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A RECOMMENDATION ON THEMES FOR TEACHING URBAN PUBLIC FINANCE COURSE

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Abstract

This article recommends the themes that fit to be the syllabus of teaching urban public finance. They are derived from the standard literatures in public finance. Five themes are identified namely microeconomic rationale of urban public finance, public choice of fiscal policy, fiscal federalism, urban public revenue resources, and budgeting and financial analysis. While financing development is a sine qua non theme for developing countries, adjustment will be needed to fit the context of the countries.

Keywords: *urban, public finance, classic readings*

I. INTRODUCTION

There are practical and fundamental reasons that give us motivation to study urban public finance. At least several notable circumstances explain why urban public finance is worthwhile to be studied. First, the sub-national public sector has grown to be a substantial component of the economy in many countries. In the United States, the total city and county government expenditure between 1960 and 1996 had grown fivefold, reaching about $1.1 trillion in 1996, which is about 40 percent of the public sector expenditure or about 16 percent of the country's GDP at that time (Gramlich, 1997; Garrett and Leatherman, 2001). In Indonesia, the total expenditure of sub-national governments in 2001 increased twofold than its expenditure in 2000, taking over more than 30 percent of the total public sector budget (Brodjonegoro and Martinez-Vasquez, 2002). Furthermore, the ratio between the total local development expenditure and the central development expenditure increased significantly becoming 72 percent in 2001 and 91 percent in 2002. Second, sub-national governments provide the services that are directly faced by and affect residents in their daily urban lives, such as education, health, sanitation, transportation, and public safety. Third, along with the growth in the sub-national public sector, there has been significant advancement in the economic analysis of sub-national government finance. Most of this advancement predominantly came from sub-national government experiences, experiments, and policies (Fisher, 1996). Fourth, "because of the diversity of state-local governments and the ease of mobility among them, the analysis of many economic issues is substantially different in the state and local arenas than for the federal government" (Fisher, 1996).

It is fundamental in local public finance to examine the fiscal characteristics of sub-national public sector. We will look at the size and growth of sub-national public sector over time and observe how this size has historically changed. We will focus on major state and local revenue and expenditure categories and discuss the major historical trends for each revenue and expenditure category. We will then examine the economic role of sub-national governments, and the financing of the services provided by sub-national governments. We will also look at the fiscal feature of individual states and local jurisdictions, and analyze these features using standard measurements such as expenditure per capita, state-local government revenue to state-local economy ratio, and own-source to total state-local government revenue ratio. We will discuss the fiscal problems of the evolving metropolis, and how the changes in the patterns of urban development-from central city concentration to suburban domination, to the integration of central city and suburban regions into metropolitan regions, and to the interregional movements of urban populations-, and in the legal and institutional context, contribute to the changes in the finance function of sub-national government At the end of the sessions, it may discussed the fiscal implications of metropolitan development and the fiscal role of state and local governments in stabilization policy, distribution policy, and allocation policy. In-depth examination and discussion about the fiscal role of sub-national governments will be addressed when we go through fiscal federalism.

To comprehend the importance of studying urban public finance, Fisher's in his Chapter 1, "Why Study State and Local Government Finance" overviews the institutional details of fiscal policy and uses these facts to explain the importance of studying state and local public finance. Included in these facts are the size and changes of state and local government sector over time and general explanations of how this size has changed; the role of the state and local governments as compared to the federal government; the services that the state and local governments provide; the financing of these services; and the organization of the state and local governments.

Ruchelman's article "The Finance Function in Local Government" (1996a) on the other hand overview the finance function in local government and the fiscal problems of the evolving metropolis. The first piece overviews the finance function managed in local government within a complex system of multiple jurisdictions: federal, state and local. It is similar to Fisher's chapter 1 overview, but from the perspective of state and local financial management. It focuses on the major financial management changes of the finance function in local government, and discusses the historical spatial trends of the finance function in local government. The chapter provides evidence on the changes of financial management solutions to the problems of local financial management. As conditions change, governmental and organizational arrangements, as well as spatial finance assignments, tend to change. The chapter also discusses how the changes in the patterns of urban development- from central city concentration to suburban deconcentration, to the integration of central city and suburban regions becoming metropolitan regions, and to the interregional movements of urban populations-, and in the legal and institutional context, contribute to the changes in the finance function in local government.

