PA5113, Spring 2008
State and Local Public Finance

Humphrey Institute of Public Affairs
University of Minnesota

Date and Time: 02:30 pm – 03:45 pm, T & Th (01/22-05/08)
Class Location: HHHCt 35, Hubert H. Humphrey Center

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Office Hrs: 12: 00 am – 1:00 pm, T & Th

I. Course Description

"…with a global trend toward decentralization, political changes in the United States favoring more reliance on states, and concern about education and economic development often leading the news, the importance of state-local government now almost seems obvious (Fisher, 2006)." This course focuses on state and local government finance, both the raising of revenues and the distribution of expenditures.

Most government services that affect everyday life are provided and largely financed by state and local governments. 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. There is increasing demand for state and local government to manage their finances well while providing quality services. Governments are pressured to "do more with less". In order to meet these challenges, it is important that leaders, managers, and analysts of state and local government possess fundamental understandings of how revenues are derived and what expenditures are made.

The course is divided into three parts.

1. The first part concerns some general state and local finance issues, such as fiscal federalism and public choice.
2. The next part focuses on various state and local revenue sources.
3. The final part looks at some major state and local expenditures such as education, income assistance, Medicaid, public safety, and transportation.

Conceptual frameworks and analytical techniques will be emphasized and applied to analyze real-world state and local problems. Although many of the issues will focus on public finance in Minnesota, this is not a course on Minnesota public finance. Rather, Minnesota 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. This course occurs as the MN Governor and Legislature will be deciding revenue and expenditure issues for the next two years. What they do will help inform us as to current challenges faced by state and local government. Please follow daily what is happening in St. Paul.

II. Desired Student Outcomes:

- Learn key theories and history of state and local government financing
- Understand key concepts and policies of the major state and local taxes
- Understand key concepts and policies of the major categories of expenditures
- Obtain basic knowledge, terminology, and skills in analyzing alternative methods of raising revenues and making expenditures
- Improve critical thinking, analysis, communication, and writing skills regarding financial matters

III. Textbooks and Reading Materials

- Required textbook: State and Local Public Finance (3e), Ronald Fisher, 2007, South-Western College Publishing

- Other required readings, including research articles, reports, or weblinks to be assigned along with the course schedule (see course outline below)

- Suggested textbook for general topics: Fiscal Administration: Analysis and Applications for the Public Sector (6e), John Mikesell, 2002, Wadsworth Publishing

- Suggested journals for related literature:
    - Public Budgeting & Finance;
    - Public Finance Review;
    - National Tax Journal;
    - Journal of Public Economics
    - Municipal Finance Journal

IV: WebVista Course Website

This course will have a U of MN WebCT site. Required readings, assignments, Power-Point presentations, case studies, and other materials will be posted on the site. To access WebCT:

1. Go to. http://myu.umn.edu
2. Click on “My Toolkit”.
3. Log in with your UMN Internet ID and password.

4. You will see the link to PA 5113 in you're my WebCT toolkit area. It is very important to set up your web browser and Java before using Vista. To do so, choose the Vista options at the University's online Browser Setup page at: http://webct.umn.edu/browser/
5. Students can also find addition Help information from the WebCT homepage. Go to http://webct.umn.edu/students/ and click on Student Support.

V. Student Assessment

All students are expected to read all the material, attend class, and be on time. Points will be deducted from your Participation Grade for missing more than two classes. If you are absent from a session, you must make arrangements to obtain notes and handouts from other students or me. There will be class discussion, so active class participation is encouraged.

There are two graded assignments. These assignments are helpful for you to grasp the concepts learned in class. They each constitute 25% of the final grade. The first will be on a tax you choose. The second will be on an expenditure you choose. Each should be no more than 8 double spaced pages (12 point font) with at least 6 references:

- Tax Assignment – Please select a tax that we have covered in class and do further research on that tax for a given state or locality. Does it meet the six criteria of the MN Tax Study Commission (equity, certainty, simplicity, neutrality, competitiveness, and political accountability) or the nine criteria of the National Conference of State Legislatures? How does the tax rank in comparison to other jurisdictions? Should the tax be changed, and if so how? Is the balance of taxes and fees appropriate? Paper should be 8 Pages with at least 6 references (12 Font & Double-spaced).

- Expenditure Assignment – Please select a major category of expenditure of a state or local government. How does it relate to the frameworks in the Citizens League Reports? Are the expenditures efficient and effective? Are appropriate performance measures being used to assess the expenditures? Does the financing formula work well? Have there been recent redesign efforts? How does the jurisdiction's expenditures compare to others? Paper should be 8 Pages with at least 6 references (12 Font & Double-spaced).

