

Innovative Budgeting and Finance for the Public Sector

11.147J/11.487J – Spring 2016

Meeting time: Tuesdays and Thursdays, 9:30am – 11am in Room 9-450A

Instructor: Dr. Gabriella Y. Carolini (carolini@mit.edu)

Office hours: 3-5pm Tuesdays or by appointment, in my office (9-539).

Course Description

Governments across the globe grapple with adequately and effectively attending to public sector responsibilities for basic services with limited financial and human resources to do so. Particularly in the context of significant demographic shifts – both in terms of rapid population growth as well as shrinkage - governments are searching for innovative means of meeting public finance and planning challenges. This course provides an introductory framework for understanding typologies and methods of budgeting, accounting, and financial mobilization in the public sector. In addition to establishing financial literacy and familiarity with this basic tools portfolio, students will practice exercises to explore revenue and expenditure estimation strategies, build a knowledge base around how accounting systems and reports influence budgeting dialogues and perceptions of public sector health, and study cases to understand pioneering examples of funding mobilization via taxation, capital markets, and experimental experiences with mechanisms such as land-value capture. The practical nature of the subjects covered in this course requires full attendance and active participation from students.

Objectives

By the end of the semester, students will have a globally comparative foundation of reference in budgeting and financing experiences in the public sector. More specifically, students will be able to:

- Understand budgeting typologies and challenges in different income settings
- Conduct budgetary analyses;
- Connect data production (through accounting methodologies and objectives) to budget politics and fiscal health status.
- Formulate policy recommendations for funding capital investment budget requirements

Evaluation

A. Exercises (75%)*

*Please note that you will need access to Excel spreadsheets to complete assignments.

Students will complete three exercises (handed out in class) to establish fluency with:

- I. Estimation techniques for revenues and expenditures (25%) – Due February 25th
- II. Budgetary analysis (25%) – Due March 31st
- III. Financing infrastructure – analysis and proposal (25%) – Due May 12th

B. Periodical analysis, Attendance, and Participation in Class (25%)

Full attendance in class and participation in class discussion is central to this practice-based course. In addition to the student's own initiatives in providing in-class feedback from assigned course readings, all students are required to identify and post **six periodic articles** on the Stellar Website – under Forum - that concern budgeting, accounting, and/or finance for the public sector. Students may choose which six (distinct) weeks to which they will contribute a news article for class discussion, but will be required to **post the article by 6pm on Sundays** before class meetings on Tuesdays. All students are required to check the Forum discussion and read the periodicals posted before class on Tuesday morning.

Course Readings

All readings are available on Stellar...i.e., no excuses.

I. Budgeting

Wk 1 - Feb. 2 and Feb. 4: Cycle Overview, Typologies, and Country Comparisons

Rubin, I. (2006) "The Politics of Public Budgets", Chapter 1, in *The Politics of Public Budgets: Getting and Spending*, Fifth Edition. CQ Press: Washington, D.C.

Lee, R. et al (2013) "Budgets and Budgeting Systems", Chapter 1, pp. 14-24, in *Public Budgeting Systems*. Jones and Bartlett Learning: Burlington, MA.

Premchand, A. (1998) "Budgetary Management in the United States and in Australia, New Zealand, and the United Kingdom", Chapter Four in *Handbook of Government Budgeting*, ed. R. Meyers. Jossey-Bass Press: San Francisco.

Grizzle, G. (2001) "Does Budget Format Really Govern the Actions of Budgetmakers?" in *Performance-Based Budgeting*, eds. G. Miller, W.B. Hildreth, J. Rabin. Westview Press: Boulder, CO.

Wk 2 - Feb. 9 and Feb. 11: Understanding, Projecting, and Challenges of Revenues

Chen, G. et al (2009) "First Steps in Revenue Estimating", Chapter 4 in *Budget Tools*. CQ Press: Washington, D.C.

Fleeter, H. and Lee Walker, L. (2003) "Revenue Forecasting", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Kyobe, A. and Danninger, S. (2005) *Revenue Forecasting—How is it done? Results from a Survey of Low-Income Countries*, IMF Working Paper Series, Fiscal Affairs Department WP/05/24.

Benton, J. (2010) Chapter 4, Trends in Local Government Revenues: The Old, the New, and the Future, in *Municipal Revenues and Land Policy*, Lincoln Institute of Land Policy, Cambridge, MA.

Povoledo, E. (2013) "Italians Have a New Tool to Unearth Tax Cheats", in *The New York Times*, January 27, 2013.

Cowan, A.L. (2013) "Towns' Next Hit from Hurricane is to Tax Revenue", in *The New York Times*, January 24, 2013.

Wk 3 - Feb. 18 (NO MEETING on Tuesday, February 16th): Understanding and Estimating Expenditure Requirements

Chen, G. et al (2009) "Preparing the Capital Budget", Chapter 5 in *Budget Tools*. CQ Press: Washington, D.C.