Ruchelman's article "Fiscal Problems of the Evolving Metropolis." (1996b) Further offer second piece overviews the fiscal problems faced by the evolving metropolis. It provides important explanations on the fiscal implications of metropolitan development, especially as the effects of the global economic changes and the significant shifts in the domestic economy, from industrial to service economy and from central city-suburban economic competitions to the strong economic competitions between metropolitan regions. It discusses organizational arrangements that can possibly ensure efficiency and equity in urban service provision in metropolitan areas, and possible ways that would allow the public sector to accommodate residents' changing needs and preferences.

This article explores the possibilities of themes usually to be offerred in classes of public finance especially in the context of urban development. All references are classical text usually given in American Universities context, mainly Fischer (1996) and Ruchelman (1996). The structure of the article will be as follow. After an introduction, it will be followed by discussions on some main topics, they are the microeconomic rationale of urban public finance, public choice of fiscal policy, fiscal federalism, urban public revenue resources, and budgeting and financial analysis. Finally a conclusion will be drawn especially to reflect for Indonesia case.

II. THE MICROECONOMIC RATIONALE OF URBAN PUBLIC FINANCE

The desires of different individual residents to collectively consume certain goods and services in a market economy, and to have sub-national governments to provide such goods and services require rational explanations and justifications. How can such different individual residents –which most likely have different incomes, preferences, and willingness to pay- agree to collectively consume and pay certain goods and services? How can different individual preferences become collective demand for publicly provided goods and services? Why is sub-national government intervention needed in the provision of local public goods and how can it be justified in a market economy? What is the function of public sector in a market system?

In studying local public finance it is common to examine the fundamental reasons or the basis that can be used to explain and justify that, even in a market economy, certain goods and services are needed to be made available publicly, and in order to make these goods and services available publicly government intervention is needed. We will begin by examining the working private market and the conditions required the market to work efficiently or to be able to efficiently allocate society's resources. Then, we will discuss the situations where certain condition required by the market system is failed to be made available or absent due to some reasons, and thus government intervention is needed. We will also discuss other reasons for government intervention. We will briefly examine and discuss the theory of utility, market efficiency, market failure, externalities, public goods, merit goods, marginal cost pricing, and the concepts of utility function, consumer surplus, producer surplus, social surplus, transaction costs, free riders, and many others. We will then examine the methods that can be used by sub-national governments to carry out their economic responsibilities in an equitable and efficient way. Students are expected to actively involve in the discussion using the materials in the readings as references, and to try to use them in examining relevant practical cases in urban public finance. To enhance our discussion on rationales for urban public finance, it is recommended to read:

Fisher's in his Chapter 2, "Microeconomics Analysis: Market Efficiency and Market Failure,' discusses the standard economic methods to analyze the institutional details of state and local public finance. It examines the economic role of government, and the positions of the state and local governments that fit that role. The chapter provides interesting explanations on the meaning of equity and efficiency, the standard criteria commonly used for evaluating economic policy. For example, taxing and spending by state or local government may lead to geographic or spatial economic issues. It discusses the economic tools that can be used by state and local governments to carry out their economic responsibilities in an equitable and efficient manner, as well as application to state and local governments.

While in Chapter 4, "Demand for State and Local Goods and Services," Fischer further examines demand for state and local goods and services. The chapter reviews how prices, income, and various characteristics influence demand for state and local public goods and services. It also reviews the sources of data and statistical methods used by economists to measure demand. This is in accordance with the text from Musgrave and Musgrave's Chapter I, "Fiscal Functions: An Overview"

Oakland's article, "Public Goods, Perfect Competition, and Underproduction." (1974) rejects the notions brought on by economic scholars, who argue that competitive markets will not under-provide public goods, since exclusion of public goods is costless and the preferences of consumers of public goods can be identified by price differentials among individuals for the public goods. Instead, it strengthens the arguments that competitive market tends to under-provide public goods. In a competitive market, the prices differ among units of the public goods and not among the individuals, and therefore the competitive market will exclude certain individuals from consuming a portion of the output of public goods. The article concludes that in the absence of perfect information concerning the preferences of "specific" individuals, the competitive market tends to produce low levels of public goods.

