

**STATE AND LOCAL PUBLIC FINANCE
Program in Public Policy**

Edward J. Bloustein School of Planning and Public Policy
Rutgers - The State University of New Jersey
34:833:540

Spring 2006

Professor Henry A. Coleman
Section Two: Tuesdays, 1:10 p.m.- 3:50 p.m.
Section One: Wednesdays, 4:30 p.m.-7:10 p.m.
Civic Square (room 112)
(732) 932-2499 ext. 616 (phone)
(732) 932-1107 (fax)
hcoleman@rci.rutgers.edu

Course Syllabus

I. Description

This course covers the theory and practice of state and local public finance in the United States, including consideration of the rationale for a federal system, a review of state-local spending decisions (especially in the provision of education services), the analysis of state and local revenue sources (including property, income, sales, and business taxes, as well as non-tax revenues), and the role of intergovernmental grants. More specifically, this course will help to address several important policy questions regarding the public sector, including:

1. Why do we need a public sector?
2. Why do we need multiple layers and units of government within the public sector?
3. How are decisions made regarding the level and mix of goods/services provided by the state and local public sector?
4. How does the state and local public sector finance its activities?
5. How do the state and local public sector tax and spending policies affect the economy, and what impact does the economy have on the finances of the state and local public sector?
6. What are some of the major challenges facing the state and local public sector in the early part of the 21st Century?

In each instance, the class will focus on: 1) the major trends in aggregate state and local finances; 2) significant interstate variations among states and local governments in their tax and spending policies; 3) both longstanding and emerging fiscal problems confronting the state and local public sector; and 4) major policy options to address those problems. These are among the issues to be explored in this course.

II. Readings

The readings consist of a required text, several significant reports (generally available from the Internet), and several journal articles, book chapters, and policy reports. The required book (available at the Rutgers University Book Store) is:

(HJR) Henry J. Raimondo (1992), Economics of State and Local Government. (New York: Praeger)

The primary web sites and major publications to be downloaded are:

The National Association of State Budget Officers' (www.nasbo.org)

1. NASBO (2003) "Budget Processes in the States"
2. National Governors Association (NGA) and NASBO (2005) "The Fiscal Survey of States"

The Institute on Taxation and Economic Policy (www.itepnet.org)

1. The ITEP Guide to Fair State and Local Taxes
2. State Corporate Income Taxes: 2001-2003
3. Who Pays: A Distributional Analysis of the Tax Systems in All 50 States—2nd Edition
4. ITEP Policy Briefs

The National League of Cities (www.nlc.org)

Look to the right and click on "Public Finance."

1. "City Fiscal Conditions in 2004"
2. "Towards a System of Public Finance for the 21st Century"

The Center on Budget and Policy Priorities (www.cbpp.org)

Go to "Areas of Research" at the bottom of the page and then click on to "State Fiscal Projects."

See the various articles cited below.

The Tax Foundation (www.TaxFoundation.org)

There are several other web sites that may prove useful in obtaining additional fiscal information on the individual states, including:

www.stateline.org

www.state.??us (where "??" = two-letter abbreviation for each individual state)

www.census.gov/ (see especially the Statistical Abstract of the United States)

www.rockinst.org Fiscal Studies Program-The Nelson A. Rockefeller Institute of Government/SUNY-Albany

Students are expected to purchase the primary texts. The other readings will be available in a packet provided by University Publishing at 302 Ryders Lane, East Brunswick, New Jersey 08816 (732/220-1211). **As a general rule, you will be expected to complete the assigned readings prior to the class discussion.**

III. Evaluation

Grading for the course will be based on several factors, including:

1. an in-class mid-term examination (**March 7-8**) (30%),
2. an in-class final examination (**May 2-3**) (60%),
3. written exercises and general participation in class discussions (10%).

IV. Office Hours

My office hours will be Tuesdays from 4:00 p.m. to 5:00 p.m., Wednesdays from 11:00 a.m. until noon, and by appointment. My office is located in room 283 of the Bloustein School.

