1. Introduction to *Tools for State and Local Fiscal Management*

**Alex Hathaway, Jorge Martinez-Vazquez, and
Chris Thayer**

The edited chapters in this volume are drawn from the work of faculty and research associates affiliated with the Center for State and Local Finance (CSLF) in the Andrew Young School of Policy Studies at Georgia State University. The CSLF aims to develop the people and ideas for next-generation public finance by bringing together the Andrew Young School's nationally ranked faculty and the broader public finance community. The center conducts innovative, nonpartisan research on tax policy and reform, budget and financial management, education finance, and economic development and urban policy. In addition, it provides premier executive education in public finance for state and local finance officials and works with local and state partners on technical assistance projects on fiscal and economic policy. Through its work with numerous state and local governments, the CSLF has utilized and evaluated many fiscal analysis tools that may benefit a wider audience of government officials and analysts worldwide. It is the intent of this volume that the collected tools, viable across a range of policy areas, will provide substantial analytical aid to policymakers, government officials charged with policy implementation, policy analysts, and public finance scholars across developing and developed countries.

IMPORTANCE OF FISCAL ANALYSIS

Governments are in the unique economic situation of making decisions, creating policies, and implementing programs with money that is not their own. Instead, governments act as stewards of the public's money, using these funds in ways intended to benefit the public. How does a government know it has made good decisions regarding its policies and programs? What defines a good decision? While public opinion is often the driver of policy change, fiscal analysis can help quantitatively measure a government's decisions to answer these questions. Understanding the true fiscal outcomes of governmental intervention in a world of scarce resources is essential, although often difficult.

Many arguments can be made to support the importance of analyzing fiscal policy. Efficiency and effectiveness are often cited as primary drivers of fiscal analysis (Petersen, 1977; Leeper, 2015; GFOA, n.d.). On a broader level, fiscal analysis serves an important role for transparency and accountability, allowing the public to understand better the outcomes of governmental action. Mueller (1989) notes that transparency helps to solve

a common issue in the public sector: the principal–agent problem. In this transactional situation, voters (the principal) have wants or needs (programs and services) that must be fulfilled by the government (the agent). The central issue that can arise in this arrangement is that the principal may not know how the agent fulfills its wants and needs—how the government pays for these programs and services. Moreover, this issue can extend beyond the intermediate steps of the principal–agent transaction; that is, how can the public know an implemented program does what it claims to do? How does the public know this program is the best use of its money? Fiscal analysis can help answer these questions and prevent an unfortunate side effect of the principal–agent problem—the tendency toward fiscal illusion, the “something for nothing” pitch that can be politically attractive (Buchanan, 1964). Fiscal analysis allows officials to see the impact of their policy choices and can provide an important level of fiscal transparency for the public.

Background

All governments perform some level of fiscal analysis. Indeed, planning a budget requires answering questions that necessitate some understanding of a jurisdiction’s fiscal environment: How much revenue is legally available? How much should the government collect? How should funds be spent? A higher level of fiscal analysis can answer more complex questions: What are the effects of our programs? Can they be more efficient? How are programs and services prioritized and how should they be?

Answers to these questions can substantially improve the programs and services a jurisdiction is able to provide its citizens. However, two hurdles generally affect a government’s fiscal analysis efforts: A lack of data and a lack of capacity to analyze the data it does have. As Petersen (1977, p. 300) notes, “The more numerous the reasons we want data, the less likely any limited set of information will be able to satisfy all users.” Collecting more data requires a capacity just as analyzing them does—in money and skilled personnel—which many jurisdictions cannot afford, particularly local governments.

In some instances, a push towards increasing fiscal analysis capacity comes about because of large-scale events. Economic downturns particularly refocus the public’s attention onto the fiscal practices of its government. Following the Great Recession, many governments reevaluated their fiscal analysis tools and benchmarking. For example, many states had rainy day fund caps before the Great Recession set at 5 percent of prior-year net revenues or expenditures. During the Great Recession, however, many states realized that a 5-percent cap did not provide enough support to cushion them through the economic downturn. As a consequence, several states reassessed their reserve fund policies and increased the rainy day fund cap to 15 percent or higher. In these situations, fiscal analysis not only can enhance or improve current programs and policies but also better prepare for future events. The more recent economic crisis associated with the COVID-19 pandemic makes it clear that deep crises can be recurrent, and it heightens the need to further develop fiscal analysis capacity.

Demand for Fiscal Analysis

The literature on fiscal analysis tools tends to focus on the effects of specific analytical techniques (for example, Bordt et al., 1990; Guglyuvatyy and Stoianoff, 2015) or the

merits and difficulties of analysis itself (for example, Petersen, 1977; Leeper, 2015). This volume covers fiscal analysis tools used in four key policy areas: Tax policy, tax incentives, education policy, and economic development. The research most relevant to this volume lays out broad frameworks and best practices for fiscal analysis at the national and subnational scale. For example, the Association of International Certified Professional Accountants in the United States has published *Guiding Principles of Good Tax Policy* to help politicians, economists, and tax practitioners analyze and compare tax modification proposals (AICPA, 2017). Similarly, a United Nations (2018) publication, *Design and Assessment of Tax Incentives in Developing Countries*, looks at fostering tax efficiency, equity, and growth through the proper structuring of tax incentives. At the subnational scale, the Alabama Department of Revenue has also released a similar document focused on tax incentive challenges most common for US states (Murray and Bruce, 2017). Internationally, for education policy, the World Bank has released *Tools for Education: Policy Analysis* (Mingat et al., 2003), and for economic development, they have released *Regional and Local Economic Analysis Tools* (Dinç, 2002).