III. PUBLIC CHOICE OF FISCAL POLICY

Desires of individual residents with different demand functions to consume publicly provided goods and services in a market economy and to have sub-national government provide such goods and services raise implications in fiscal choices. First, the revenue structure needs to be set to finance the demanded publicly provided goods and services for individual residents with different demand functions. The sub-national government needs to determine the types of revenue to be used and the levels of combinations of the types of revenues to be used. Second, the sub-national government needs to decide the level of total spending required, and thus the total amount of revenue to be raised, to make it possible to provide the demanded goods and services. Third, the sub-national government needs to decide the allocation of the total spending among the various publicly provided goods and services demanded by different individual residents (Fisher, 1996).

We may able to examine the methods that can be used by sub-national governments to incorporate fiscal policy issues and considerations in order to make fiscal decisions. We will examine public choice theory and discuss the possibilities that it offers to solve fiscal choice issues. We will focus on three primary concerns of public choice theory that affect urban public finance. The first concern is problems in aggregating individual choices to achieve maximal social benefit. The second concern is difficulties arising from the characteristics of public goods and market failure. The third concern is the complexities involved in treating urban public finance as a rational exchange among individual citizens.

We will examine how the desired sub-national government spending is to be set, how rational individual choices lead to optimal fiscal solution, and how bureaucrats and politicians respond to the desires of individual residents with different demand functions. We will also examine how politician and individual voters both contribute to making optimal fiscal policy. Included in the examination is the discussion about fiscal choices, voting, majority rule, median voter theorem, voting paradox, consumer mobility, voting with feet, residential and business location decisions, among others.

Furthermore, we will examine the methods used by actors involved to guide their interests and self-serving behavior in the process of making fiscal decisions. We will discuss how to use voting *as* an important way to make fiscal decisions regarding choices of revenue, tax structure, level of total spending, total amount of revenue required, and ways to allocate total spending among the various goods and services demanded by voters. In addition, we will examine voting by feet, the method commonly chosen by individual residents and businesses in order to avoid high tax burden of unfavorable set of services. We will spend some time to examine and discuss on the Tiebout's arguments on voting with feet for residents living in metropolitan areas.

To enhance our discussion on public choice of fiscal policy, we need to read Fisher's Chapter 3, -Publics Choice Without Mobility: Voting" in which he examines public choice of voting without mobility. Voting is an important way in order to make fiscal decisions regarding choices of revenue, tax structure, level of total spending, total amount of revenue required, and ways to allocate total spending among the various goods and services demanded by voters. The chapter discusses majority rule, median voter theorem, characteristics of the median-voter result, and alternative voting methods such as super majorities, unanimous voting, and monopoly models of fiscal choice.

Fisher's Chapter 5, "Public Choice Through Mobility", is examining public choice through mobility. Its main focus is Tiebout's "voting by feet" model. Holding a sort of ideal assumptions, individual households will choose to live in community in which the tax and service package in the community meet their preference. Tiebout's article is perhaps the most cited article in urban public finance. The chapter reviews and discusses Tiebout's theory -the hypothesis, the assumptions, and the arguments- and some of the criticism of, and successive adjustments to, the theory. The chapter also evaluates the model and discusses the extensions of the model including fiscal zoning and fiscal capitalization.

Tiebout's article, "A Pure Theory of Local Expenditure," is a well-known article shows that the production of local public goods in metropolitan areas is not necessarily inefficient because consumers have "votes by feet" to determine their true preferences. It develops a model in which rational households in a metropolitan area disclose their preferences for local public goods by their choice of residence in one of the communities in the metropolitan area. Since each community offers a different set of local public goods and taxes, the selection of a community reflects optimizing behavior of households regarding their demand for local public goods.