READINGS

1. (Week one: January 17/18)

INTRODUCTION: RATIONALE AND OVERVIEW OF THE FEDERAL SYSTEM

(HJR) chapters 1, 3, and 4

2. (Week two: January 24/25)

AN OVERVIEW OF STATE AND LOCAL SPENDING

(HJR) chapter 5

The National Governors Association (NGA) and the National Association of State Budget Officers (NASBO) (2005), "The Fiscal Survey of States" (December) (available at www.nasbo.org)

National Association of State Budget Officers (NASBO) (2002), "Budget Processes in the States" (January) (available at www.nasbo.org)

Elizabeth McNichol and Kevin Carey (2002), "Did States Overspend During the 1990s?" Center on Budget and Policy Priorities (October) (available at www.cbpp.org)

David Bradley, Nicholas Johnson, and Iris Lav (2005), "The Flawed 'Population Plus Inflation' Formula: Why TABOR's Growth Formula Doesn't Work," Center on Budget and Policy Priorities (January) (available at www.cbpp.org)

J. Fred Giertz (2003), "The Impact of Pension Funding on State Government Finances," State Tax Notes (November 3), pp. 433-439.

3. (Week three: January 31/February 1)

EDUCATION FINANCING

(HJR) chapter 6

William Waugh, Jr. (1998), "Financing Public Education in the Twenty-First Century," in David Brunori (editor), The Future of State Taxation (Washington, DC: The Urban Institute Press), pp. 147-160.

Lawrence Picus (1995), "Does Money Matter in Education? A Policymaker's Guide" in William Fowler, Jr. (editor) Selected Papers in School Finance 1995 (Washington, DC: National Center for Education Statistics/USDOE), pp. 19-35.

Richard Rothstein (1993), "The Myth of Public School Failure," The American Prospect, number 13 (Spring), pp. 20-34.

4. (Week four: February 7/8)

AN OVERVIEW OF STATE-LOCAL TAXES

(HJR) chapter 7

(ITEP) chapters 1, 2, and 10

Federation of Tax Administrators (1993), "Revenue Forecasting and Estimation --- How It's Done, State by State," State Tax Notes (May 3), pp. 1038-1051.

John L. Mikesell (2002), "Tax Expenditure Budgets, Budget Policy, and Tax Policy: Confusion in the States," Public Budgeting and Finance (Winter), pp. 34-51.

Michael Ettlinger (1998), "A Critical Look at Tax Expenditures," State Tax Notes (July 27, 1998), pp. 237-240.

George Break (2000), "The New Economy and the Old Tax System." State Tax Notes (March 6), pp. 767-771.

Sanela Porca (2003), "Important Determinants of State Tax Revenue Portfolios," National Tax Association Papers and Proceedings, pp. 416-423.

Don Taylor (2004), "Comparative State/Local Taxes, Fiscal Year 2002," State Tax Notes, pp. 249-271.

Federation of Tax Administrators (2004), "State Tax Amnesty Programs," State Tax Notes (February 16), pp. 593-595.

5. (Week five: February 14/15)

INTERSTATE FISCAL COMPETITION

(ITEP) chapter 9

Therese McGuire (1993), "Jobs and Taxes: Do State Taxes Affect Economic Development?" Institute of Government and Public Affairs Policy Forum

Robert G. Lynch (1996), "The Effectiveness of State and Local Tax Cuts and Incentives: A Review of the Literature," State Tax Notes (September 30), pp. 949-953.

Peter Fisher (2002), "Tax Incentives and the Disappearing State Corporate Income Tax," State Tax Notes (March 4), pp. 767-774.

6. (Weeks six and seven: February 21/22 and February 28/March 1)

PROPERTY TAXATION

(HJR) chapter 8

(ITEP) chapter 4

Therese J. McGuire (2000), "Alternatives to Property Taxation for Local Government," State Tax Notes (May 15), pp. 1715-1723.

