

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

**Public Affairs 891
Fall 2006**

**Prof. Andrew Reschovsky
Room 307, La Follette School
Phone: 263-0447 or 238-6291
Office hours: Mon. 3:00-4:15
and by appointment
reschovsky@lafollette.wisc.edu**

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. In this course, we will explore 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 you to evaluate the fiscal behavior of voters, businesses, and public officials.

Class Format

The class will be organized around a set of current issues 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. Although many of the issues will focus on public finance in Wisconsin, this is not a course on Wisconsin public finance. Rather, Wisconsin provides a convenient laboratory to study a number of issues that in one form or another face most state and local governments in the United States.

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. In addition, the syllabus includes a number of readings that will be available in a readings packet that can be purchased from Pigwick Papers, LLC

(formerly Bob's Copy Shop), 1401 University Avenue, Suite C. The readings will also be on reserve in the Social Science Reference Library (8th floor, Social Science Building) and on electronic reserves through <http://my.wisc.edu/portal/>. Some readings are also available on the internet at sites indicated on the reading list.

Assignments

Each week you will be expected to prepare a response to one or more questions related to the issue to be discussed in class. The question (or questions) will be distributed during the previous week's class. For some weeks, written responses will be required. They will not be graded, but failure to submit answers may reduce your course grade.

You will be expected to write three short policy memoranda on topics related to case studies that we will discuss in class. Memoranda must be turned in before the beginning of class on the day we discuss the relevant case in class. No credit will be given for late memos.

You will also be required to write a short (approximately 10 page) term paper on a public finance issue as it relates to a specific state or local government. Papers will be due on the last day of classes for the semester (December 12th). You are **required** to submit a one-page abstract of your proposed paper by October 17th.

A final exam will be given during the examination period.

Grading

Forty-five percent of the grade will be based on the final exam, 20 percent on the three written assignments, 5 percent on class participation, and 30 percent on the term paper.

CLASS SCHEDULE AND SYLLABUS

Week 1 September 5th

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

Readings:

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

National Conference of State Legislatures, "States Use Unexpected FY 2006 Revenue for Rainy Days, Education, Tax Cuts," *NCLS News*, August 15, 2006. Available at <http://www.ncsl.org/programs/press/2006/pr060815fiscalreport.htm>.

Ralph Martire, "Revamp State Tax System or Face Budget Disaster," *Chicago Sun-Times*, January 14, 2006.

Jodi Wilgoren, "Shrinking, Detroit Faces Fiscal Nightmare," *New York Times*, February 2, 2005.

Donald Boyd, "Impact of Proposed 2007 Federal Budget Actions on States," Rockefeller Institute Reports on State and Local Government Finance, May 2006.

Week 2 September 12th

Topic/question: Who decides what public services local governments provide? Have politicians or government bureaucrats taken decision making power away from residents?

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"

Week 3 September 19th

Topic/question: Can the cost of government be reduced through government consolidations or cooperation?

Readings:

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

Matthew Andrews, William Duncombe, and John Yinger, "Revisiting Economies of Size in American Education; Are We Any Closer to a Consensus?" *Economics of Education Review*, June 2002. Available at ScienceDirect through Madcat.

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>.

Week 4 September 26th

Topic/question: Is the privatization of public service delivery a good strategy for reducing the costs of government? Are the costs of state and local government services being driven up by un (or under) funded federal mandates?

Readings:

Elliott D. Sclar, *You Don't Always Get What You Pay For; The Economics of Privatization*, Chapter 7: "The Privatization of Public Service; Economic Limits of the Contract State."

Elisabeth R. Gerber, Christianne K. Hall, and James R. Hines, Jr., "Privatization: Issues in Local and State Service Provision," *Policy Report*, Center for Local, State, and Urban Policy, University of Michigan, 2004.

Douglas Jehl, "As Cities Move to Privatize Water, Atlanta Steps Back," *The New York Times*, February 10, 2003.

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: Contracting for Prisons in Wisconsin

Week 5 October 3rd

Topic/question: Should Wisconsin add an amendment to its constitution which would place a limit on the annual increases in spending by the state government and all local governments?

Readings:

Barry Poulson, "A Taxpayer's Bill of Rights for Wisconsin," Policy Paper, Americans for Prosperity Foundation, September 2004.

Andrew Reschovsky, "The Taxpayer Protection Amendment: A Preliminary Analysis" La Follette School Working Paper, No. 2006-003, March 4, 2006. Available at: <http://www.lafollette.wisc.edu/publications/workingpapers/reschovsky2006-003.pdf>.

Therese J. McGuire and Kim S. Rueben, "The Colorado Revenue Limit: The Economic Effects of TABOR," Economic Policy Institute Briefing Paper, March 2006.

Week 6 October 10th

Topic/question: **How can we fund local governments and schools when voters (and legislators) want property tax reductions?**

Readings:

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

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.

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

Week 7 October 17th

Topic/question: Why is the property tax unpopular? What is the best way to deliver property tax relief?

Readings:

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

Table 1 – “The Role of the Property Tax in the Financing of Local Governments, 2003-04” and Table 2 – “The Changing Role of the Property Tax: Comparing 1991-92 to 2003-04”.