In his work "Public Finance and Public Choice", Buchanan analyzes the transformation of public-finance theory during the 1950s and 1960s, from a public choice perspective. He scrutinizes the gaps behind the relatively narrowed economic explanations of the positive theory and normative theory of public finance of the time, through an application of microeconomic concepts of self-interests and maximizing behavior of consumers and producers to the agents in the public sector. He discusses the theory of demand for public goods, the theory of voting, the theory of constitutions, and the theory of supply of public goods. He shows that these separated strands of public choice theory contributed to the transformation in public finance theory, expanding the domain of its positive analysis and modifying the domain of its normative theory.

IV FISCAL FEDERALISM

Not all types of public goods can be efficiently or equitably provided by one or a certain level of government. There are conditions in which centralized or decentralized public goods provision is preferred (Oates, 1972). In addition, there are standard economic criteria that can be used to explain the level of government that is suitable to a certain government function, and thus suitable to a certain fiscal role. In this overview, we will examine the fiscal functions- allocation, redistribution, and stabilization- of federal, state and local governments, and the theories of the fiscal role of local government. We will examine and discuss the standard argument that assigns the stabilization function to central government, and the counter argument that challenges this model assignment. We will discuss the influences of inter-jurisdictional competitions and mobility factors on assignments of government functions or fiscal responsibilities among different levels of government. We will then examine and discuss guidelines described in fiscal federalism for designing an optimal tax system to finance decentralized government functions.

In this section, we will examine and discuss the methods of analyzing economic efficiency, technical efficiency, benefit area, spillover effects, and trade-offs, and the economic concepts of inter-jurisdictional cost and benefit, externalities, and economies of scale in the production of public goods. We will distinguish and discuss the meanings of economic efficiency, technological efficiency, production efficiency, and administrative efficiency. To have better understanding on the government functions and the fiscal role of different levels of government, we need to read Oates' text, *Fiscal Federalism, and his article*, "The Theory of Public Finance in a Federal System," Those two are drawn from the standard Musgrave model of public sector responsibility for stabilization, distribution, and allocation. The distribution and stabilization branches of the public fiscal department must perform their functions primarily at the central government level. In contrast, in the allocation branch, local government, as well as the central government, has important responsibilities in the provision of needed public goods and services. Using decentralization theory, the article provides economic guidelines for dividing government fiscal functions among different levels of government. It also sets forth guidelines for designing optimal local revenue system, such as that local government taxes should be neutral, the benefits and costs of local taxes should be clear to each individual in the local authority jurisdiction, the pattern of incidence of local taxes should be as equitable as possible, and that administration and compliance costs should be minimized.

Musgrave and Musgrave chapter 27 "Principles of Multiunit Finance" examines spatial dimension of allocation function -benefit regions, optimal fiscal community, extensions of optimal fiscal model, voting by feet-, tax-structure design, spatial aspects of distribution function, and spatial aspects of stabilization function. The authors explain the economic principles for separating which level of government is appropriate for which function from the perspective of economic efficiency. After that, they focus on allocation function in a changeable spatial dimension tied to the nature of the good or service provided and its cost of production. They suggest if the benefits are local in the scope, then financing the benefits should be directed through local taxes or user charges. The analysis of how the allocation function is to be set among levels of government leads into an analysis of appropriate tax instruments for different levels of government.

Fisher's chapter 6 discusses the organization of sub national government, examining the economic issues -variations in demand, spatial externalities, economies of scale, and administration and compliance costs- and the optimal government size -the correspondent principle, preferences versus spillovers, decision-making costs and clustering and service provision by contracting. It also provides international comparison with other federal nations.

Gramlich's article "The Economics of Fiscal Federalism, and Its Reform," examines the existing US system of fiscal relationships between governments and compares it to the normative ideal for fiscal federalism agreed by public finance economists. It compares the actual divisions of responsibility among governments for spending programs with the responsibilities that might be predicted by normative theoretical considerations. To undertake this comparison, it considers various empirical and normative factors such as actual budgets, taxes of various levels of government, intergovernmental grants, and rationales for government intervention in market economies and correcting market inefficiency. The article identified a number of problems that create efficiency losses or inequitable outcomes in the existing system of fiscal federalism. It then comes up with recommendation to reform the present system of fiscal federalism toward greater efficiency and equity.