Mandy Rafool (2002), "A Guide to Property Taxes: An Overview," National Conference of State Legislatures (May)

Judy Zelio (2004), "The Role of Property Taxes in State and Local Finance," State Tax Notes, pp. 43-55.

David Brunori (2001), "To Preserve Local Government, It's Time to Save the Property Tax." State Tax Notes (September 10), pp. 813-818.

John Anderson (1993), "Two-Rate Property Taxes and Urban Development," Intergovernmental Perspective, pp. 19-20, 28.

(Week eight: March 7/8)

MID-TERM EXAMINATION

7. (Week nine: March 21/22)

SALES AND USE TAXES

(HJR) chapter 9

(ITEP) chapter 3

Michael Mazerov (2003), "Expanding State Sales Taxation of Services: Options and Issues," (Washington, DC: Center on Budget and Policy Priorities) (March 24) (available at www.cbpp.org)

Charles E. McLure (2003), "Sales Tax Exemptions for Business Purchases and Economic Incentives," State Tax Notes (May 19), pp. 656-658.

John L. Mikesell (1996), "Should Grocery Food Purchases Bear a Sales Tax Burden?" State Tax Notes (September 9), pp. 751-754.

Donald Bruce and William F. Fox (2004), "State and Local Sales Tax Revenue Losses from E-Commerce: Estimates as of July 2004," State Tax Notes, pp. 511-518.

Arthur Rosen and Susan Haffield (2001), "Sales Tax Streamlining Effort Gains Momentum," State Tax Notes (May 14), pp. 1713-1715.

8. (Week ten: March 28/29)

PERSONAL INCOME TAXES

(HJR) chapter 10

(ITEP) chapter 5

David Brunori (1998), "State Personal Income Taxation in the Twenty-First Century," in David Brunori (editor), The Future of State Taxation (Washington, DC: The Urban Institute Press), pp. 191-206.

Iris J. Lav (1993), "Taxing the Top: Strategies for Increasing State Income Tax Revenue Without Changing Tax Rates," State Tax Notes (March 15), pp. 589-606.

9. (Week eleven: April 4/5)

BUSINESS TAXES

(ITEP) chapter 6

Institute on Taxation and Economic Policy (2004), State Corporate Income Taxes: 2001-2003 (Washington, DC: ITEP) (available at www.itepnet.org)

Richard Pomp (1998), "The Future of the State Corporate Income Tax: Reflections (and Confessions) of a Tax Lawyer," in David Brunori (editor), The Future of State Taxation (Washington, DC: The Urban Institute Press), pp.49-72.

Chris Atkins (2005), "A Twentieth Century Tax in the Twenty-First Century: Understanding State Corporate Tax Systems," Tax Foundation Background Paper number 49 (September).

Thomas Pogue (1998), "State and Local Business Taxation: Principles and Prospects," in David Brunori (editor), The Future of State Taxation (Washington, DC: The Urban Institute Press), pp. 89-110.

Robert Cline, William Fox, Tom Neubig, and Andrew Phillips (2004), "Total State and Local Business Taxes: A 50-State Study of the Taxes Paid by Business in Fiscal 2003," State Tax Notes (March 1), pp. 737-750.

Robert Cline, Thomas Neubig, Andrew Phillips, and William Fox (2005), "Total State and Local Business Taxes: Nationally 1980-2004 and by State 2000-2004," State Tax Notes (May 9), pp. 423-437.

Elliott Dubin (2000), "Recent Trends in State Corporate Income Taxes," Multistate Tax Commission Review, pp. 7-14.

10. (Week twelve: April 11/12)

GAMING AND OTHER NON-TAX REVENUES

(HJR) chapter 11

Steven D. Gold (1993), "Gambling Is No Panacea for Ailing State Budgets," State Tax Notes (October 18), pp. 907-909.

Alicia Hansen (2004), "Lotteries and State Fiscal Policy," Tax Foundation Background Paper number 46 (October).

Ranjana G. Madhusudhan (1998), "What Do We Know About Casino Taxation in the United States?" Proceedings of the 91st Annual Conference of the National Tax Association, pp. 85-95.

