

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

**Public Affairs 891**  
**Fall 2011**

**Prof. Andrew Reschovsky**  
**Room 307, La Follette School**  
**Phone: 263-0447 or 238-6291**  
**Office hours: Mon. 2:30-3:30**  
**and by appointment**  
[reschovsky@lafollette.wisc.edu](mailto:reschovsky@lafollette.wisc.edu)

## **State and Local Government Finance**

Most government services that affect citizens' 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 economic recession, the credit crisis, the collapse of housing prices, and the sharp rise in housing foreclosures, state and local governments throughout the U.S. are facing immense challenges. Extraordinarily large budget gaps at both the state and local levels are leading to unprecedented cuts in public services. These cyclical problems are exacerbated by long-run structural problems due to deteriorating physical infrastructure, massive unfunded pension liabilities and retiree health care costs, and a tax structure ill suited for the 21<sup>st</sup> century. Large cuts in federal domestic spending programs that Congress is likely to enact will further constrain the ability of state and local governments to provide basic public services.

This course aims to give students an overview of how state and local governments operate and an understand of the options they have for responding to their current fiscal challenges. We 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 (and constrain) 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 utilize analytical tools, primarily drawn from microeconomics, that enable one to evaluate the fiscal behavior of voters, businesses, and public officials. We will devote time to discussing a number of controversial issues facing state and local governments, and explore a range of policies aimed at addressing the fiscal problems they are facing.

### **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. I value your participation and expect you to take an active role in 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. I will also distribute a list of **supplemental readings**. These readings should be of interest to students who wish to explore an issue in more detail and to students with advanced training in economics.

### 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 15<sup>th</sup>). Late papers will be subject to a grade penalty. You are **required** to submit a one-page abstract of your proposed paper by October 12<sup>th</sup>.
- 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 7<sup>th</sup>

**Topic:** Introduction  
The Current Fiscal Crisis in State and Local Public Finance

#### Readings:

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

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

Erica Williams, Michael Leachman, and Nicholas Johnson, "State Budget Cuts in the New Fiscal Year are Unnecessarily Harmful; Cuts are Hitting Hard at Education, Health Care, and State Economies," Center on Budget and Policy Priorities, July 28, 2011.

Tracy Gordon, "State and Local Finances: Where We're Going," *State Tax Notes*, January 31, 2011.

Mary Williams Walsh and Katie Zezima, "Small City, Big Debt Problems," *New York Times*, August 1, 2011.

Ben S. Bernanke, "Challenges for State and Local Governments," Remarks delivered to the Citizens Budget Commission, New York, NY, March 2, 2011.

U.S. Census Bureau, "State and Local Government General Revenue from Own Sources, Taxes, and Direct General Expenditures by State, Fiscal Year 2008." (tables constructed by Andrew Reschovsky).

### September 12<sup>th</sup> and September 14<sup>th</sup>

**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 19<sup>th</sup>**

**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, 2008.

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.

Frank Mauro, "Incorrect Diagnosis of New York's Property Tax 'Problem' will Lead to a Remedy that is Likely to do More Harm than Good," New York, Fiscal Policy Institute, June 10, 2011.

Russ Kava and Rick Ohlin, "Local Government Expenditure and Revenue Limits," *Informational Paper 12*, Wisconsin Legislative Fiscal Bureau, January 2011.

**September 21<sup>st</sup> and 26<sup>th</sup>**

**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.

William D. Duncombe and John Yinger, "School District Consolidation: The Benefits and Costs," *The School Administrator*, May 2010.

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 28<sup>th</sup> and October 3<sup>rd</sup>**

**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.

Richard A. Oppel, Jr., "Private Prisons Said to Offer Little in Savings," *New York Times*, May 18, 2011.

Pietro S. Nivola, "Fiscal Millstones on the Cities: Revisiting the Problem of Federal Mandates," *Brookings Institution Policy Brief*, No. 122, August 2003.

**Assignment:** Case #1: Private Police

**October 10<sup>th</sup> and 12<sup>th</sup>**

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

**Readings:**

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

David Kocieniewski, "What's Next, Sidewalk Tolls?" *New York Times*, August 30, 2009, p. 20.

**October 17<sup>th</sup>, 19<sup>th</sup>, and 24<sup>th</sup>**

**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, "Are Property Taxes Forcing the Elderly Out of Their Homes?," *La Follette School Working Paper*, no. 2010-014.

Raquel Rutledge, "Exemptions Added to Budget Raise Property Taxes in Secret," *Milwaukee Journal Sentinel*, March 8, 2011.

