue
Histories

Step 7 Development of
Revenue
Projections

Liner, "Projecting Local Government Revenue"

Step 8 Presentation and Analysis of Revenue Projections including the analysis of the preference orderings and agenda for the revenue estimate (See attached Revenue Constraint Exercise)

Miller, *Government Financial Management Theory*, Revenue Forecasting

Step 9 Estimating Capital Improvements

- a. Vogt, "Budgeting Capital Outlays and Improvements"
- b. Freeman et al., "Evaluating Public Expenditures"
- c. "Financing Capital Improvements" and "Setting Project Priorities" on pp. 48-50, 53, *Workbook*.

Step 10 Developing Expenditure Estimates

- a. Freeman et. al., "Evaluating Public Expenditures"
- b. State of Rhode Island, "Monitoring Performance"
- c. Friedman, "Calculating Compensation Costs"

Step 11 Presentation and Analysis of Expenditure Proposals

- a. Freeman et al., "Evaluating Public Expenditures"
- b. State of Rhode Island, "Monitoring Performance"
- c. Standard and Poor's, "Municipal Bond Ratings: An Overview"
- d. Coopers and Lybrnad, "Financial Communications"
- e. Davidson et al., "The Needs of Users of Governmental Financial Statements"
- f. Arthur B. Mohor, Jr., "Budget Review Checklist" Workbook, pp. 83-85.

Step 12 Preparation of Budget Draft "Presentation Of Budget Narrative" in *Workbook*, p. 88.

Step 13 Comments by Assistant to the Mayor and Staff Response

Step 14 Feedback Session

DIRECTIONS: Consider Figure 3, p. 206 in Miller, *Government Financial Management Theory* below:

Person 1's Preference Ordering	Person 2's Preference Ordering	Person 3's Preference Ordering	Committee's Preferences
1 <i>x</i>	<i>y</i>	<i>z</i>	<i>x</i>

2	y	z	x	y
3	z	x	y	z
4				x

Three different binary agendas are possible here:

- (1) Compare x and y , and then pit the majority winner against z ;
- (2) Compare x and z , and then pit the majority winner against y ; and
- (3) Compare y and z , and then pit the majority winner against x .

Diagrammatically, we have:

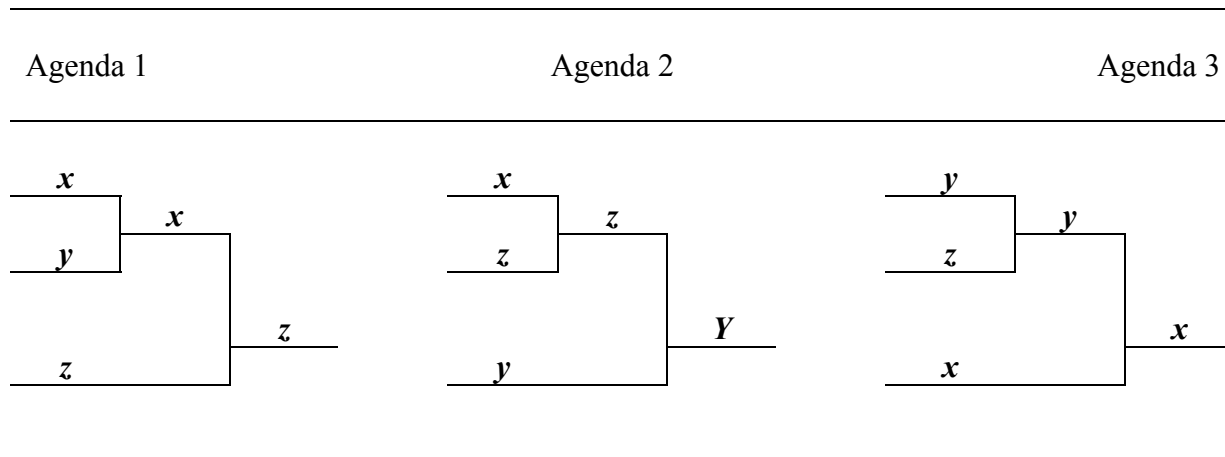


Figure 3: Agenda Control Based on Known Preference Ordering, from Gerald J. Miller, 1991, *Government Financial Management Theory*, New York: Marcel Dekker, p. 206, based on Charles Plott, 1976, "Axiomatic social choice theory: An overview and interpretation," *American Journal of Political Science*, 20 (3), pp. 513-515.

Analyze the agenda used in determining the revenue estimate for the City for FY6. That is:

1. Listen to the presentations made by each section of the Finance Staff.
2. Ask questions to make explicit each section's preference ordering.

Then, in writing:

3. Determine what agenda was actually used to estimate revenues; what sequence did we follow in class. Declare it and defend what you think.
4. Explain why the outcome was or was not predictable by using the Figure 3 diagram. In other words, what was similar, what was different.

5. Explain how the outcome could have been different. That is, explain how you would arrange the agenda to gain your preference.

If we have time, write the exercise in class. If not, write it (type it) for the Step 8 meeting. Use the memo format on the accompanying sheet.

October 20, FY5

TO: Assistant to the Mayor

FR:

RE: Analysis of revenue estimating process and proposal for improvements