PA5113, Spring 2018
State and Local Public Finance

Humphrey School of Public Affairs
University of Minnesota

Date and Time: 06:00 pm – 08:45 pm, W (01/16/2018-05/04/2018)
Class Location: HHH-184, Twin Cities campus, West Bank

Professor: Zhirong (Jerry) Zhao
Office: 246 Humphrey Center; Phone: 612-625-7318
E-mail: zrzha@umn.edu
Office Hours: 9:30 am – 11:30 pm, Thursday

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 the political framework (budgetary process) and theoretical frameworks (fiscal federalism, public choice, etc.);

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


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

IV: Moodle Course Website

Along the course I will use basic functions of Moodle course website to provide course materials such as required or suggested readings, assignments, PowerPoint presentations, or case studies, and may explore additional functions to encourage student participation or facilitate online communications.

If you are not familiar with Moodle, a good way to get started is to watch the “Student Orientation” at [https://umconnect.umn.edu/moodleorientation](https://umconnect.umn.edu/moodleorientation) provided by the University’s Moodle Support Team, or to visit the support page at [http://umn.edu/moodle](http://umn.edu/moodle).
Moodle sites can be accessed on any computer that has an Internet connection and a web browser. The University’s Moodle Support Team recommends using Mozilla Firefox, which you can download for free at http://firefox.com.

To access the Moodle course website, go to http://myu.umn.edu and sign-in with your Internet ID and password. Click on the “my Courses” tab and navigate to the appropriate course section. A link to the course site will appear below.

For additional questions, you may contact moodle@umn.edu or the instructor.

V. Student Assessment

Student grades will be determined based on final exam, three assignments, and participation through the course.

Accounting for 20% of the final grade, the final exam is designed to test your general knowledge about the US public finance system, your understanding of key fiscal concepts, and your ability in applying these concepts.

The three assignments are designed to encourage you to identify real-world fiscal issues, conduct fiscal research, and present findings. The first assignment is on the budget of a state or local government you choose; the second one is on a tax or other revenue option you choose; the third is on a specific expenditure category you choose.

The “Budget Assignment” is an individual assignment:

- Please identify a state or local government of your interest, and prepare a policy memo (in 2 single-spaced pages) that describes the budgetary process, major revenue and expenditure categories, and some key fiscal issues.
- Post your policy memos on the Moodle site, circulate them among your group members, and have group discussions in class.

The “Revenue Assignment” is a group assignment:

- Please select a tax or other revenue option for your group and do further research on it for a given state or locality. How do you compare the tax with other jurisdictions? How does it fare against the four major criteria (efficiency, equity, sustainability, and feasibility)? What are the major issues of the tax? Should the tax be changed, and if so how?
- The assignment includes a written memo (15% final grade), a single-page handout (5% final grade), and an in-class presentation (10% final grade). The memo should have 8-10 double-spaced pages (12 point font) with at least 6 references. The presentation will include a 15-minute talk and a 5-minute Q&A. The topic should be determined and reported to the instructor two weeks before the presentation; the memo is due on the day of presentation; please print out the single-page handout for the whole class in the day of presentation.
This class encourages peer learning, peer collaboration, and peer assessment. Group performance of assignments will be peer-assessed among groups; individual members’ contribution in a group will be peer-assessed within the group.

The “Expenditure Assignment” is an individual assignment:

- Please select a major category of expenditure of a state or local government. How do the jurisdiction's expenditures compare to others? Do the financial arrangements work well? Have there been recent redesign efforts? Do you have any ideas of applied research that may inform ongoing discussions?
- The assignment includes a written memo (20% final grade) and a two-page handout (5% final grade) designed for policy communication. The memo should have 8-10 double-spaced pages (12 point font) with at least 6 references. The topic should be determined and reported to the instructor two weeks before the assignment is due.

Accounting for 15% of your final grade, participation includes in-class participation and interactions in discussion boards of the Moodle site. Beginning from the second week, we will have weekly “Fiscal Briefing” in the beginning of each class:

- After we finish a weekly topic, each student is expected to find a related case -- news, research report, multimedia files, etc. -- to share with the whole class.
- Please post the link to the Moodle site, bring handouts for your group members and the instructor, and be prepared to lead discussions in the class. Cases could be drawn from state and local governments in Minnesota, in other states, or in other countries. International cases with domestic comparisons are especially encouraged.

All students are expected to read all the required material, attend class on time, and actively participate in class discussions. 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. Participation will also be graded on the quality of your contributions. 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.