As the literature implies, the importance of fiscal analysis tools in predicting and assessing the impact of governmental interventions is well known (Petersen, 1977; Leeper, 2015; GAO, n.d.; GFOA, n.d.), but not all governments have the ability to implement the level of analytical power they desire. In the United States, the federal government is particularly capable of performing high-level fiscal analysis on a regular basis. Since 1921, the US Government Accountability Office (GAO), formerly the General Accounting Office, has provided fiscal analysis services for the US Congress. The GAO evaluates all uses of public funds, and its mission is to offer “timely information that is objective, fact-based, nonpartisan, non-ideological, and balanced” (GAO, n.d.). Although the federal government allows deficit spending, organizations such as the GAO provide an essential service to ensure optimal spending. In 2019 alone, the GAO published 617 reports analyzing the majority of the federal government’s main and new spending, and it estimated that the public saved \$338 for every \$1 spent on the GAO in that year (GAO, n.d.).

For US states, organizations such as the GAO exist, but their analytical capacity varies widely, and many states do not house a full-time analytical organization. California and Virginia retain two of the most notable state fiscal analysis organizations. Virginia’s Joint Legislative Audit and Review Commission (JLARC) was created in 1973 and its authority has expanded several times in subsequent years. Currently, the JLARC analyzes the potential impact of all proposed legislation and regularly evaluates significant budget areas for the state in addition to one-time analyses requested by the state’s legislature (JLARC, n.d.). The Virginia Retirement System analyzes issues from kindergarten to twelfth grade (K–12) standards of quality to economic development incentives, among other areas, every year. Similarly, the Legislative Analyst’s Office (LAO) of California has overseen budget control, forecasting, and other special reports requested by the state legislature since 1941. The LAO employs over 40 individuals and analyzes state finance, education, health and human services, and capital outlay, among others. It annually produces a detailed fiscal outlook for the state that plays a consequential role in the budgeting process (LAO, n.d.).

Although internationally there has been a move toward the creation of autonomous or semi-autonomous fiscal councils charged with the monitoring of fiscal discipline at different scales of government, most countries, including the United States, still have a

notable lack of organizations or subunits in local governments with a chief focus on fiscal analysis. For example, similar to states, US local governments are required to maintain a balanced budget, but many do not have the capacity to perform rigorous fiscal analysis on a regular basis. While all governments perform some level of fiscal analysis, many states and most local governments embed this function in departments where it serves a minor, limited role.

Unlike many other countries, the United States has a strong nonprofit sector that can aid governments by providing fiscal analysis services or by promoting the use of particular fiscal analysis tools. The Government Finance Officers Association (GFOA) is one of the largest and oldest nonprofit organizations, and its aim is to support public sector operations. The GFOA provides a wealth of resources for federal, state, and local government officials. Their best practice guidelines are used ubiquitously throughout the public sector in the United States, and most governments strive to earn the GFOA's approval on the presentation of their comprehensive annual financial reports. The GFOA is also aware of the importance of detailed fiscal analysis. It emphasizes that proper analysis can bring about an understanding of the causes of fiscal stress, reveal underlying assumptions or priorities that may not be obvious, and generate new ideas for more efficient and effective government (GFOA, n.d.).

In summary, fiscal analysis plays an important role in the structure and function of all scales of government. While fiscal analysis supports the overarching themes of transparency, efficiency, and effectiveness, it is also a crucial component of the preparation for, and response to, macroeconomic events. Similar to the Great Recession, the unprecedented COVID-19 pandemic will see renewed attention paid to the efficiency and effectiveness of governmental spending, and many jurisdictions may utilize one-time fiscal analysis techniques to reevaluate their practices and priorities. Although the types of analysis vary and depend on numerous factors, many subnational governments lack appropriate fiscal analysis tools for regular use. It is the aim of this volume to provide a broad-scale toolbox of fiscal analysis practices and experiences to fill this void. While some jurisdictions have less capacity to introduce some of these tools than do others, we have sought to present fiscal analysis tools that can be used regularly without substantial additional costs or personnel requirements.