11. (Week twelve: April 11/12)

STATE AND LOCAL FINANCES AND THE DISTRIBUTION OF INCOME

(HJR) chapter 12

Andrew Reschovsky (1998), "The Progressivity of State Tax Systems," in David Brunori (editor), The Future of State Taxation (Washington, DC: The Urban Institute Press), pp. 161-189.

Citizens for Tax Justice and The Institute on Taxation & Economic Policy (2003), Who Pays: A Distributional Analysis of the Tax Systems in All 50 States. 2nd edition (Washington, DC: ITEP)

Nicholas Johnson and Iris Lav (1997), "Are State Taxes Becoming More Regressive?" (Washington, DC: Center on Budget and Policy Priorities) (available at www.cbpp.org)

12. (Week thirteen: April 18/19)

INTERGOVERNMENTAL RELATIONS AND GRANTS IN AID

(HJR) chapter 13

Carol E. Cohen (1990) "State Fiscal Capacity and Effort: The 1988 Representative Tax System Estimates," *Intergovernmental Perspective*, (Washington, DC: USACIR) (Fall), pp. 17-22.

Daphne A. Kenyon (2001), "The Federal Impact on State and Local Government Finances at the Beginning of the 21st Century," *State Tax Notes* (December 17), pp. 929-934.

Iris J. Lav (2003), "Piling on Problems: How Federal Policies Affect State Fiscal Conditions," *National Tax Journal* (September), volume LVI, number 3, pp. 535-554.

Nicholas Johnson (2003), "Federal Tax Changes Likely to Cost State Billions in Coming Years," *Center on Budget and Policy Priorities* (available at www.cbpp.org)

Nicholas Johnson (2002), "States Can Avoid Substantial Revenue Loss by Decoupling from New Federal Tax Provision," *Center on Budget and Policy Priorities* (available at www.cbpp.org)

Robert McIntyre (2001), "The Effects of the Bush Tax Cuts on State Tax Revenues." *State Tax Notes* (May 14), pp. 1691-1696.

Federation of Tax Administrators (2001), "Repeal of Federal Estate Tax Would Have Effect on States." *State Tax Notes* (March 12), pp. 903-906.

Kim Rueben (2005), "The Impact of Repealing State and Local Tax Deductibility," *State Tax Notes* (August 15), pp. 497-513.

Iris Lav and Andrew Brecher (2004), "Passing Down the Deficit: Federal Policies Contribute to the Severity of the State Fiscal Crisis," (Washington, DC: Center on Budget and Policy Priorities) (available at www.cbpp.org)

Sumeet Sagoo (2004), "Federal Tax Burdens and Expenditures by State: Which States Gain Most from Federal Fiscal Operations," *Tax Foundation Special Report* (December)

13. (Week fourteen: April 25/26)

TOPICAL ISSUES IN STATE AND LOCAL FINANCES

Steven Gold (1994), "Is the State Fiscal Crisis Over?" *State Tax Notes* (December 19), pp. 1895-1900.

Liz McNichol (2003), "The State Fiscal Crisis: Extent, Causes, and Responses," (Washington, DC: Center on Budget and Policy Priorities) (April 24) (available at www.cbpp.org)

Kevin Carey, Liz McNichol, and Iris Lav (2001), "State Responses to Tight Fiscal Conditions" (Washington, DC: Center on Budget and Policy Priorities) (available at www.cbpp.org)

Iris J. Lav and Nicholas Johnson (2003), "State Budgets Deficits for Fiscal Year 2004 Are Huge and Growing," (Washington, DC: Center on Budget and Policy Priorities) (available at www.cbpp.org)

Alice M. Rivlin (2002), "Another State Fiscal Crisis: Is There a Better Way?" *The Brookings Institution Policy Brief No. 23* (December)

National Association of State Budget Officers (2002), "Budget Shortfalls: Strategies For Closing Spending and Revenue Gaps," Third Edition (Washington, DC: NASBO)

(Week fifteen: May 2/3)

FINAL EXAMINATION