

University of Illinois at Chicago
College of Urban Planning & Public Affairs
Graduate Program in Public Administration

Spring 2007
PA 553 – State and Local Public Finance

Instructor: Yonghong Wu

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Office hours: By appointment

Time & Place: Wednesday 6:00 – 9:00 p.m., 2234 ADH

Introduction

This course examines the expenditure and revenue decisions of state and local governments, the structures and institutions of subnational governments, and public sector responses to market failures. It will explore the determinants of state and local economic development and government fiscal behavior to identify criteria for selecting among policy alternatives. The principal objectives of the course are to describe the fiscal institutions in the U.S. system; to develop analytical tools, primarily drawn from microeconomics, for understanding the behavior of voters, public officials, businesses, and other actors affected by state and local policy; and to provide tools that will help students make fiscal policy decisions. The course is designed for students who plan to be practitioners, that is, who plan to make decisions about state and local public finance issues. The emphasis of the course is therefore more on institutions and on applications than on the fine points of theory. The students will be given many opportunities to apply their analytical skills to actual policy problems.

As described in the attached class schedule, the class will cover the following topics: State and Local Government Expenditures, State and Local Government Revenues, Intergovernmental Fiscal Relations, and Fiscal Aspects of State and Local Economic Development.

Readings

Textbook: Ronald C. Fisher *State and Local Public Finance*, 3rd edition, Thompson Learning, 2005 (ISBN: 0-32429-1558). Early editions include 2nd edition by Irwin, 1996 (ISBN 0-256-16062-7).

All additional readings, which are listed in the following schedule, can be downloaded from the web sites provided.

Prerequisites

The prerequisite for this course is PA 504 – “Budgeting for Public Administration”. Students who have not taken PA 504 must receive the instructor’s permission in order to enroll. Some background in microeconomic analysis and statistics is desirable, but not required.

Assignments

Class sessions will consist of a mix of lectures, case discussions, and student presentations. All students are required to (1) participate in case discussions, (2) prepare two professional memos, (3) keep a journal of economic development initiatives of municipal government. Every student will also be required to take midterm and final exam.

There are **four** case discussions in the class. Each student must prepare two short (2 – page) professional memorandums to an imaginary decision maker. The memos must be based on two of the four cases in class. A student may select any two of the cases, but the memos must be turned in at the beginning of the class during which they are discussed. **Late memos will not be accepted.** In addition, each student must play a **lead role** in two of the case discussions. Students who do not have a lead role for a particular case are still expected to participate in the class discussion. These memos will be graded on substance as well as on presentation.

The second assignment is to keep a journal on **economic development** initiatives by a particular municipal government. It has several parts:

- Each student must select a municipality in Illinois.
- The journal must ultimately contain **three entries of one or two pages each** (plus supporting graphs or tables, if any).
 - The first entry is an overview of the revenues and expenditures of the local government you choose. It should include a description of all major sources from which the government obtains its revenue, the contribution of different sources to government finance, and major spending categories.
 - The second entry is a detailed description of major industries in the municipality and economic development programs initiated by the government in recent years. It should present how the programs are designed and implemented.
 - The final entry should analyze the impact of the major economic development programs, and the responding behavior by businesses, consumers, and other relevant parties. You also need to discuss the strength and weakness of the programs with some specific recommendations for the government to achieve better outcome.

The students must submit his or her journal to the instructor **on two occasions: March 7 and May 2. **Late journals will be downgraded.** When the journal is handed in on March 7, it must contain the first and second entry as described above. When the journal is**

handed in on May 2, it must contain the third required entry together with the first two entries.

The following sources are helpful in finishing your assignments in this class:

Government Finance Officers Association (<http://www.gfoa.org>)
 International City/County Management Association (<http://www.icma.org/go.cfm>)
 National Conference of State Legislators (<http://www.ncsl.org/>)
 National Governor's Association (<http://www.ncsl.org/>),
 National League of Cities (http://www.nlc.org/nlc_org/site/)
 National Tax Association (<http://www.ntanet.org/>)
 U.S. Census of Governments (<http://www.census.gov/govs/www/index.html>)
 U.S. Conference of Mayors (<http://www.usmayors.org/uscm/home.asp>)

Grading

- | | |
|-----------------------|----------------|
| • Class participation | 10% |
| • Two memos | 20% (10% each) |
| • Journal | 20% |
| • Midterm exam | 20% |
| • Final exam | 30% |

Student's participation grade will be based on attendance and active and meaningful involvement in class sessions, discussion of cases, and working on assignments. The students are required to do the assigned readings prior to class and to come prepared to participate meaningfully and to ask relevant questions.

Course policies

Plagiarism: Plagiarism and cheating are taken very seriously and penalized severely. If you are caught plagiarizing an assignment or cheating on an exam, you will receive a grade of "F" for the course – no exceptions. There are further sanctions for academic dishonesty in accordance with university guidelines. Guidelines regarding academic integrity at UIC are available online at the following website:
http://www.vcsa.uic.edu/MainSite/departments/dean_of_students/Our+Services/Student+Judicial+Affairs.htm.

Participation by Students with Disabilities: If you need special accommodations in order to meet any of the requirements of this course, please contact me as soon as possible.

Incompletes, later assignments, and extra work: Late submission of assignments will be downgraded unless the student has a legitimate excuse or crisis causing the delay in completing work (i.e. illness, family emergency). Also I will only grant incompletes to students who have legitimate excuses or crisis and who make requests prior to the end of the course.

