Fall 2019: State and local public finance PPHA 32100
Syllabus & Reading List

Background: This one-quarter class in the economics of state and local governments covers topics such as property, sales, and income taxation, as well as nontax revenue sources such as lotteries and user fees; intergovernmental grants; education finance; capital projects and debt finance; and local economic development.

Goals of class: Use applied tools of microeconomics and simple data analysis to analyze spending and revenue-raising choices of state and local governments in the United States. Use Tiebout local public goods framework to motivate rationale for local government service provision. Throughout the quarter, students will be introduced to a variety of data sources commonly used to describe and analyze the fiscal choices and conditions of sub-national governments in the United States. Students completing this course will be able to:

- Review and analyze the economic factors shaping the structure of subnational governments in the United States.
- Assess the efficiency, equity and revenue productivity effects of income, sales and excise, and property tax and nontax revenue policy choices of subnational governments.
- Analyze the economics of selected locally provided services and programs (e.g., primary and secondary education; Medicaid).
- Analyze the funding and financing options for infrastructure investments.
- Assess the financial viability and policy reforms for state and local government pension programs.
- Assess the consequences of local economic development policies.

Prerequisites: Pre-requisites for the courses are the two-quarter core sequence in microeconomics, PP32300 and PP32400, or their equivalent.

Relationship to Certificate in Municipal Finance: This course is required as part of the certificate program; see http://harris.uchicago.edu/centers/municipal-finance/certificate.

Format of class: Lectures, discussions, and in-class exercises. We meet in Keller 0010 on Mondays and Wednesdays, 11:00 am to 12:20 pm. Please note these special dates!

- No class on Wednesday, October 9 (Yom Kippur)
- No class on Monday, October 21 (out of town)
- Make-up classes on Tuesdays: October 15, 22, and 29, 5:00 to 6:20 pm, Keller 2112
- Final exam in class on Wednesday, December 4
Student assignments and exams: Students will be assessed solely on individual work efforts and products. Students taking the class pass/fail must complete all assignments and receive passing grades on all assignments to receive a “pass” grade for the course. Late submissions will be penalized by 10% if received within 24 hours of the due date and time and by 20% if received within 48 hours of the due date and time. No work will be accepted beyond the 48 hour threshold. Here is a tentative list of assignment types and weights:

- Short assignments (25%)
  - Growth rates
  - Tiebout
  - Marijuana legalization
  - “Referee report” on a research paper
  - Independent fiscal analysis offices essay
- Large assignments (35%)
  - Fiscal federalism (10%)
  - Medicaid (15%)
  - Education funding assignment (10%)
- Class participation [5%]
- Final exam [35%]: Wednesday December 4, in class at 11:00 am

Please note that one additional “ungraded” assignment is due at the end of week 2, when you must choose one of the 50 states of the United States. Several assignments will ask you to focus your work on your individual state’s circumstances. More to come!

Office Hours: I will announce office hours via Canvas.

Teaching assistants: Course TA’s are Patrick Hanley procquehanley@uchicago.edu and Elliot Karl elliotkarl@uchicago.edu.

Use of web and email: I will post course materials to the university’s CANVAS web-based course management system: the URL is http://courses.uchicago.edu/. Students are responsible for any and all material posted there. I encourage the use of email and try to respond in a timely fashion. My email address is pworthington@uchicago.edu. I do not text, tweet, or Facebook message regarding course matters, so please check your UNIVERSITY OF CHICAGO email and CANVAS regularly.

Use of electronic devices in class: You may NOT use your laptop or smartphone during class. You may not consult smart watches, wear Google glasses, or use any other “smart” items. My responsibility is to make class time useful, engaging, and rewarding, and yours is to participate fully. If class becomes boring, tell me so I can make adjustments.
Academic integrity

Principles: The University has explicit and clear expectations regarding academic integrity. The University’s “Student Manual of University Policies and Regulations: Student Conduct” guide (https://studentmanual.uchicago.edu/academic-policies/academic-honesty-plagiarism/) states:

It is contrary to justice, to academic integrity, and to the spirit of intellectual inquiry to submit the statements or ideas of work of others as one's own. To do so is plagiarism or cheating, offenses punishable under the University's disciplinary system. Because these offenses undercut the distinctive moral and intellectual character of the University, we take them very seriously and punishments for them may include expulsion from the University.

Proper acknowledgment of another's ideas, whether by direct quotation or paraphrase, is expected. In particular, if any written or electronic source is consulted and material is used from that source, directly or indirectly, the source should be identified by author, title, and page number. Any doubts about what constitutes "use" should be addressed to the instructor.