Each assignment is due on time or you will be assigned a reduced grade. If the assignment is on time, I will review your work, make comments on it, and return it to you with points earned at the following class.

In addition, participation in reading of class material and involvement in the discussions of class will constitute 20% of your grade. Participation will be graded on the <u>quality</u> of your contributions, not the <u>quantity</u>. Hallmarks of good participation include a) risk taking - presenting an opposing view or a different interpretation of the data; b) listening - trying to understand what others are saying and why they are saying it; and c) bringing your own experiences when relevant into discussions. The final exam will constitute 30% of your grade.

Tax Assignment	25 points
Expenditure Assignment	25 points
Participation	20 points
Final	30 points
Total	100 points

Grading levels are as follows:

•	A	90.0-100.0 Points
•	A-	85.0-90.0 Points
•	B+	80.0-85.0 Points
•	B	75.0-80.0 Points
•	B-	70.0-75.0 Points
•	C+	65.0-70.0 Points
•	C	60.0-65.0 Points

Grade I (Incomplete) may be assigned at the instructor's discretion if, due to extraordinary circumstances, the student was prevented from completing their course work on time. The assignment of an Incomplete requires the written agreement between the instructor and the student specifying the time and manner in which the student will complete his/her unfinished work.

VI. Other Course Policies

- Academic Integrity: All students enrolled in University courses are expected to complete coursework responsibilities with fairness and honesty. The University Student Conduct Code defines scholastic dishonesty as follows:

  "SCHOLASTIC DISHONESTY: submission of false records of academic achievement; cheating on assignments or examinations; plagiarizing; altering, forging, or misusing a University academic record; taking, acquiring, or using test materials without faculty permission; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement. Within this course, a student responsible for scholastic dishonesty can be assigned a penalty up to an including an "F" or "N" for the course. If you have any questions regarding the expectations for a specific assignment or exam, ask."

- Student Conduct: Instructors are responsible for maintaining order and a positive learning environment in the classroom. Students whose behavior is disruptive either to the instructor or to other students will be asked to leave. Students whose behavior suggests the need for counseling or other assistance may be referred to their college office or University Counseling Services. Students whose behavior may violate the University Student Conduct Code may be referred to the Director of the University Counseling Office.

- Accommodations for students with disabilities: It is University policy to provide, on a flexible and individualized basis, reasonable accommodations to students who have disabilities that may affect their ability to participate in course activities or to meet course requirements. Students with disabilities are encouraged to contact their instructors to discuss their individual needs for accommodations. .

VII. Course Outline

I. THEREOTICAL FRAMEWORK

01/22-01/24 Introduction to the course; Why study state and local government finance?

- Fisher, Chapter 1 and 2
- Discussion: Questions 1-1

- Supplementary readings:
  - League of Minnesota Cities, "Local Government in Minnesota" (Revised: 7/07)

01/29-01/31 Public choice and fiscal federalism

- Fisher, Chapter 2, 3 & 5
- Discussion: Questions 2-1, 3-3, 5-1

02/05 The budget process

- Fisher, Chapter 11
- Introduction to the Federal Budgetary Process, CBPP website.
- Minnesota State Budget, Office of the Governor (Minnesota) website.
- Discussion: Questions 11-1, 11-3, 11-4

II. REVENUES FOR STATE-LOCAL GOVERNMENTS

02/07-02/12 Principles of tax analysis

- Fisher, Chapter 12
- Minnesota Tax Study Commission (1983-4). "*Final Report of the Minnesota Tax Study Commission*." St. Paul: Buttersworth, p. 3-23
- National Conference of State Legislatures (1999), "Principles of a High-Quality State Revenue System."
- Discussion: Questions 12-1, 12-3

02/14-02/19 Property tax

- Fisher, Chapter 13 & 14
- Hovey, Hal (1996) "The Property Tax in the 21st Century," Education Resources Information Center.
- Discussion: Questions 13-2, 13-4, 14-2, 14-4

02/21-02/26 Sales tax

- Fisher, Chapter 15
- Mikesell, John L. (1997). "The American Retail Sales Tax: Considerations on Their Structure, Operations, and Potential as a Foundation for a Federal Sales Tax," National Tax Journal (March 1997), p. 149-65.
- Discussion: Questions15-2, 15-3, 15-4

02/28-03/04 Income tax

- Fisher, Chapter 16
- Varian, Hal, "The Power of Luck Is Important in Tax Policy," New York Times, 5/3/01
- Discussion: Questions 16-1, 16-2, 16-3

03/06 Business tax

- Fisher, Chapter 17
- Laura Kalambokidis (2005), "A Business Activities tax (BAT) for Minnesota."
- Discussion: Questions 17-1, 17-3

03/11 User charges and monopoly fees

- Fisher, Chapter 8 & 18
- National Conference of State Legislatures (1999). "The Appropriate Role of User Charges in State and Local Finance."
- Discussion: Questions 8-1, 8-4, 18-1, 18-3

03/13 Revenue system as a whole

- National Association of State Budget Officers (2007). "The Fiscal Survey of the States."
- MN Taxpayers Association (2007). How does MN compare? (Fiscal year 2005 comparison).