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 13<sup>th</sup>

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

### October 26<sup>th</sup> and 31<sup>st</sup>

**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.

Neal Pierce, "Amazon, Taxes----and Us," *Citiwire.net*, September 4, 2011.

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

National Conference of State Legislatures, "Collecting E-Commerce Taxes," 2011.

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

Institute on Taxation and Economic Policy, "Sales Tax Holidays: A Boondoogle," Policy Brief, July 2011.

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

**November 2<sup>nd</sup> and 7<sup>th</sup>**

**Topic/question:** The income tax  
Gambling taxes

**Readings:**

Fisher, chapter 16, "Income Taxes."

Robert Tannenwald, Jon Shure, and Nicholas Johnson, "Tax Flight is a Myth: Higher State Taxes Bring More Revenue, Not More Migration," Center on Budget and Policy Priorities, August 4, 2011.

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.

Lucy Dadayan and Robert B. Ward, "Back in the Black: State's Gambling Revenues Rose in 2010," *Fiscal Studies*, Nelson A. Rockefeller Institute of Government, June 23, 2011.

Neal Peirce, "America's Gambling Craze: Playing With Fire," *Citiwire.net*, August 28, 2011.

Brent Kramer, "The New York State Lottery: A Regressive Tax," *State Tax Notes*, March 29, 2010.

**November 9<sup>th</sup>**

**Topic:** The taxation of business  
Tax policy and economic development

**Readings:**

Fisher, chapter 17, "Business Taxes."

Fisher, chapter 22, "Economic Development."

Iris J. Lav and Robert Tannenwald, "The Zero-Sum Game: States Cannot Stimulate Their Economies by Cutting Taxes," Center on Budget and Policy Priorities, March 2, 2010.

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.

David Greising, “Not All Tax Breaks Are Created Equal,” *New York Times*, May 15, 2011.

Robert Tannenwald, “On Massachusetts’ Film Tax Credits,” Testimony before the Joint Committee on Revenue, Massachusetts Legislature, March 3, 2010.

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](http://www.brookings.edu/articles/1997/summer_taxes_noll.aspx)

Joan Youngman, “TIF at a Turning Point: Defining Debt Down,” *State Tax Notes*, May 2, 2011.

### November 14<sup>th</sup>, and 16<sup>th</sup>

**Topic:** Financing infrastructure  
Paying for public employee pensions

### Readings:

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.

Ellen Hanak, “State Infrastructure Spending and the Federal Stimulus Package,” *National Tax Journal*, 62, September 2009.

Jeanne Dugan, “Facing Budget Gaps, Cities Sell Parking, Airports, Zoo,” *The Wall Street Journal*, August 23, 2010.

Joshua D. Rauh, “Are State Public Pensions Sustainable? Why the Federal Government Should Worry About State Pension Liabilities,” *National Tax Journal* 63, September 2010.

Alicia H. Munnell, et al., “Can State and Local Pensions Muddle Through,” *State and Local Pension Plans*, Number 15, Center for Retirement Research of Boston College, March 2011.

Cameron McWhirter and Douglas Belkin, “New Front in Benefits Fight, Atlanta May Drop Pensions,” *The Wall Street Journal*, June 22, 2011.

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

**November 21<sup>st</sup> and 23<sup>rd</sup>**

**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 28<sup>th</sup> and 30<sup>th</sup>**

**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.

Phil Oliff and Michael Leachman, "New School Year Brings Steep Cuts in State Funding for Schools," Center on Budget and Policy Priorities, September 2011.

**December 5<sup>th</sup> and 7<sup>th</sup>**

**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.

Andrew Reschovsky, "The Crisis in Funding Public Education in Wisconsin," *La Follette Policy Report* 18, no. 1, Fall 2008.

Andrew Reschovsky, "A Critical Review of Property Tax Relief in Wisconsin," *State Tax Notes*, February 8, 2010: 403-409.

**Assignment:** Case #4: School funding reform

**December 12<sup>th</sup> and 14<sup>th</sup>**

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

**Readings:**

Howard Chernick, Adam Langley, and Andrew Reschovsky, "The Impact of the Great Recession and the Housing Crisis on the Financing of America's Largest Cities," *Regional Science and Urban Economics* 41, No. 4, July 2011.

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.

Andrew F. Haughwout, "The Paradox of Infrastructure Investment," *Brookings Review*, Summer 2000.

Robert P. Inman, "Should Philadelphia's Suburbs Help Their Central City?" *Business Review*, Federal Reserve Bank of Philadelphia, Second Quarter 2003: 24-36.

**Assignment:** Term paper due December 15<sup>th</sup>