

**University of Wisconsin-Madison
Robert M. La Follette School of Public Affairs**

**Public Affairs 891
Fall 2009**

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State and Local Government Finance

Most government services that affect everyday life are provided and largely financed by state and local governments. These include police and fire protection, public education, sanitation and refuse removal, street and road maintenance, water supply, recreation, and environmental protection.

As a consequence of the current recession, the credit crisis, and the collapse of the housing market, state and local governments throughout the U.S. are facing immense challenges. To help us understand how they can respond to these challenges, we will begin by exploring how state and local governments make decisions about what services to provide and decisions about how to finance them. Particular attention will be paid to the fiscal relationships among federal, state, and local governments. We will explore the ways in which the federal and state governments attempt to influence local government behavior, and how local governments respond to the financial incentives and regulations imposed by higher-level governments. The course is designed to introduce students to the major fiscal institutions that characterize the U.S. federal system, and to develop analytical tools, primarily drawn from microeconomics, that enable one to evaluate the fiscal behavior of voters, businesses, and public officials. Students will be given the opportunity to apply their policy analytic skills to policy problems facing state and local governments.

Class Format

The class will be organized around a set of topics in state and local public finance. Class meetings will consist of a mix of lectures and class discussions. All students will be expected to come to class prepared to discuss each week's issue(s).

Prerequisite

Students should have taken Public Affairs 880 or an equivalent course in microeconomic analysis. Prior training in public finance would be helpful, but is not required.

Required Readings

The required textbook for the course is Ronald C. Fisher's *State and Local Public Finance*,

Third edition, Thomson South-Western, 2007. Copies are available for purchase at the University Book Store, 711 State St. All additional required readings are available in electronic form. They are available on UW electronic reserves through the Social Science Reference Library (with a link from *Learn@UW*). Some of these readings are also available through direct links from the course syllabus, which is posted on the course *Learn@UW* web page.

Course requirements

- Come to each class having completed the assigned reading and prepared to ask questions and participate in class discussion.
- You will be assigned four *case studies* during the semester. Each case study focuses on a different public policy issue. You are expected to come to class fully prepared to discuss each case. For one of the cases, you will be required to write a policy memorandum on the issues addressed in the case. Memoranda must be turned in on the day we discuss the relevant case in class. No credit will be given for late memos.
- During the course of the semester, we will conduct two *policy debates*. Each student will be assigned to a pro or con position in one of the debates.
- You will also be required to write a short (approximately 10 page) term paper on a public finance topic or issue as it relates to a specific state or local government. Papers will be due on the last day of classes for the fall semester (December 15th). Late papers will be subject to a grade penalty. You are **required** to submit a one-page abstract of your proposed paper by October 14th.
- A final exam will be given during the examination period.

Grading

Forty percent of the grade will be based on the final exam, 10 percent on your *case study* policy memorandum, 15 percent on your debate performance, 5 percent on class participation, and 30 percent on the term paper.

CLASS SCHEDULE AND SYLLABUS

September 2nd

Topic: Introduction
What role should state and local governments play in the U.S.?

Readings:

Fisher, chapter 1, “Why Study State and Local Government Finance?”

[for review] Fisher, chapter 2, “Microeconomic Analysis: Market Efficiency and Market Failure”

Elizabeth McNichol and Iris J. Lav, “New Fiscal Year Brings No Relief from Unprecedented State Budget Problems,” Center on Budget and Policy Priorities, Updated August 12, 2009. Available at <http://www.cbpp.org/files/9-8-08sfp.pdf>.

Andrew Reschovsky, “The Impact of the Economic Crisis on State Governments,” *La Follette Policy Report* 19, No. 1, Fall 2009, p. 12-15. Available at http://www.lafollette.wisc.edu/publications/policyreports/policyreport19_1.pdf.

David Kocieniewski, “What’s Next, Sidewalk Tolls?” *New York Times*, August 30, 2009, p. 20.

Larry Sandler, “Study Fingers State for Milwaukee’s Financial Woes,” *Milwaukee Journal Sentinel*, September 1, 2009.

Andrew Reschovsky, “State and Local Government General Revenue from Own Sources, Taxes, and Direct General Expenditures by State, Fiscal Year 2006.”

September 9th and September 14th

Topic: The demand for state and local government public services

Readings:

Fisher, chapter 3, "Public Choice Without Mobility: Voting"

Fisher, chapter 4, “Demand for State and Local Goods and Services”

Fisher, chapter 5, "Public Choice Through Mobility"

September 16th

Topic: Tax and expenditure limitations

Readings:

Thomas A. Downes and David N. Figlio, "Tax and Expenditure Limits, School Finance, and School Quality," chapter 21 in *Handbook of Research in Education Finance and Policy*, edited by Helen F. Ladd and Edward B. Fisk.