As part of the University, the Harris School also expects its students to meet the highest standards of academic integrity. Specifically, Harris policies state that:

- All work submitted by a student must be the student's own original work.
- Students may not submit previously submitted work from one course (i.e., final paper) to fulfill the academic obligations in another course, unless the student has received permission to do so by the course instructor.
- Any works that are cited by the student as part of a greater work must utilize proper text and summary citations to properly identify the proper source(s).
- In the case of group work, students must be prepared to identify their individual contribution (including proper citations of original work cited) when requested by the course instructor.
- Students are also subject to the University Academic Honesty Policy.

Application of these policies to this class: In this course, you will complete numerous assignments, including short papers, data analyses, and exams.

- For papers, data analyses, and short analytical exercises, you may discuss your ideas and approaches with fellow students while working on the assignment outside of class. Further, I will provide occasional times during class when you may talk with your classmates about your assignments. However, you may not copy or directly duplicate the text, calculations, and/or approach of others. All submitted work (written work, tables, charts, calculations, etc.) must be prepared individually, any outside sources relied on must be cited, and all charts, graphs, and/or tables should include source details. If we find that two submitted pieces of work appear to be too “similar” to one another, we will investigate more fully and hold both students accountable to these standards. In general, I encourage you to consider using a citation manager program to help manage references and bibliographies in your professional lives
For exams, students are expected to rely on no outside resources (Canvas, hard copy material, phone, friends, classmates, etc.) when taking the final exam. Students will sign a statement to this effect prior to taking the final.

**Consequences:** Violation of these standards generates significant consequences. Students found to have violated the standards will receive a grade of 0 on the exam or assignment in question and cannot earn higher than a B- in the course, regardless of their performance on other assignments and exams. Further, violators will receive a formal letter stating that the student has been found in violation of the code of academic honesty and listing the imposed sanctions. The letter, along with any evidence presented, is archived in Harris Student Affairs records until the student graduates if the student has no other violations. Students found in violation of the academic honesty policy are not permitted to withdraw from the course to avoid grade penalties from the instructor. Repeat offenses face stiffer potential penalties than do first-time offenses.

**Process:** If I or one of the course TA’s has reason to suspect a student has violated these academic integrity standards, I will report that suspicion to the Dean of Students, who will meet with me and the student as part of his/her investigation. In most cases, first offenses are adjudicated in this setting. In cases where plagiarism or academic dishonesty is egregious, the case may be referred to the Harris Area Disciplinary Committee even on a first offense. The Dean makes all decisions about which cases will go before the Area Disciplinary Committee. Second violations are referred to the Harris Area Disciplinary Committee, described further here: [https://studentmanual.uchicago.edu/student-life-conduct/university-disciplinary-systems/area-disciplinary-systems/](https://studentmanual.uchicago.edu/student-life-conduct/university-disciplinary-systems/area-disciplinary-systems/). If the student is found in violation of academic honesty a second time, the Area Disciplinary Committee can assign sanctions including transcript notes, disciplinary probation, suspension or expulsion from the University.

**Professionalism:** Students are expected to act with professionalism and respect throughout this course. *This includes, but is not limited to, being on time to class and for any outside-the-classroom study group meetings; not using electronic or “smart” devices during class time; and generally acting in a fashion consistent with the young professionals you are now becoming.* For discussions of these and related issues, I encourage each of you to read these articles from the *Wall Street Journal* and the *New York Times:* [http://online.wsj.com/article/SB10001424127887324577304579054922229616730.html](http://online.wsj.com/article/SB10001424127887324577304579054922229616730.html) and [http://www.nytimes.com/2013/09/29/fashion/technology-and-the-college-generation.html?ref=style](http://www.nytimes.com/2013/09/29/fashion/technology-and-the-college-generation.html?ref=style).

**Students with disabilities:** At Harris, the Dean of Students office manages all issues and requests related to needed accommodations. I will work with the DOS office and staff to implement the accommodations as indicated. Please feel free to reach out to me if you have any questions.

**Name cards:** I will distribute name “tents” to all students in the class; please bring these and use them each day in class so I can learn your names more quickly.
Readings and Schedule

There is no required textbook for this class. However, I encourage students to skim the general references listed below, namely Fisher’s *State and Local Public Finance* textbook (“Fisher”) and the relevant selections from the *Palgrave Dictionary of Economics* (“Palgrave”).

- Fisher textbook (Fisher 2016)

Students are required to read relevant sections from the following on-line publications:

- Tax Policy Center’s “State of State (and Local) Tax Policy” (Tax Policy Center 2018a)
- Urban Institute’s “State and Local Backgrounders” (Urban Institute 2018)

Finally, the reading list below includes not only these Fisher, Palgrave, Tax Policy Center, and Urban Institute items, but additional working papers, journal articles, policy briefs, etc. that you should read (or at least skim). Several of your assignments will also require you to read additional materials. Most items are available via live links in the references (at end of syllabus) or, in a few instances, posted as pdfs to Canvas; access to some of the items may require you to be on the University’s network (on campus or via VPN or proxy). Please note the reading list is arranged by topic; I will use Canvas and in-class announcements to update you on “where we are” in the reading list.