Course Schedule

January 17: Lecture 1

Topic: A. Introduction and Overview
B. Microeconomic Policy Analysis

Reading:
Fisher, Chapter 1 & 2

January 24: Lecture 2

Topic: A. Demand for State and Local Public Services
B. Voting and Tiebout Models of Public Choice

Reading:
Fisher, Chapter 3, 4 & 5

January 31: Lecture 3

Topic: A. Public Sector Production and Cost Determinants
B. Case Discussion 1: Spending Incentives in New York's School Tax Relief Program

Reading:
Fisher, Chapter 7

William Duncombe and John Yinger, "Performance Standards and Educational Cost Indexes: You Can't Have One Without the Other," in *Equity and Adequacy in Education Finance*, edited by H. F. Ladd, R. Chalk, and J. S. Hansen (National Academy Press, 1999). Available at: <http://books.nap.edu/books/0309065631/html/index.html>. Only read the sections titled "Introduction," "The Conceptual Foundations of Educational Cost Indexes," and "Alternative Methods for Calculating Educational Cost Indexes."

Mildred Warner and Robert Hebdon, "Local Government Restructuring: Privatization and Its Alternatives," *Journal of Policy Analysis and Management*, Spring 2002, 315-336. <http://www3.interscience.wiley.com/cgi-bin/issuetoc?ID=79502495>

February 7: Lecture 4

Topic: A. Principles of Tax Analysis
B. Property Tax: Institutions and Structure

Reading:
Fisher, Chapter 12 & 13

Terri A. Sexon, Steven M. Sheffrin, and Arthur O'Sullivan, "Proposition 13: Unintended Effects and Feasible Reforms," *National Tax Journal*, March 1999, 99-111. Available through <http://www.ntanet.org>.

Assignment: Question 1, 2 and 3 of Chapter 13 (Due at the start of Lecture 5)

February 14: Lecture 5

- Topic:** A. Property Tax: Economic Analysis and Effects
 B. Case Discussion 2: The Homestead Option in Syracuse

Reading:

Fisher, Chapter 14

John Yinger, "Notes on the Incidence of the Property Tax,"

<http://faculty.maxwell.syr.edu/jyinger/Classes/PPA735/Readings/proptax.htm>

Assignment: Revaluation in Boston (Due at the start of Lecture 6)

February 21: Lecture 6

- Topic:** A. State and Local Sales and Excise Tax
 B. Revenue from Government Monopoly

Reading:

Fisher, Chapter 15 & 18

Robert Tannewald, "Are State and Local Revenue Systems Becoming Obsolete?" *New England Economic Review*, 2001, Issue 4, 27-43.

<http://www.bos.frb.org/economic/neer/neer2001/neer401b.pdf>.

Donald Bruce and William F. Fox, "E-Commerce in the Context of Declining State Sales Tax Bases," *National Tax Journal*, December 2000, 1373-1388.

Available through <http://www.ntanet.org>.

February 28: Lecture 7

- Topic:** A. State and Local Income Tax
 B. State and Local Business Tax

Reading:

Fisher, Chapter 16 & 17

March 7: Midterm exam

The first submission of your journal!

March 14: Lecture 8

- Topic:** A. Organization of Subnational Government
 B. Intergovernmental Grants
 C. Case Discussion 3: A Commuter Tax for New York City?

Reading:

Fisher, Chapter 6 & 9

Ronald C. Fisher and Leslie E. Papke, "Local Government Responses to Education Grants," *National Tax Journal*, March 2000, 153-168. Available through <http://www.ntanet.org>.

Assignment: Question 1 and 2 of Chapter 9 (Due at the start of Lecture 9)

March 21: Lecture 9

Topic: A. State and Local Infrastructure
B. State and Local Borrowing and Debt

Reading:

Fisher, Chapter 10

Charles R. Hulten and Robert M. Schwab, “Infrastructure Spending: Where Do We Go from Here?” *National Tax Journal*, September 1993, 261-273.

Available through <http://www.ntanet.org>.

The Bond Market Association, “An Investor’s Guide to Municipal Bonds”. Available at <http://www.investinginbonds.com/learnmore.asp?catid=46>. Start with “What Are Municipal Bonds;” click on the other entries on the left of the page to learn more.

Assignment: Question 1 and 2 of Chapter 10 (Due at the start of Lecture 10)

March 28: Spring vacation. No class!

April 4: Lecture 10

Topic: Financing and Service Provision: Education

Reading:

Fisher, Chapter 19

April 11: Lecture 11

Topic: Financing and Service Provision: Transportation

Reading:

Fisher, Chapter 20

April 18: Lecture 12

Topic: A. Fiscal Aspects of Economic Development: Concepts

B. Fiscal Aspects of Economic Development: Policy

Reading:

Fisher, Chapter 22

Jeffrey Chapman, “The Impacts of Public Fiscal Tools on Private Development Decisions” *National Tax Association Proceedings – 2002*, 308-315.

Timothy J. Bartik, “Economic Development Strategies,” Discussion Paper, The Upjohn Institute, 1995, <http://www.upjohninst.org/publications/wp/> (find working paper 00095-033; click on “Full Text”).

April 25: Lecture 13

Topic: A. Fiscal Aspects of Economic Development: Application
B. Case Discussion 4: Alabama and Mercedes-Benz

Reading:

Helen F. Ladd, "Spatially Targeted Economic Development Strategies: Do They Work?" *Cityscape: A Journal of Policy Development and Research*, 1994, 193-218. Available through <http://www.huduser.org/periodicals/cityscpe/vol1num1/current.html>

Stephen T. Mark, Therese J. McGuire, and Leslie E. Papke, "The Influence of Taxes on Employment and Population Growth: Evidence from the Washington, D.C. Area," *National Tax Journal*, March 2000, 105-124. Available through <http://www.ntanet.org>.

May 2: Student presentations

The second submission of your journal!

May 9: Final Exam