Therese J. McGuire and Kim S. Rueben, "The Colorado Revenue Limit: The Economic Effects of TABOR," Economic Policy Institute Briefing Paper No. 172, March 2006. Available at <http://www.epi.org/content.cfm/bp172>

September 21st and 23th

Topic: The costs of local government services

Readings:

Fisher, chapter 7, "Costs and Supply of State and Local Goods and Services."

William D. Duncombe and John Yinger, "Measurement of Cost Differentials," chapter 14 in *Handbook of Research in Education Finance and Policy*, edited by Helen F. Ladd and Edward B. Fisk.

Chris Kozlowski, Sara Mooren, and Michelle Woolery, "Fire and EMS Dispatching Services in Milwaukee County; An Evaluation of Consolidation," Milwaukee-La Follette Policy Analysis Project, Spring 2004. Available at <http://www.lafollette.wisc.edu/publications/workshops/2003-2004/pa869/2004-Milwaukee.pdf>

September 28th and 30th

Topic: The privatization of public service delivery
Federal mandates and their impacts on the costs of local public services

Readings:

Elisabeth R. Gerber, Christianne K. Hall, and James R. Hines, Jr., "Privatization: Issues in Local and State Service Provision," *Policy Report*, No. 1, Center for Local, State, and Urban Policy, University of Michigan, February 2004.

Pietro S. Nivola, "Fiscal Millstones on the Cities: Revisiting the Problem of Federal Mandates," *Brookings Institution Policy Brief*, No. 122, August 2003. Available at <http://www.brookings.edu/comm/policybriefs/pb122.htm>.

Assignment: Case #1: Private Police

October 5th

Topic: How to finance state and local governments? The basics of tax analysis

Readings:

Fisher, chapter 12, "Principles of Tax Analysis."

October 7th, 12th and 14th

Topic: The property tax
What is the best way to deliver property tax relief?

Readings:

Fisher chapter 14, "Property Tax: Economic Analysis and Effects."

Wallace E. Oates, "Property Taxation and Local Government Finance; An Overview and Some Reflections," in *Property Taxation and Local Government Finance*, edited by Wallace E. Oates, Cambridge, Lincoln Institute of Land Policy, 2001.

Rebecca Boldt, Bradley Caruth, and Andrew Reschovsky, "Growth of Homeowner Property Taxes: Wisconsin Evidence," *State Tax Notes* August 10, 2009.

Joan Youngman, "Taxing and Untaxing Land: Current-Use Assessment-Lessons from Wisconsin," *State Tax Notes*, September 5, 2005.

Mark Haveman and Terri A. Sexton, *Property Tax Assessment Limits: Lessons from Thirty Years of Experience*, Policy Focus Report, Cambridge, MA, Lincoln Institute of

Land Policy, 2008.

John H. Bowman, et al., *Property Tax Circuit Breakers; Fair and Cost-Effective Relief for Taxpayers*, Policy Focus Report, Cambridge, MA, Lincoln Institute of Land Policy, 2009.

Assignment: Submit a written abstract of your term paper by October 14th

Assignment: Case #2: Responding to the Property Tax Freeze

October 19th and 21st

Topic: The sales tax

Readings:

Fisher, chapter 15, "Sales and Excise Taxes."

Charles E. McLure, Jr., "SSTP: Out of the Great Swamp, But Whither? A Plea to Rationalize the State Sales Tax," *Multistate Tax Commission Review*, Number 1, February 2002.

Michael Mazerov, "Expanding Sales Taxation of Services: Options and Issues," *State Tax Notes*, August 24, 2009.

"Internet Sales Taxes," Editorial, *The New York Times*, July 5, 2005.

Assignment: Debate #1: Should internet retailers be required to collect sales tax on purchases made by out-of-state customers?

October 26th and 28th

Topic/question: The income tax.

Readings:

Fisher, chapter 16, "Income Taxes."

Wallace E. Oates and Robert M. Schwab, "What Should Local Governments Tax: Income or Property?" and Andrew Reschovsky, "Comment" in *City Taxes, City Spending: Essays in Honor of Dick Netzer*, edited by Amy Ellen Schwartz, Northampton, MA: Edward Elgar Publishing, 2004.

November 2nd and 4th

Topic: The taxation of business
Tax policy and economic development

Readings:

Fisher, chapter 17, "Business Taxes."