Buchanan's article, "An Economic Theory of Clubs." is a worthy reading in which he develops a general theory of clubs through consumption ownership-membership arrangements. He focuses on the organization of membership or sharing arrangements of social goods that lay between purely private and purely public, to which exclusion is, to a certain extent, still possible. "The central question in a theory of clubs is that of determining the membership margin, the size of the most desirable cost and consumption sharing arrangement" (p.2). He organizes in such a way the relationship between total costs per member, the number of members involved, the given level of social goods, and considers other factors. He concludes that whenever the utility derived by an individual from a social good is dependent on the size of the consumption group, a club organization can be formed to supply the service efficiently. It is important to understand the process behind the formation of "a club", an arrangement of shared goods that may lead to an efficient resource allocation.

V. URBAN PUBLIC REVENUE RESOURCES

In order to finance public provision of goods and services, the concepts of market efficiency and market failure provide explanations on how the resources available can be sufficiently allocated and how the costs are to be paid by consumers of the goods or services. Public choice theory explains how voting mechanisms can guide the desires of individual residents with different demand functions to a consensus on pricing of publicly provided goods. Fiscal federalism theory sets forth guidelines on how to design an optimal tax system, given the facts that there are different levels of government with different functions and different fiscal roles. These all are incorporated into the fiscal decisions of sub-national governments, which explains the revenue sources that will be accessed to raise revenue to finance the goods and services that will be publicly provided.

In order to finance their fiscal policies, sub-national governments can raise revenue from various sources. These revenue sources may include taxes, charges, fees, sales, borrowing, and intergovernmental transfers. In the next couple of weeks, we will examine and discuss the details of each revenue source. We will examine the economic reasons for using certain source of revenue, and discuss the general principles that need to be considered when we choose to do so. In addition, we will discuss the efficiency and equity issues attached with the use of each revenue source use.

When a fiscal policy is implemented, there are economic consequences that arise because of this policy. These consequences need to be analyzed to see whether the fiscal policy creates unintended consequences to resource allocation and income distribution. If this is the case, then there is a need to explore further what can be done in order to improve, or even change, said fiscal policy. We will also include these in each of our discussions regarding the sources of revenue.

We will examine and discuss the economic revenue issues of efficiency, equity, and administration in terms of the arrangement of the revenue sources and their economic effects to sub-national economy, and the welfare and interests of residents. We will discuss the effects of the factors of state and local public finance –mobility and diversity- to tax evasion and revenue capacity. The ease of consumer mobility and business location movement among sub-national governments provides an extra possibility for tax evasion, and that can considerably influence the expected economic effects of taxes. The great diversity of state and local government revenue systems reinforces the influence of mobility and raises a question of how state and local governments should select their revenue structures. We will examine these issues along with our discussion of each of the urban public revenue sources in following weeks. The discussion will be divided into several parts: principles of taxation and tax analysis; taxes; pricing and user charges, and fees and sales; borrowing; and intergovernmental transfers.

5.1 Principles of Taxation and Tax Analysis

When the government wants to use tax as its fiscal instrument to raise revenue, it has to consider the impacts of the tax policy it adopts, the changes on the involved parties behavior, and the changes of the market. In addition, it has to consider the fairness of the tax to taxpayers, and requirements for having a good tax structure. There are two principles used to evaluate the fairness of tax: the ability to pay principle and benefit principle. The ability to pay principle holds that those who are able to pay more should, indeed, pay more taxes. The benefit principle contends that those who benefit from the taxes should pay those taxes. We will be discussing these principles and requirements for a desirable tax structure during the 7th week of this class.

When a tax policy is implemented, there are economic consequences that arise because of this policy. The important consequences to be observed are the actual incidence of the tax—that is, who receives the ultimate burden of this tax policy, and the efficiency cost of this tax policy, the welfare lost that arises because individuals and businesses change their behavior due to the tax. These consequences are usually observed through an analysis of tax incidence, tax shifting, and the welfare cost of taxation.