1. What do state and local governments do? What should they do?
   b. *Backgrounders*: “State and Local Revenues”; “State and Local Expenditures”
   d. Glaeser, “Urban Public Finance” (Glaeser 2013)

2. Principles of public finance

3. Demand for local public services

4. Fiscal federalism: who should do what?
   c. (Shoag, Tuttle, and Veuger 2019)
5. Principles of taxation
      “Progressive and Regressive Taxation”
   b. *Fisher:* Chapter 12

6. Property taxation
   b. *Fisher:* Chapters 13 and 14
   c. *Backgrounders:* “Property Taxes”
   e. (Berry 2018)
   f. (Moulton, Waller, and Wentland 2018)
   g. (Lutz 2015)
   h. (Lav and Leachman 2018)
   i. (Davis 2018)
   j. (Paquin and Kenyon 2018)

7. Sales and excise taxation
   b. *Backgrounders:* “General Sales Taxes”, “Cigarette and Alcohol Taxes”
   e. *State of State (and Local) Tax Policy:* “How do state and local soda taxes work?”
   g. (Marron and Morris 2016)
   h. (Allcott, Lockwood, and Taubinsky 2019a)
   i. (Allcott, Lockwood, and Taubinsky 2019b)
   j. (Pew Charitable Trusts 2018)

8. Individual income taxation
   a. *Fisher:* Chapter 16
   b. *Backgrounders:* “Individual Income Taxes”
   d. (Rauh and Shyu 2019)

9. Taxation of business
   b. *Fisher:* Chapter 17
c. Backgrounders: “Corporate Income Taxes”
e. State of State (and Local) Tax Policy: “How do state and local severance taxes work?”
f. (Brainerd 2018)

10. Taxation, growth, and the Tax Cuts and Jobs Act (TCJA) of 2017
a. State of State (and Local) Tax Policy: “How does the deduction for state and local taxes work?”
b. (Moretti and Wilson 2017)
c. (Curtis and Decker 2018)

11. User fees and Congestion Charges
b. Fisher: Chapter 9 (user fees) and Chapter 18 (monopoly, regulation)

12. Intergovernmental grants
b. Fisher: Chapter 10
c. State of State (and Local) Tax Policy: “What types of federal grants are made to states and local governments and how do they work?”
d. (Dilger and Cecire 2019)
e. (Gordon 2018)
f. (Shambaugh and Nunn 2018)
g. (Leduc and Wilson 2017)
h. (Knight 2002)

13. Medicaid
a. Backgrounders: “Health and Hospital Expenditures”
b. Fisher: Chapter 21
c. (Gruber and Sommers 2019)
d. Rodowitz, Garfield, and Hinton 2019)
e. (Ko and Bittler 2017)
f. (Luthra 2017)
g. (Goldstein 2019)
h. (State of Tennessee 2019)
i. Optional: (Solomon and Schubel n.d.)

14. Education finance
a. Palgrave: “Educational Finance”
b. Fisher: Chapter 19
c. Backgrounders: “Elementary and Secondary Education Expenditures”
d. (Cascio, Gordon, and Reber 2013)
e. (Barnum 2018)
f. (Barnum 2019)
g. (Belsha 2019)

15. Debt, borrowing, and capital
a. General: (Governing Institute 2016), (American Society of Civil Engineers 2017), (Chicago Metropolitan Agency for Planning 2019), (U.S. Congressional Budget Office 2018)
b. Debt: (Driessen 2018), (Tax Policy Center 2018b), (Mishkin and Eakins 2015)
c. PPPs: (Macquarie Atlas Roads, Limited 2014), (Gilroy and Aloyts 2013), (Wee 2012), (Bondy 2016),
d. Indiana Toll Road: (Bipartisan Policy Center 2016)
e. Pennsylvania bridges: (Rapid Bridge Replacement Project 2018), (Vigna 2019), (Global Infrastructure Hub 2017), (Federal Highway Administration n.d.)

16. Economic development
a. Straight-ahead study of a specific program in one place at one time: (Freedman 2013)
b. Thorough, non-technical discussion of mechanics, case studies, impacts, benefits and costs of tax increment financing (TIF): (Merriman 2018)
c. SHORT example of work by Bartik, who has studied local economic development policies extensively: (Bartik 2018)
d. Blog post on Pennsylvania’s practices of evaluating its tax incentive programs, by researchers at Pew Charitable Trusts: (Goodman, Wakefield, and Benz 2019)
e. Pew’s ranking of state tax incentive evaluation programs (Goodman and Chapman 2019)
f. Example of one state’s recent efforts to evaluate a specific tax incentive program: (State of Pennsylvania 2019)

References


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