Fisher, chapter 22, "Economic Development."

Richard D. Pomp, Section I: *Introduction* and Section II: *The Corporate Income Tax* from "State Tax Reform: Proposals for Wisconsin," *Marquette Law Review* 87, Fall 2004, pp. 45-79.

Roger G. Noll and Andrew Zimbalist, "Sports, Jobs, & Taxes; Are New Stadiums Worth the Cost?" *The Brookings Review*, Summer 1997. Available at http://www.brookings.edu/articles/1997/summer_taxes_noll.aspx

November 9th, 11th, and 16th

Topic: Financing infrastructure
Paying for public employee pensions

Reading:

The Bond Market Association, *An Investor's Guide to Bond Basics*, Available at <http://www.investinginbonds.com/learnmore.asp?catid=46>. Read "Overview" through section: "Key Bond Investment Considerations, part 2." Also from the list on the left, click on "About Municipal Bonds" to learn the basics about tax-free municipal bonds.

Congressional Budget Office, *Issues and Options in Infrastructure Investment*, A CBO Paper, May 2008. Available at <http://www.cbo.gov/ftpdocs/91xx/doc9135/05-16-Infrastructure.pdf>.

Donald Boyd, "Retiree Pensions and Health Benefits: State and Local Governments Face New Budget Challenges," Rockefeller Institute Reports on State and Local Government Finance, April 2006. Available at http://www.rockinst.org/pdf/government_finance/2006-04-retiree_pensions_and_health_benefits_state_and_local_governments_face_new_budget_challenges.pdf

Assignment: Case #3: A Tax-Raising Plan for Wisconsin

November 18th and 23rd

Topic: Funding local governments through intergovernmental grants

Readings:

Fisher, chapter 9, "Intergovernmental Grants."

James R. Hines and Robert Thaler "The Flypaper Effect," *Journal of Economic Perspectives*, Fall 1995.

Ronald C. Fisher and Leslie E. Papke, "Local Government Responses to Education Grants," *National Tax Journal*, March 2000. Read section on "Implications for School Finance Reform." pp. 163-165.

Assignment: Debate #2: Should the State of New Jersey sell the N.J. Turnpike to a private investor?

November 25th and 30th

Topic: Funding public education

Readings:

Fisher, chapter 19, "Education."

David N. Figlio and Helen F. Ladd, "School Accountability and Student Achievement," chapter 10 in *Handbook of Research in Education Finance and Policy*, edited by Helen F. Ladd and Edward B. Fisk.

Richard Murnane, "Interpreting the Evidence on 'Does Money Matter?'" *Harvard Journal on Legislation*, Vol. 28, 1991. Available at <http://www.heinonline.org/HOL/Page?handle=hein.journals/hjl28&id=1&size=2&collection=journals&index=journals/hjl>. Select page 457.

December 2nd and 7th

Topic: School funding reform—providing an *adequate* education

Readings:

Jennifer Imazeki and Andrew Reschovsky, "Does *No Child Left Behind* Place a Fiscal Burden on States? Evidence from Texas," *Education Finance & Policy*, May 2006. Available at <http://www.mitpressjournals.org/doi/pdfplus/10.1162/edfp.2006.1.2.217>.

Andrew Reschovsky, "The Crisis in Funding Public Education in Wisconsin," *La Follette Policy Report* 18, no. 1, Fall 2008. Available at http://www.lafollette.wisc.edu/publications/policyreports/policyreport18_1.pdf

Assignment: Case #4: School funding reform

December 9th and 14th

Topic/question: Urban public finance; the fiscal crisis of central cities

Readings:

Howard Chernick and Andrew Reschovsky, "The Long-Run Fiscal Health of Central Cities," *Chicago Policy Review* 4, Spring 2000: 1-22.

Joseph Gyourko and Anita A. Summers, "A New Strategy for Helping Cities Pay for the Poor," *Brookings Policy Brief Series*, No. 18, Washington, DC: The Brookings Institution, June 1997. Available at http://www.brookings.edu/papers/1997/06poverty_gyourko.aspx

Andrew F. Haughwout, "The Paradox of Infrastructure Investment," *Brookings Review*, Summer 2000. Available at http://www.brookings.edu/articles/2000/summer_productivity.aspx.

Robert P. Inman, "Should Philadelphia's Suburbs Help Their Central City?" *Business Review*, Federal Reserve Bank of Philadelphia, Second Quarter 2003: 24-36. Available at <http://www.philadelphiafed.org/files/br/brq203ri.pdf>.

Assignment: Term paper due December 15th