CONTENTS OF THIS VOLUME

This volume is divided into four parts, corresponding to tax policy, tax incentives, education policy, and economic development. Each presents fiscal analysis tools in action for state and local governments. First, "Tax Policy Tools" introduces various tax approaches and shows ways to analyze several common taxes, such as special purpose local option sales taxes and property taxes. In the "Dynamic revenue analysis: Experience of the states" chapter, Peter Bluestone and Carolyn Bourdeaux examine the research on the impact of tax changes on a state's economy and the results of efforts in seven states to dynamically model tax reforms. In "Local government revenue diversification: Prospects for Connecticut," Laura Wheeler and Bauyrzhan Yedgenov describe a wide variety of possible revenue sources available to local governments and consider the revenue consequences thereof, using Connecticut local governments as a case study. Finally, in

“The Homestead Option Sales Tax: Lessons learned from DeKalb and Rockdale counties,” Mels de Zeeuw and Laura Wheeler investigate the Homestead Option Sales Tax (HOST), as implemented in DeKalb and Rockdale counties in Georgia. Their chapter describes the effects of municipal incorporation on HOST revenues and capital outlays, the interactions with state and local taxes, the effect of HOST on lower-income versus higher-income residents, and the lessons learned about this system of property tax relief.

The second part, “Tax Incentive Tools,” provides three in-depth approaches to three aspects of tax expenditures, including an investigation into the inter-jurisdictional effects of incentives. Peter Bluestone and Nicholas Warner expand the work of Banzhaf et al. (2021) in “Age-based property tax exemptions’ effects on home prices and migration of older homeowners,” which uses a case study of a Decatur senior homestead exemption to deeply explore the dynamics and consequences of such exemptions. The work also features an explanation of an Excel-based calculator, developed by H. Spencer Banzhaf and Per Johnson, which allows government officials and citizens to estimate rough revenue effects of new or expanded age-based homestead exemptions for each county and school district in Georgia. Next, Per Johnson and Laura Wheeler create a “how-to” guide to assist local government officials who choose to prepare a tax expenditure report themselves by providing practical resources and example methods to begin the process in “Preparing local tax expenditure reports: A practical guide for local governments.” In “Local tax incentives: Examples from metropolitan counties,” Wheeler and Johnson highlight several common local government tax expenditures, looking at both scope and use through case studies of four large metropolitan US counties. This research illustrates the mechanisms through which these tax expenditures impact the tax revenue of local governments and emphasizes the benefits of local tax expenditure reporting as a tool for fiscal policy decisions.

The chapters in the third part, “Education Policy Tools,” look at ways to finance education services and at how education services can affect other parts of the economy, such as property values. Elton Davis and Isabel Ruthotto review Georgia’s traditional K–12 public school system structure, including the legal framework, local system organization, and an overview of funding sources in “Financing education services.” They also discuss the state, local and federal sources used to finance K–12 education. Next, in “Equalization grants for education services,” Nicholas Warner looks at Georgia’s Equalization Grant, which was introduced as part of the Quality Basic Education Act in 1985 and first funded in 1987. This chapter first examines the basics of the grant calculation, then discusses the grant’s ability to close the funding gap between low- and high-property wealth districts and how reliant these school districts have been on the equalization grant. In “Georgia’s special purpose local option sales tax for education: Review of trends and policy implications,” Ross Rubenstein and Nicholas Warner examine Georgia’s special purpose local option sales tax for education, which provides a unique way for districts to substitute current revenues (via a penny sales tax) for debt financing. The authors explore this funding tool in school districts throughout Georgia, outlining trends and policy considerations. In “The effect of start-up charter schools on nearby property values,” Peter Bluestone, David L. Sjoquist, and Nicholas Warner analyze the economic impact of start-up charter schools on the communities they serve and on the state of Georgia as a whole. This chapter examines the effect that start-up charter schools have on property values of nearby homes.

The final part, “Economic Development Tools,” undertakes non-economic development incentives and districting, such as community improvement districts and tax increment financing. In “Tax increment financing: Effects of the Great Recession in the United States, Georgia, and Atlanta” Dick Layton reviews the overall financial condition of tax allocation districts (TADs), documents concerns and lessons learned about TAD management, and outlines other redevelopment finance tools. Carolyn Bourdeaux, Lindsay Kuhn, Sarah E. Larson, and Laura Wheeler then examine the landscape of community improvement districts (CIDs) in “Adding multifamily residential properties to community improvement districts,” profiling CIDs in eight Southeast states with a focus on their evolution and key characteristics, and evaluating the tax treatment of residential property that lies within the boundaries of business improvement districts, special jurisdictions established to fund supplemental projects and services in a specific area. Carlianne Patrick looks at the non-tax economic development incentives in Georgia, and compares them with Alabama, North Carolina, South Carolina, and Tennessee in “Non-tax economic development incentives.” Finally, in “Constitutional limits on state and local aid to private enterprise,” Carlianne Patrick discusses constitutional provisions on public aid to private enterprises, and reviews changes to these provisions, the incentives environment index, and available non-tax incentives. Patrick then explores the capital expenditure and industrial composition effects of increasing non-tax economic development incentives.

The editors wish to thank the authors who have contributed to this volume through their work with the Center for State and Local Finance. It is their hope that the following 14 chapters will provide state and local officials, policy analysts, and public finance scholars with a broadly applicable toolbox of fiscal analysis options that will improve operations, facilitate efficiency and effectiveness, and promote fiscal transparency.

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