

**University of Illinois at Chicago**  
College of Urban Planning & Public Affairs  
Department of Public Administration

**Spring 2010**  
**PA 553 – State and Local Public Finance**

**Instructor:** Yonghong Wu

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**Office:** 133 CUPPA Hall

**Office hours:** Tuesday 3:00 – 5:00 p.m. or By appointment

**Time & Place:** Tuesday 6:00 – 9:00 p.m., 204 Grant Hall

### **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.

### **Textbook and Readings**

**Textbook:** Ronald C. Fisher *State and Local Public Finance*, 3<sup>rd</sup> edition, Thompson Learning, 2005 (ISBN: 0-32429-1558). Early editions include 2<sup>nd</sup> 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 microeconomics 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 on the current fiscal crisis and government response of a 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. Each memo must be based on one 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 *Fiscal Crisis and Municipal Response*. We are in an economic recession now and may be heading to a deeper one that may have significant impact on municipal finances. This three-entry journal is intended to describe various effects of the current fiscal crisis on revenues and expenditures of a municipal government, and how it has been responding or will respond to this fiscal crisis. It has several parts:

- Each student must select a municipality in Illinois.
- The journal must ultimately contain **three entries of two pages each** (plus supporting graphs or tables, if any).
  - The first entry should provide a description of the economic and fiscal situation of the municipal government you choose. It should include a description of all major sources from which the government obtains its revenue, major municipal services and programs, and major business employers in the municipality (The most recent approved budgets or audited CAFRs are good sources of financial data; The Census website is a good source of economic and business data).
  - The second entry should present a detailed description about various effects of the current fiscal crisis on revenues and expenditures of the municipal government. It should present data to show the actual or anticipated change in major revenue sources and spending categories. In addition, it should describe plans the government has taken or is taking to cope with this crisis.

- The final entry should focus on the analysis of implemented or planned responses by the municipal government to the fiscal crisis. It should include an assessment of the impact of these responses on local economy and municipal finance. You also need to discuss the strength and weakness of the plans with some specific recommendations for the government to achieve the expected result.

The students must submit her or his journal to the instructor **on two occasions: March 2 and April 27**. **Late journals will be downgraded**. When the journal is handed in on March 2, it must contain the first and second entry as described above. When the journal is handed in on April 27, 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://icma.org/>)  
 National Conference of State Legislators (<http://www.ncsl.org/>)  
 National League of Cities (<http://www.nlc.org/>)  
 National Tax Association (<http://www.ntanet.org/>)  
 U.S. Census of Governments (<http://www.census.gov/govs/>)  
 U.S. Conference of Mayors (<http://usmayors.org/>)

## 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](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 12: Lecture 1**

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

**Reading:**

- Fisher, Chapters 1 & 2

### **January 19: Lecture 2**

**Topic:** A. Public Choice without Mobility: Voting  
B. Demand for State and Local Public Services

**Reading:**

- Fisher, Chapters 3 & 4

**Assignment 1:** Questions 1 & 2 of Chapter 4 (Due at the start of Lecture 3)

### **January 26: Lecture 3**

**Topic:** A. Public Choice through Mobility: Tiebout Model  
B. Public Sector Production and Cost Determinants

**Reading:**

- Fisher, Chapters 5 & 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 2001, 315-336.  
<http://www3.interscience.wiley.com/journal/79502495/issue>.

### **February 2: Lecture 4**

**Topic:** A. Principles of Tax Analysis  
B. Case Discussion 1: Spending Incentives in New York's School Tax Relief Program

**Reading:**

- Fisher, Chapter 12
- Case 1: Spending Incentives in New York's School Tax Relief Program

### **February 9: Lecture 5**

**Topic:** A. Property Tax: Institutions and Structure  
B. Property Tax: Economic Analysis and Effects

**Reading:**

- Fisher, Chapters 13 & 14
- 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/tax-resources/ntj-full-text-articles.html>
- John Yinger, "Notes on the Incidence of the Property Tax," <http://faculty.maxwell.syr.edu/jyinger/Classes/PPA735/Readings/proptax.htm>

**Assignment 2:** Questions 1, 2 and 3 of Chapter 13 (Due at the start of Lecture 6)

**February 16: Lecture 6**

**Topic:** A. State and Local Sales and Excise Tax  
B. Case Discussion 2: The Homestead Option in Syracuse

**Reading:**

- Fisher, Chapter 15
- Case 2: The Homestead Option in Syracuse
- 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/tax-resources/ntj-full-text-articles.html>

**February 23: Lecture 7**

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

**Reading:**

- Fisher, Chapters 16 & 17

**March 2: Midterm Exam**

**The first submission of your journal!**

**March 9: Lecture 8**

**Topic:** A. Revenue from Government Monopoly  
B. Case Discussion 3: A Commuter Tax for New York City?

**Reading:**

- Fisher, Chapters 18
- Case 3: A Commuter Tax for New York City?

**March 16: Lecture 9**

**Topic:** A: Organization of Subnational Government  
B. Intergovernmental Grants

**Reading:**

- Fisher, Chapters 6 and 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/tax-resources/ntj-full-text-articles.html>

**Assignment 3:** Questions 1 and 2 of Chapter 9 (Due at the start of Lecture 10)

**March 23: Spring vacation. No class!**

**March 30: Lecture 10**

**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/tax-resources/ntj-full-text-articles.html>
- The Bond Market Association, “An Investor’s Guide to Municipal Bonds”. Available at <http://www.investinginbonds.com/learnmore.asp?catid=46>. Start with “About Municipal Bonds;” click on the other entries on the left of the page to learn more.

**Assignment 4:** Questions 1 and 2 of Chapter 10 (Due at the start of Lecture 11)

**April 6: Lecture 11**

**Topic:** Financing and Service Provision: Education

**Reading:**

- Fisher, Chapter 19

**April 13: 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 20: Lecture 13**

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

**Reading:**

- Case 4: Alabama and Mercedes-Benz

- 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/tax-resources/ntj-full-text-articles.html>

**April 27: Student Presentations**

**The second submission of your journal!**

**May 4: Final Exam**