1. Discuss Midterm Prospectus Due March 18

- Look over benefit/cost prospectus checklist at: [http://www.csus.edu/indiv/w/wassmerr/ppa_220b_checklist_for_benefit.htm](http://www.csus.edu/indiv/w/wassmerr/ppa_220b_checklist_for_benefit.htm)

2. Fish Chapter 2: Market Efficiency and Market Failure

- Intended to be a review of material from PPA220A
  Background needed to follow presentations in text

- Pareto efficiency, marginal social benefit, marginal social cost, consumer surplus

- Externality
  Understand Figure 2.3

- Public good
  Nonrival and nonexcludable
  Free riders

- Increasing returns to scale
  Natural monopoly

- Distributional concerns

- Samuelson efficiency rule for public good
  Lindahl equilibrium
  Understand Figure 2.5

3. Fish Chapter 1: Why Study State and Local Public Finance?

- Reasons
  1/4 of GDP
  Greatest effects on day-to-day living
  "Laboratories of Democracies"
  Diversity and mobility issues

- Where people feel most connected, most for money
  Local, then state, then federal
• Growth in state and local expenditures in last half 20th Century
  Figure 1.3

• Three traditional roles for government (Musgrave, 1959)
  (1) Economic stabilization - stabilization policy
  (2) Alter distribution of resources - distribution policy
  (3) Obtaining a more socially efficient distribution of resources - allocation policy
  Conventional wisdom
  Powers granted and mobility limit state and local role in 1 and 2
  But unemployment comp and safety net policies administered by state and local governments
  Proximity to 3 allows state and local government better ability to solve

4. PPIC: California’s State Budget

• State budget of $100 billion

• Budget has grown 44% in past four years
  Education spending, VLF tax cuts

• 2/3 supermajority to pass budget or raise taxes

• Voter initiatives
  Prop 98

• Complicated state/local fiscal relationships
  ERAF

5. PPIC: California’s Tax Burden

• 4th highest overall federal, state, and local tax burden
  Driven by high federal income tax payments

• 8th highest overall state and local tax burden
  See Tax Foundation for 2003 figures

• Highly progressive state personal income tax
  See handout

• State and local government relies more on volatile revenue sources (see Figure 2)

• Federal taxes paid exceed federal revenue coming back to state
Prop 13 partly to blame

6. LAO: Public Finance and Budget Facts

- A handy reference to have
- Thumb through it
  Any things jump out at you?

7. Huber: California in Crisis

- An overview of the “California Deficit Crisis”
- Growth
- Ethnic diversity
- K-12 Education
  “Legislature too anti-business”
  Huber top 10 list on p. 13
  Any contradictions?
- 5th largest economy in world

8. Shrag: The Spirit of 13

- Background on Howard Jarvis
- Reasons for property tax revolt
  1974 to 78: average home value rose from $34K to $85K
  Why a problem?
  Property assessment scandals
  School bussing scandals
  Jerry Brown: “You don’t have to do things...” (p. 137)
  Perception that tax $’s not going to schools, but immigrant related health and Welfare
  State and local budgetary surpluses
    Slow to eliminate
    Split role (other proposals) require 2/3 vote for const. amend or ballot
- Prop 13 basics
  Property assessments rolled back to 1975 levels
  Only allowed to increase 2% or cpi (if less) a year
  Acquisition value assessment (not market value)
Only a 1% ad valorem tax rate on property
Vote on all tax increase
2/3 vote to raise special taxes (special purposes)
   Parcel taxes
   School construction bond now 55% vote
Majority to raise general taxes (sales)

- Legislature’s Prop 8 ran at same time as Prop 13
  Complicated exemptions (1/3 cut as apposed to 60%)
  Most interest groups backed Prop 8
  69% of registered voters, 65% for Prop 13
  Strongest support from elderly white homeowners
  Only African Americans as a group did not majority support
  First initiative approved in CA for 4 years

- Average homeowner experienced a 60% cut in property taxes
  But Federal deductibility
  In first 10 years saved CA taxpayers $228B
  Partial reason for property value increase
  Rents rose

- Serrano vs. Priest I and II (1971 and 1976)
  Under system of property tax financing for public schools
  “They can provide a high quality education for their children while
  paying lower tax [rates]... Poor districts have no cake at all.”
  Cause of Prop 13?
  Result: leveling down instead of up

- Property tax in California no longer a local tax
  1% collected at county level and state decides how to distribute back
to local governments in county
  AB8 solution (1978)
  ERAF problem (early 1990s)
  Current governor’s budget plan
  CA cities and counties no longer have fiscal autonomy
  Loss of local involvement
  Loss of local place

- Dynasty provisions
  Pass home onto children and grandchildren
  One time if over 65 in county

- Gann spending limits and Prop 98
  State general fund spending no more than cpi % and pop % increases
  40% of general fund expenditure in Ca to public K-14
• Nordlinger and Macy’s Supreme Court challenges to Prop 13
  Equal protection clause
  Interstate commerce clause

• Fiscalization of local land use result

• Under Prop 13, cities see the costs of residential growth and not the benefits

9. Homework Due the Start of Meeting 5

• Read material under meeting five in the syllabus; come prepared to discuss. The go to person on covered chapters are listed below:

  Fish 3 – Catron
  Fish 4 – Cavner
  Hub 4 – Cosker
  Hub 5 – Goldberg
  Bru 1 – Hard
  LAO Propositions – Lee

• A well developed question from reading assignment for week five.

• Typed, and double-spaced answer to questions at back of Fisher Chapter 1, Question 3; and Fisher Chapter 2, Question 4.