Joan Youngman, Excerpts from “Introduction” to *Legal Issues in Property Valuation and Taxation : Cases and Materials*. Chicago: International Association of Assessing Officers, 1994.

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.

Richard D. Pomp, Section IV: *Tax-Exempt Property* from “State Tax Reform: Proposals for Wisconsin,” *Marquette Law Review* 87, Fall 2004, pp. 83-89.

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

Assignment: Submit a written abstract of your term paper.

Week 8 October 24th

Topic/question: What can be done about the shrinking sales tax base?

Readings:

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

Robert Tannenwald, “Are State and Local Revenue Systems Becoming Obsolete?” *New England Economic Review*, Federal Reserve Bank of Boston, No. 4, 2001: 27-43. Available at <http://www.bos.frb.org/economic/neer/neer2001/neer401b.pdf>.

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.

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

Week 9 October 31st

Topic/question: Is heavier reliance on the income tax the key to making the tax system fairer?

Readings:

Fisher, chapter 16, "Income Taxes."

Andrew Reschovsky, "The Progressivity of State Tax Systems," in *The Future of State Tax Systems*, Washington, DC: The Urban Institute Press, 1998.

Iris J. Lav, "Tax Cuts Proposed in President's Budget Would Ultimately Cause Large State Revenue Losses," Cneter on Budget and Policy Priorities, March 16, 2006. Available at <http://www.cbpp.org/3-16-06sfp2.pdf>.

Week 10 November 7th (Election Day)

Topic/question: Does the taxation of business discourage economic growth? Should businesses be taxed by state and local governments, and if so, how?

Readings:

Fisher, chapter 17, "Business Taxes."

Thomas F. Pogue, "State and Local Business Taxation: Principles and Prospects," in *The Future of State Tax Systems*, Washington, DC: The Urban Institute Press, 1998.

Center on Budget and Policy Priorities, *News Release* "House to Consider Restricting States' Authority to Tax Corporate Profits," July 24, 2006. Available at <http://www.cbpp.org/7-24-06sfp-pr.pdf>.

Michael Wasylenko, "Taxation and Economic Development: The State of the Economic Literature," *New England Economic Review*, March/April 1997.

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.

Week 11 November 14th

Topic/question: Should state and local governments borrow money as a way of solving current fiscal problems? Who is going to pay for public employee pensions?

Reading:

The Bond Market Association, *An Investor's Guide to Bond Basics*, Read sections: "What Are Bonds" and "Key Bond Investment Considerations," pp. 1-13.

Edward M. Gramlich, "How Should Public Infrastructure be Financed?" plus comments by Rudolph Penner and James Poterba in *Is There a Shortfall in Public Capital Investment?*, Proceedings of a Conference Held in June 1990. Edited by Alicia H. Munnell, Federal Reserve Bank of Boston.

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.

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

Week 12 November 21st

Topic/question: Who should fund public education in the United States? How should it be done?

Readings:

Fisher, chapter 9, "Intergovernmental Grants."

Richard Murnane, "Interpreting the Evidence on 'Does Money Matter?'" *Harvard Journal on Legislation*, Vol. 28, 1991.

John Yinger, "State Aid and the Pursuit of Educational Equity: An Overview," *Helping Children Left Behind; State Aid and Pursuit of Educational Equity*, edited by John Yinger, (MIT Press, 2004). Read sections 1.1 to 1.3.3 (pp. 3-28).

William N. Evans, Sheila E. Murray, and Robert M. Schwab, "The Property Tax and Education Finance," in *Property Taxation and Local Government Finance*, edited by Wallace E. Oates, Cambridge, Lincoln Institute of Land Policy, 2001.

Week 13 November 28th

Topic/question: How can we guarantee that all children receive an *adequate* education?
Do we need to reform the school finance system in Wisconsin?

Readings:

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.

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, *Wisconsin's School Finance; A Policy Primer*, Robert M. La Follette School of Public Affairs, December 2002. Available at <http://www.lafollette.wisc.edu/publications/otherpublications/wisconsinprimer/2002/SchoolPrimer2002.pdf>.

Week 14 December 5th

Topic/question: Should Wisconsin reform its Shared Revenue system?

Readings:

Andrew Reschovsky, *Wisconsin's Local Government Finance; A Policy Primer*, Robert M. La Follette School of Public Affairs, December 2002. Available at <http://www.lafollette.wisc.edu/publications/otherpublications/wisconsinprimer/2002/MunicipalPrimer2002.pdf>.

Wisconsin Blue-Ribbon Commission on State-Local Partnerships for the 21st Century, *Final Report*, January 2001. Read Chapters 1 and 3. Available at <http://www.lafollette.wisc.edu/reform/report011001.pdf>

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

Helen F. Ladd, Andrew Reschovsky, and John Yinger, "City Fiscal Condition and State Equalizing Aid: The Case of Minnesota," National Tax Association, Proceedings of the 84th Annual Conference, 1991.

Week 15 December 12th

Topic/question: The fiscal crisis of central cities: is there a real crisis? Are there solutions?

Readings:

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

Alice M. Rivlin, "The Challenge of Plenty in Washington, DC," *The Washington Post*, August 14, 2005.

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/comm/policybriefs/pb18.htm>.

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. Available at <http://www.phil.frb.org/files/br/brq203ri.pdf>.

Assignment: Term paper due December 12th