In this section, we will examine the allocative and distributional effects of taxation and discuss the principles and basic tools of tax analysis, with emphasis on those issues that are most important for the state-local government situation. We will learn how to analyze tax incidence using partial-equilibrium and general-equilibrium methods. We will examine the concepts and analytical methods of tax incidence (including whether and how a certain tax is progressive, regressive, or proportional), differential incidence, balance-budget incidence, tax shifting, and the welfare cost of taxation. We will expand our discussion to include considerations for various situations related to income, price, and parallel markets, among others. It is important to understand the methods of analyses and principles , as we will be discussing the various types of taxes in great detail in the next few weeks. A recommended reading is and in order to have better understanding on tax principles, it recommended to read Fisher's Chapter 12, "Principles of Tax Analysis"

Mieszkowski's article, "Tax Incidence Theory: The Effects of Taxes on the Distribution of Income", 1969, article remain, for economists, the definitive summary of the economics of fairness in taxation, that is, the theory of how taxes affect the distribution of income within a country. These aspects of the article are especially noteworthy. First, although much of the theory is not controversial, there are two major taxes about whose incidence there has been real dispute, the corporation income tax and the property tax. This article explains the controversies, places them in perspective and reviews the empirical evidence with respect to the corporation income. Mieszkowski's views on the incidence of the property tax are now widely accepted, and have been almost from the day this article was published. Second, attention is paid to the spatial dimension of the incidence, how taxes affect location of people and activities, which before the article was not considered part of incidence theory. Third, the effects of taxation on saving and growth also are treated, not just a world with fixed amounts of capital and labor. A further elaboration of tax principles may be found in Musgrave and Musgrave, Chapters 12 "Introduction to Taxation", 13 "Approaches to Tax Equity", 14 "Tax and Expenditure Incidence: An Overview", 15 "Principles of Tax Incidence", and 16 "Excess Burden and Efficient Tax Design."

5.2 Taxes

Taxes are compulsory imposts, withdrawn from the private sector without leaving the government with a liability to the payee (Musgrave and Musgrave, 1989). Theoretically, revenue from taxes is appropriate to finance local public goods whose main beneficiaries are the local residents and to which the exclusion principle in pricing cannot be applied. There are various taxes commonly imposed by sub-national governments to raise revenue needed for their fiscal policies. These taxes include income tax, property tax, sales tax, excise tax, and business tax. There are two economic principles used to evaluate whether a tax is justified. These are the benefit principle, and the ability to pay principle. In the beginning of week 8, we will examine these principles and discuss which taxes imposed to residents in your state or city fit to either one.

While sub-national governments try to raise revenue through tax policies, residents, businesses and neighboring sub-national governments respond to these policies either by shifting the taxes to others, evading the taxes, moving away to a jurisdiction with more favorable tax conditions, or by explciting the tax decisions of its neighbors for its own advantage. Regarding this situation, in the rest of week 8, we will examine the impact of sub-national tax policies to the sub-national economy and the welfare and interests of residents and businesses.

We need to spend some times to analyze the economic effects of property taxes. Those effects include equity issues, that is, the effect on the distribution of the tax burden, and efficiency issues, such as the effects of the taxes on the amount, type, and location of property selected. The analysis has a number of important policy implications, particularly regarding proposals to provide property tax relief, either to specific types of taxpayers, or specific types of communities. We will also analyze the progressivity or regressivity of the property tax (Fisher, 1996). Fisher's Chapter 13, "The Property Tax: Institutions and Structure" , and Fisher's Chapter 14, "Property Tax: Economic Analysis and Effects" and Raimondo's Chapter 8, "Property Taxes."

Sub-national governments usually use three major types of sales and excise taxes. The first is the general sales tax and is levied on retail sales, the second is the companion use tax on resident purchases made in other jurisdictions, and the third is the excise tax on specific goods or services. We will examine these types in greater detail in the near future. Fisher's Chapter 15, "Sales and Excise Taxes" Raimondo's Chapter 9, "Sales Taxes." are exceptional readings.