Overall, this is how your final grade will be calculated:

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Assignment</td>
<td>10</td>
</tr>
<tr>
<td>Revenue Assignment</td>
<td>30</td>
</tr>
<tr>
<td>Expenditure Assignment</td>
<td>25</td>
</tr>
<tr>
<td>Participation</td>
<td>15</td>
</tr>
<tr>
<td>Final exam</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>
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. FRAMEWORKS

01/17 Introduction to state and local public finance
- Introduction of participants;
- How the course fit into the broad area of public budgeting and finance?
- What are local governments in the US?
- Why study state and local public finance?
- Expectations and requirements

Reading for the class:
- League of Minnesota Cities, “Local Government in Minnesota” (Revised: 07/17)

01/24 Political framework: US budgetary process
- The Federal budgetary process
- Features of state and local budgetary process
- Budget formats and budgetary reforms

Read before class:
- Mikesell, Chapter 2, 3, and 4
- Introduction to the Federal Budgetary Process, CBPP website.

Supplemental readings:
- Fisher, Chapter 11
- Minnesota State Budget, Office of the Governor (Minnesota) website.

01/31 Theoretical frameworks: Fiscal federalism and public choice
- Market efficiency and market failure
- The roles of government and fiscal federalism
- Public choice through voting or mobility
- Demand for state and local goods and services

Read before class:
- Mikesell, Chapter 1

Due before class:
- Budget memo (post it on the discussion board and prepare handouts for your group members)

Supplemental readings:
- Fisher, Chapter 2, 3, 4 & 5
- The Volker Alliance (2015). “Truth and Integrity in State Budgeting”

II. REVENUES FOR STATE-LOCAL GOVERNMENTS

02/07 Principles of revenue analysis
• Tax efficiency
• Horizontal and vertical equity
• Revenue sustainability
• Feasibility of tax collection

Read before class:
• Mikesell, Chapter 8
• National Conference of State Legislatures (1999), "Principles of a High-Quality State Revenue System."

Supplemental readings:
• Fisher, Chapter 12

02/14 Property tax
• Property tax reliance and trends
• Mechanisms of property tax levy
• The good, the bad and the ugly of property tax
• Property tax relief programs

Read before class:
• Mikesell, Chapter 11

Supplemental readings:
• Fisher, Chapter 13 & 14

02/21 Sales and use tax
• Sales tax as a consumption taxes
• The raise of local option sales taxes
• Policy issues about sales taxes

Read before class:
• Mikesell, Chapter 10
Supplemental readings:
- Fisher, Chapter 15

02/28 Personal and business income tax
- Federal, state, and local personal income tax
- Issues about income tax structure
- The decreased reliance on business tax

Read before class:
- Mikesell, Chapter 9

Supplemental readings:
- Fisher, Chapter 16 and 17
- Laura Kalambokidis (2005), “A Business Activities tax (BAT) for Minnesota.”

03/07 User fees, charges and other revenues; revenue system as a whole
- User fees and charges
- Liquor sells and lotteries
- Revenue system as a whole
- How does Minnesota compare?

Read before class:
- Mikesell, Chapter 12

Due before class:
- Submit topic of your revenue assignment to the discussion board.

Supplemental readings:
- Fisher, Chapter 8 & 18

03/14 No class. Enjoy the Spring Break!

III. EXPENDITURES FOR STATE-LOCAL GOVERNMENTS

03/21 Intergovernmental grants
• Grants in the U.S. fiscal system
• Purposes of grants
• Types of grants
• Economic impacts of intergovernmental grants

Read before class:
• Mikesell, Chapter 14

Supplemental readings:
• Fisher, Chapter 9

03/28 Revenue assignment group presentations

Due before class:
• Policy memo
• PowerPoint for presentation
• Handouts

04/04 No class

04/11 Cost and supply of state and local goods and services
• The framework of state and local expenditure decisions
• Determinants of public demand; how public demand can be measured?
• Provision and production of public services delivery
• Constraints and criteria

Read before class:
Supplemental readings:
- Fisher, Chapter 4 & 7

04/18 Education finance
- Funding K-12 education in the states
- Policy issues about K-12 education finance
- Challenges to higher education finance

Read before class:

Supplemental readings:

04/25 Transportation finance
- Choices of public transportation finance
- Current mechanism of transportation finance in Minnesota
- Alternative ways to fund public transportation

Read before class:

Due before class:
- Zhao, et al. (2014), “Revisiting the Fuel-tax Based Transportation Funding System in the US.”

Supplemental readings:

05/02 Health and welfare
- Poverty and health care in US
- Public welfare programs
• Policy and structure issues
• Case discussion: Minnesota Family Investment Program (MFIP)

Due before class:

Supplemental readings:

05/09 Final exam (6:00 pm – 8:00 pm)

05/11 The expenditure assignment is due by 5:00 pm.