This course will examine the problems of, and prospects for, financing the provision of public services through state and local governments. The course assumes a solid understanding of micro-economics and an ability to apply that understanding to solve numerically problems in property valuation, public budgeting, and fiscal design. The course is intended for three audiences: 1) students interested in the determinants of real estate market values and the influence of government activities on those values; 2) students interested in the financing and management of state and local governments, for its own sake or for possible application of the "U.S. model" in other countries; and 3) students interested in the pricing of municipal debt for the provision of public infrastructures. A mid-term and final examination are required.

To give you a sense for how the course materials will be presented, I view cities as economic organizations not unlike a publicly held corporation. There are "shareholders" called owners (or renters) of residential land. Shareholder voting rights are not, however, in proportion to the value of shares owned but rather are simply in terms of one person-one vote. The "Board of Directors" of the corporation is elected by the resident-shareholders and is called the City Council. The Chairman of the Board -- appointed by the elected directors or elected directly -- is the Mayor. The Mayor and the City Council appoints a management team -- Managing Director (COO), Finance Director (CFO), Commerce Director (Head of Marketing?), and a group of managers for the city's various "product lines" of the business: street cleaning and maintenance, safety, education, recreation, libraries. Each service has a production relationship requiring labor, capital, and materials. The corporation finances it capital with equity (taxes) or debt (municipal bonds) and pays it labor a negotiated (union) or competitive (non-union) wage. Labor may own "shares" in the corporation (live in the city). The city-corporation "sells" its services to "customers" who buy those services with a "yearly contract" (taxes) or perhaps with a per unit fee (user charges). The customers includes the resident-shareholders -- most of the customers are shareholders -- but it can also include non-shareholders, the most important of which is business. City-corporations have a competitive advantage called "agglomeration" economies in the provision of important residential and business services: for example, infrastructures such as
roads, ports, and communication systems and services with significant consumer interdependencies such as safety, environment and (depending on what you consider to be an "appropriate education") school services as well.

Each city-corporation is in direct competition with other city-corporations. If a city does not provide its services efficiently, then customers (residents and businesses) leave the city and go elsewhere. This leads to a fall in land values (share prices) and if revenues are not sufficient to pay for fixed costs (prior debt accumulated), then bankruptcy.

Countries which design their systems of "city (corporate) governance" well will encourage efficient cities. Efficient cities attract businesses and residents. Economic growth follows. However, if the system of city governance is poorly designed, then cities in that country (or state) cannot compete, residents and businesses exit, and growth declines. For example, one inefficient system of "city governance" regulates the city-corporation to provide poverty services for which the city organizational form is not well-suited. Good rules of city governance are equivalent to a good national policy towards cities.

To use the "language" of finance, well run cities require good internal management, favorable (at least neutral) rules for city governance, and informed and diligent shareholders. To use the language of public policy, well run cities require honest and well-trained leaders, appropriate federal and state policies, and informed voters. Good management and good policy are one and the same when it comes to managing and financing cities.

As an investor/shareholder (owner of real estate), lender (banks and bondholders), worker (teacher), or customer (resident or business), you have a vested interest in ensuring your city is well-run. This is a course in how to finance and manage a city-corporation to maximize your consumption benefits and/or investment returns.

**How to Use the Bulk Pack:** Obviously I want you to read everything (!), or why did I go to the trouble to find the articles and put them in the pack? You will, however, find overlap between the articles and class lectures, so to that degree they are substitutes – but not perfect substitutes. Perhaps the best way to use to the readings is as a supplement to the lectures, and then when a topic strikes your fancy, read the articles more carefully. **You will be responsible for readings not covered in class.** In addition to the scholarly articles, I have also included in the bulk pack numerous “current events” articles so that you might appreciate that what we are doing here actually matters for consumers, investors, and taxpayers. Since many of the exam questions will be motivated by these current events, you might want to read – a think critically about – those articles.

Finally, I have included several Class Lectures of more technical material. You will be expected to bring those to class on the day we discuss the material. **I will not have extra copies in class** so if you do not have your copy from the bulk pack you will find the class rather a tough go. The Class Lectures are indicated below in bold.
O. **What are the Issues?** (September 9)


“Principles of Good Budgeting,” (Inman Notes)

I. **Introduction: Why Cities?** (September 11)

A. The Cultural City:


B. The Consumer City:


   “Guggenheim, Bilbao, and the Hot Banana,” *Financial Times*.

C. The Producer City:

   **LECTURE NOTES 1: THE “ECONOMIC CITY”**


D. The City and the Region:


II. **Does Public Finance Matter?** (September 16, 18, 23, 25)

A. Facts:

B. Causes:


Philippe Jorion, "Bond Basics and Repos,” Big Bets Gone Bad: Derivatives and the Bankruptcy in Orange County, Chapters 3 and 4.

C. Consequences:


CLASS HANDOUT/LECTURE NOTES: “FISCAL CRISIS AND VALUES”


III. Urban Public Finance: The Ideal (September 30; October 2, 7, 9)

LECTURE NOTES 2: TIEBOUT COMPETITION

A. Technology and Public Goods


B. The Efficient Provision of Local Public Goods


C. Application: Capitalization

D. Application: Urban Sprawl

LEC TURE NOTES 3: IMPACT FEES


“Paying the Price of Sprawl,” Philadelphia Inquirer, January 13, 2002

IV. Urban Public Finance: The Reality (October 16, 21, 23, 28)

O. Overview: How Public Finance Works in a Metropolitan Area


A. Role of Public Labor


B. Role of Urban Poverty


C. Role of Urban Crime


D. Role of National Politics

E. Role of Leadership

_The Leader’s Problem:_

**LECTURE NOTES: SET 4 “DECISION TO EXIT”**


_“Old Style” Leadership_


_“New Style” Leadership_


**MIDTERM EXAMINATION:** Approximately the first week of November.

Previous Midterm Examination with Answers.

V. Restoring the Ideal: Public Policies for Better Public Finance

A. Improving Public Service Provision (October 30; November 4, 11, 13)

_Technology of Service Provision (Education)_


_Managing The Technology_

**LECTURE NOTES 5: FISCAL MANAGEMENT OF SCHOOLS**

_Incentives for Efficient Management_

“Top-Down:” _No Child Left Behind_

“Bottom-Up:” Parental Choice


B. Taxation (November 18, 20)

Efficiency:

LECTURE NOTES: “MEASURING EFFICIENCY LOSSES WITH CITY TAXES”


Equity:


LECTURE NOTES: “THINKING THROUGH ECONOMIC DEVELOPMENT STRATEGIES”

VI. Investing in Public Infrastructure (Optional Lecture or covered on your own.)


VII. Financing Cities and Provinces in Developing Economies (December 2 and 4)

A. Fiscal Decentralization Globally


B. Ensuring Fiscal Discipline: The Hard Budget Constraint


FINAL EXAMINATION: The final examination will be given on the exam day scheduled for our course by the University calendar -- ABSOLUTELY NO EXCEPTIONS. Make your travel plans accordingly. Date: December 16.

Previous Final Examination