Income taxes are usually developed based on ability to pay rather than from any measure of benefit from or use of government services (benefit principle versus ability to pay principle). Our discussion of this type of tax will be focused on the incidence and efficiency of the income tax policy in various sub-national governments. Fisher's Chapter 16, "Income Taxes," and Raimondo's Chapter 10, "Personal Income Taxes." Are recommended readings.

Two principal issues facing sub-national governments in designing taxes from businesses are the choice of the tax base, that is, the type of tax, and the method for apportioning that base among the various sub-national governments in which a firm does business. Both choices have important implications for the incidence and economic efficiency of the sub-national tax structure. We will examine the implication of business taxes to resource allocation and income distribution in various sub-national governments. A must to read is Fisher's Chapter 17, "Business Taxes"

5.3 Pricing and User Charges/Fees

Imposing user charges is a suitable way of raising revenue if the charges to be collected will be used to finance the full cost, both capital and recurrent, of service provisions that benefit the service users to which the exclusion principle in pricing can be applied.

User charges may include direct charges for use of a public facility or consumption of a good or service, license fees paid for the privilege of undertaking some activity, such as driver's license fees, and special assessments, a type of property tax levied for a specific service and based on some physical characteristic of a property.

In some weeks, we will examine the pricing principles of user charges and other general principles that provide guidelines for designing efficient charging systems. We will discuss methods to analyze the efficiency of user charges with or without congestion, as well as user charges with natural monopolies. Some illustrations of the applications of these user charges will be discussed as well. The reading may be referred to Fisher's Chapter 8, "Pricing of Government Goods: User Charges," and Raimondo's Chapter 11, "Nontax Revenues: User Charges and Gambling Revenues."

5.4. Borrowing

Borrowing is an appropriate way of raising revenue if the loan to be acquired will be used to finance capital improvement or long-lasting infrastructure development programs, especially those that can generate revenue. Sub-national governments usually borrow money for three primary purposes: to finance public capital projects, such as schools, roads, water, and sewage systems, to support and subsidize private activities such as private home mortgages, student loans, and industrial development, and to provide cash flow for short term spending or for special projects. In addition, sub-national governments sometimes borrow new funds to pay off old debts sooner, if interest rates fall (-refinancing"). In contrast to the federal government, sub-national governments are often prohibited from borrowing to finance deficits in operating budgets (Fisher, 1996).

We will also examine in detail the role of debt in sub-national public finance. We will discuss reasons for sub-national governments to borrow, how they borrow, and the details that are involved in such processes. We will also discuss various types of instruments used in borrowing. Chapter from Fischer is recommended to consult, Fisher's Chapter 10, "Debt"

5.5 Intergovernmental Transfers

Intergovernmental transfers are a proper source of revenue if the transfers to be gained will be utilized to finance local public goods that have spillover to neighboring jurisdictions or to equalize service levels across jurisdictions. They provide intergovernmental grants, sometimes called "grants in aid," from one government to another, most often from a higher level of government to a lower level of government. Types of grants are specific or categorical grants, lump sum or non-matching grants, and general or block grants.

We will examine the topic of intergovernmental transfers during week 12. We will examine how these grants can improve the operation of a federal system of government finance. We will also discuss the traditional and modern perspectives of grants. We will focus on how intergovernmental transfers can correct externalities that arise from the structure of sub-national governments, and how they can improve the efficiency of fiscal decisions, and the redistribution of resources among regions or localities. The following reading are recommended to read: Fisher's Chapter 9, "Intergovernmental Grants,", Raimondo's Chapter 13, *Intergovernmental Fiscal Relations.* David King, Chapter 2 - Intergovernmental Fiscal Relations: Concepts and Models.", *Intergovernmental Fiscal Relations.* Petchey, Shapiro and Walsh, Chapter 4 "Transfers in Federal Systems: A Critical Survey."

VI. BUDGETING AND FINANCIAL ANALYSIS

6.1 Budgeting

The purpose of public budgeting is to provide government with a mechanism to allocate resources for the pursuit of goals that are consistent with community preferences and needs. A public budget is an instrument that allows government officials to allocate monies for personnel, goods, and services to achieve politically determined goals (ICMA 125).