- Tannenwald, R. (2001). Are State and Local Revenue Systems Becoming Obsolete? New England Economic Review, Federal Reserve Bank of Boston, Vol. 4 (2001), 27-43.
- Greene, K. B., Greene, R., Mariani, M., & Sostek, A. (2003). "The way we tax: A 50 state report." Congressional Quarterly as reprinted in Governing, February 2003.
- Tax Assignment due.

03/18, 03/20 Enjoy the Spring Break!

III. EXPENDITURES FOR STATE-LOCAL GOVERNMENTS

03/25 Cost and supply of sate and local goods and services

- Fisher, Chapter 4 & 7
- Citizens League (1992). Brooks, R. Chair. Citizens League Report. "A positive alternative: Redesigning Public Service Delivery." March 24, 1982, 1-29.
- MN Taxpayers Association (1998). "Implications for State Spending of Minnesota's Projected Demographic Trends to 2030," 1-34.
- Discussion: Questions 4-1, 7-1, 7-3

03/27 Intergovernmental grants

- Fisher, Chapter 9
- Willette, E. (2003). "In-Depth Policy Analysis: 2003 Local Government Aid Program Reform." MN League of Cities.
- Inman, R. P. (2003). "Should Philadelphia's Suburbs Help Their Central City?" Business Review, Federal Reserve Bank of Philadelphia, Second Quarter 2003, 24-36.
- Discussion: Questions 9-1, 9-4

04/01 Borrowing and debt

- Fisher, Chapter 10
- Discussion: Questions 10-1, 10-3

04/03-04/08 School finance

- Fisher, Chapter 19
- Reschovsky, A., (1994). "Fiscal Equalization and School Finance," National Tax Journal 47(1), 185-198

- Orland, Martin E., and Alexandra Tan, "Securing Equal Educational Opportunities: Past Trends and Coming Challenges," 1995, prepared for the Finance Project.
- Center for Public Finance Research (2004). "Understanding Education Finance: A taxpayers guide to K-12 education in Minnesota (2004-5 Edition)."
- Discussion: Questions 19-1, 19-2, 19- Center for Public Finance Research (2004). "Understanding Education Finance: A taxpayers guide to K-12 education in Minnesota (2004-5 Edition)."
- Discussion: Questions 19-1, 19-2, 19-3

04/10 Higher Education

- National Center for Public Policy and Higher Education, "Measuring Up 2006: The National Report Card for Higher Education," 2006, p. 1-22.
- National Conference of State Legislatures (2006). "Transforming higher education: national imperative-State responsibility," p. 1-11.
- Zumeta, W. (2003). "Higher education finances: In recession again." The NEA Almanac of higher Education, p. 53-63.
- Discussion: Questions 19-4

04/15-04/17 Health and Welfare

- Fisher, Chapter 21
- Marron, D. (2006). "Medicaid Spending Growth and Options for Controlling Costs." Washington, DC: Congressional Budget Office. p. 1-10.
- Haskins, R. (2006). "Testimony to House Ways and Means Committee on Welfare Reform." P. 1-9.
- Gluck, R. W. (2007). "Plain Talk About Healthcare." Washington, DC: Brookings Institution.
- Discussion: Questions 21-3, 21-4

04/22-04/29 Transportation Finance (No class on 04/24)

- Fisher, Chapter 20
- NGA (2007). "State Policy Options for Funding Transportation." P. 1-5.
- Discussion: Questions 20-1, 20-3, 20-4

05/01-05/06 Economic Development

- Fisher, Chapter 22

- Bradbury, Katharine L., Yolanda K. Kodrzycki, and Robert Tannenwald, "The Effects of State and Local Public Policies on Economic Development: An Overview," New England Economic Review March/April 1997, 1-12.
- Good Jobs First (2007). "A beginner's guide to accountable economic development."
- Discussion: Questions 22-1, 22-3
- Expenditure Assignment due.

05/08 Review

05/15 Final exam (10:30 am – 12:30 am)