Wigfall, P. and Lynch, T. (2003) "Capital Budgeting Practices in Local Governments: A Comparative Study of Two States", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Steiss, A. (2003) "Procedures for Programming and Financing Capital Improvements", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Balassone, F. and Kumar, M. (2007) "Cyclicality of Fiscal Policy", in *Promoting Fiscal Discipline*, eds. M. Kumar and T. Ter-Minassian. International Monetary Fund: Washington, D.C.

Wk 4 – Feb. 23 and Feb. 25: Budgetary Analysis: Searching for Equity and Efficiency

*****ASSIGNMENT 1 DUE February 25th*****

Bartley Hildreth, W. (2003) "Equity and Budgetary Analysis: Determining Fair Shares of Local-Option Sales Tax Revenue", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Carolini, G. (2013) "Perverting Progress? The Challenges of Implementing both Fiscal and Social Responsibility in São Paulo (1995–2010)", in *Urban Studies*, 50(2) 356–371.

Schick, A. (1990) "Budgeting for Results: Recent Developments in Five Industrialized Countries", in *Public Administration Review*, Vol. 50, January-February, pp. 26-34.

Caiden, N. (2010) "Challenges Confronting Contemporary Public Budgeting: Retrospectives/Prospectives from Allen Schick", in *Public Administration Review*, Vol. 70, Issue 2, pp. 203-210.

Stevenson, R. (2013) "Governors Push Bigger Reliance on Sales Taxes", in *The New York Times*, January 24, 2013.

Sachs, J. (2012) "Today's Challenges go Beyond Keynes", in *Financial Times*, December 17, 2012.

Wk 5 - March 1 and March 3: Budgetary Analysis – Improving through Evaluative Power?

Cothran, D. (2001) "Entrepreneurial Budgeting: An Emerging Reform?", Chapter Eight in *Performance-Based Budgeting*, eds. G. Miller, W.B. Hildreth, and J. Rabin. Westview Press: Boulder, CO.

Easterling, C. N. (2003) "Performance Budgeting in Florida: To Muddle or Not to Muddle, That is the Question", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Fölscher, A. (2012) "Country experience with Programme and Performance Budget Reforms: 6 mini case studies", Paper presented at the *Collaborative Africa Budget Reform Initiative's 8th Annual Seminar: Budgeting for Results – Moving Towards Performance Budgeting*. <http://www.cabri-sbo.org/en/e-networking/blog/2-annual-seminars/185-seminar-papers-and-presentations>

Wk 6 - March 8 and March 10: Budgetary Analysis – Innovating through Participation? Participatory Budgeting Exercises

Zohdy, N. (2015) *Evaluating the Inaugural Participatory Budgeting Process in the City of Cambridge*. Master in Public Policy 2015 - Harvard University, John F. Kennedy School of Government. Prepared for the Participatory Budgeting Project (PBP) and the City of Cambridge

Stripling, B. (2012) "Should Democracy be Direct?" in *Public Administration Review*, Early View/First Published Online: December 5, 2012.

Avritzer, L. (2012) "Democracy beyond aggregation: the participatory dimension of public deliberation", in *Journal of Public Deliberation*, Vol. 8, Issue 2, Article 10.

Wampler, B. and Hartz-karp, J. (2012) "Participatory Budgeting: Diffusion and Outcomes across the World", in *Journal of Public Deliberation*, Vol. 8, Issue 2, Article 13.

Ganuza, E. and Baiocchi, G. (2012) "The Power of Ambiguity: How Participatory Budgeting Travels the Globe", in *Journal of Public Deliberation*, Vol. 8, Issue 2, Article 8.

Lerner, J. and Secondo, D. (2012) "By the People, For the People: Participatory Budgeting from the Bottom Up in North America," *Journal of Public Deliberation*: Vol. 8: Iss. 2, Article 2.

II. Accounting and Reporting

Wk 7 – March 15 and March 17: Reading Fiscal Health

Patton, T. Ahman, K. (2003) Financial Analysis of the City of Mesquite Falls Texas, in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

City X (YOU CHOOSE, Last available year – upload to Stellar Forum) *Comprehensive Annual Financial Report*

City of Cambridge (2015) *Comprehensive Annual Financial Report*, Prepared by Finance Department, City of Cambridge, MA.

Chernick, Howard, Adam H. Langley, and Andrew Reschovsky. 2015. Comparing central city finances using Fiscally Standardized Cities. *Journal of Comparative Policy Analysis* 17(4): 430-440. August.

Wk 8 – March 29 and March 31: Understanding Accounting Typologies and Financial Reports

*****ASSIGNMENT 2 DUE March 31st*****

Engstrom, J. (1998) "Understanding and Using Government Financial Statements", Chapter Five in *Handbook of Government Budgeting*, ed. R. Meyers. Jossey-Bass Press: San Francisco.

Chan, J. (1998) "The Bases of Accounting for Budgeting and Financial Reporting", Chapter Fourteen in *Handbook of Government Budgeting*, ed. R. Meyers. Jossey-Bass Press: San Francisco.

Carolini, G. (2010) "The Tools of Whose Trade? How International Accounting Guidelines are Failing Governments in the Global South" in *Third World Quarterly*, Vol. 31, No. 3. Pp.:469-483.