Capital budgeting consists of selecting and evaluating capital projects, forecasting fiscal resources, and financing concepts. Major steps in preparing a capital budget are selecting and evaluating the projects to be undertaken, forecasting the community's fiscal resources, and projecting the effects of alternative financing methods on the operating budget (ICMA 433).

In week 13, we will discuss in detail the budgeting process, budget and revenue forecasting. In order to enhance your understanding of this subject, it is recommended to read Fisher's Chapter 11, "The Budget Process," and Solano and Brains' Chapter 6, "Budgeting."

6.2 Financial Analysis

Financial analysis covers the relationships between the revenue generation, expenditure control, and financial balance. It can be used for identifying underused revenue sources, projecting revenue and expenditure trends in the future, assessing debt carrying capacity of local governments, evaluating the impact of rate changes of local fees and licenses, and improving cost efficiency of local services (McMaster, 1993, Chapter 11).

In some week, we will examine in detail the methods and models used for projecting revenue and expenditure, and the data needed for the projection. Practical examples and applications will be presented and examined in class. In order to be prepared for the discussions, we can encourage the students to read through McMaster's *Urban Financial Management*.

6.3 Fiscal Impact Analysis

Fiscal impact analysis is a method to analyze and project the direct impact of new development of residential or non-residential growth on current public costs and revenues to the local jurisdiction, in which the development or growth is taking place (Burchell and Listokin, 1978). In this session, we will examine the concept of fiscal impact analysis and distinguish it to other evaluation strategies such as cost-benefit and cost-effectiveness analysis. Then, we will learn in a systematic way how we can analyze the fiscal impact of various types of new development, using different methods of fiscal impact analysis. We will learn in detail the use of different methods, and requirements for using such methods, covering Methods of the Per Capita Multiplier, the Case Study, the Service Standard, the Comparable City, the Proportional Valuation, and the Employment Anticipation. We will then discuss the advantages and disadvantages of using the method of Fiscal Impact Analysis. To comprehend your understanding in Fiscal impact Analysis, you need to read: Burchell and Listokin, *The Fiscal Impact Handbook, and* Nicholas, Nelson and Juergensmeyer's Chapter 4. "Legal Evolution. Current Legal Status, and Future of Impact Fees."

6.4. Cost-Benefit Analysis

There are possible economic consequences that may come with a government fiscal policy. These possible economic consequences are important to be considered before choosing alternative fiscal policies. Our discussion of the possible consequences that may come with certain policies, and how to analyze these consequences in order to make an informed choice, will be included in our discussion of cost-benefit analysis.

Cost-benefit analysis is a technique that can be used to evaluate government projects. The basic concept is simple: the analyst identifies the benefits and costs associated with a project, and then measures them in a comparable way to determine whether the project is worth undertaking. If the benefits exceed the costs, then the project will lead to a more efficient resource allocation, conversely, if the costs exceed the benefits, then the project will lead to a less efficient allocation of resources. We will discuss this technique further in week 16. The reading for this section will be Browning and Browning's Appendix to Chapter 4, "Benefit-Cost Analysis," pp. 126-36.

VII. CONCLUSION

It has been discussed some themes that are becoming the classic tenets of public finance and fit to the discussion on urban public finance. Those themes are microeconomic foundations for Urban Public Finance, Public Choice of Fiscal Policy, Fiscal Federalism, Urban Public Revenue, Budgeting and Financial Analysis. A detail exploration has been given to discuss the public revenue and budgeting and financial analysis.

Indonesia is developing country and we see the fast growing and development of Cities in which its management and Finance may no longer adequate to be handled based solely on administrative boundaries. An urban and metropolitan scale of management may need to be explored. Those classical theories of public finance are still considered valid and applicable to the Indonesian context of development. What we need to explore is the relevance of those theories by directly apply to the context of Indonesia. Research in the field of urban public finance in Indonesia is therefore a must to develop a specific concept or approach that is fit with developing countries such as Indonesia.

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