Wk 9 – April 5 and April 7: Building Better National Accounts – and Why it Matters...

Jorgenson, D. and Landefeld, S. (2006) "Blueprint for Expanded and Integrated U.S. Accounts: Review, Assessment, and Next Steps", in *A New Architecture for the U.S. National Accounts*, eds. D. Jorgenson, J. Landefeld, and W. Nordhaus. University of Chicago Press: Chicago.

Nordhaus, W. (2006) "Principles of National Accounting for Nonmarket Accounts", in *A New Architecture for the U.S. National Accounts*, eds. D. Jorgenson, J. Landefeld, and W. Nordhaus. University of Chicago Press: Chicago.

Abraham, K. and Mackie, C. (2006) "A Framework for Nonmarket Accounting", in *A New Architecture for the U.S. National Accounts*, eds. D. Jorgenson, J. Landefeld, and W. Nordhaus. University of Chicago Press: Chicago.

Financial Mobilization

Wk 10 - April 12 and April 14: Financing Urban Development and Growth: Comparative Perspectives

Devas, N. (2008) "Local Government and Local Government Finance in England", in *Financing Local Government*, Commonwealth Secretariat: London, UK.

Adam H. Langley (2016) Chapter 6 and Commentary "Local Government Finances During and After the Great Recession", in *Land and the City*. Lincoln Institute of Land Policy, Cambridge, MA.

Bahl, R. and Linn, J. (2014) Chapters 3 ("Own-Source Financing") and 4 ("External Sources of Financing") in *Governing and Financing Cities in the Developing World*

(https://www.lincolninst.edu/pubs/dl/2389_1731_Governing_and_Financing_Cities_web.pdf)

Paulais, T. (2012) "Financing Local Investments: A Review of Fundamentals", Pp. 24-62 and "Investment Financing Frameworks and New Funding Mechanisms", Chapter Four in *Financing Africa's Cities*. World Bank: Washington, D.C.

Wk 11 – April 21 (NO MEETING on April 19th):

Martin, I. Mehrota, A., and Prasad, M. (2009) (eds) *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective*. Chapters 1, 2, and 12. Cambridge University Press: Cambridge, UK.

Wk 12 – April 26 and April 28: Taxation and User Fees

Grant Driessen and Steven M. Sheffrin (2016) Chapter 5 and Commentary "The Past and Future of the Urban Property Tax", in *Land and the City*. Lincoln Institute of Land Policy, Cambridge, MA.

Pagano, M. 2010. "Creative Designs of the Patchwork Quilt of Municipal Finance". *Municipal Revenues and Land Policies*, eds. Ingram, Gregory K. and Yu-Hung Hong. Cambridge, MA: Lincoln Institute of Land Policy.

Sheffrin, S. (2010) "Fairness and Market Value Property Taxation", Chapter Eight in *Challenging the Conventional Wisdom on the Property Tax*, eds. R. Bahl, J. Martinez-Vazquez, and J. Youngman. Lincoln Institute of Land Policy, Cambridge, MA.

Bahl, R. and Wallace, S. (2010) "A New Paradigm for Property Taxation in Developing Countries", and "Commentary", in *Challenging the Conventional Wisdom on the Property Tax*, eds. R. Bahl, J. Martinez-Vazquez, and J. Youngman. Lincoln Institute of Land Policy, Cambridge, MA.

Monkam, N. and Moore, M. (2015) *How property tax would benefit Africa*, CounterPoints, Africa Research Institute.

Wk 13 – May 3 and May 5: Value-capture

Smolka, M. (2013) *Implementing Value Capture in Latin America*
(https://www.lincolninst.edu/pubs/dl/2244_1581_Implementing_Value_Capture_in_Latin_America.pdf)

Youngman, J. (2011) *TIF at a Turning Point: Defining Debt Down*, Working Paper Lincoln Institute of Land Policy.

Peterson, G. (2009) *Unlocking Land Values to Finance Urban Infrastructure*, World Bank: Washington, D.C.***READ pp.55-102****

Peterson, G. and Kaganova, O. (2010) *Integrating Land Financing into Subnational Fiscal Management*, Policy Research Working Paper 5409, World Bank.

Tsui, S. (2008) "Alternative Value Capture Instruments: The Case of Taiwan", and "Commentary", in *Making the Property Tax Work*, eds. R. Bahl, J. Martinez-Vazquez, and J. Youngman. Lincoln Institute of Land Policy, Cambridge, MA.

Wk 14 – May 10 and May 12: Capital Market Financing

*****ASSIGNMENT 3 DUE May 12th*****

Lee, R. et al (2013) "Capital Finance and Debt Management", Chapter 14, pp. 489-541, in *Public Budgeting Systems*. Jones and Bartlett Learning: Burlington, MA.

Chapman, J. (2010) Complex Debt for Financing Infrastructure, in *Municipal Revenues and Land Policies*, Lincoln Institute of Land Policy, Cambridge, MA.

Venkatachalam, P. (2008) "Innovative Approaches to Municipal Infrastructure Financing", in *Financing Local Government*, Commonwealth Secretariat: London, UK.