Did Cuts in State Aid During the Great Recession Lead to Changes in Local Property Taxes?[1]

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Running head: Cuts in state aid and property taxes

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We find robust evidence that local revenue and property taxes responded to the decline in state aid following the recession. In the post-recession period, a unit decrease in state aid per pupil led to a *relative increase in both local revenue per pupil and property tax revenue per pupil in comparison to the pre-recession period*. More specifically, we find that in comparison to the pre-recession period, a dollar decrease in per pupil state aid led to a *relative increase* of 19 cents in local funding per pupil, and a *relative increase* of 14 cents in property tax revenue per pupil.[9]

To further investigate the role of local control, we explore whether changes in local revenue were associated with changes in the actual *property tax rate*. We find that relative to the pre-recession period, a decline in state aid per pupil led to a relative increase in property tax rates. We believe that by separately considering the tax rate we are able to determine whether the change in property tax revenue was a result of local tax policy decisions or simply changes in property values. As outlined above, we do find that districts changed their tax rates in response to state aid shifts.

In addition to analyzing overall local responses to changes in state funding, we also investigate whether there were heterogeneities in responses across regions, and by property wealth. We find interesting variations in the *extents of local responses* between wealthy and less property wealthy districts and between regions. In particular, the general pattern above -- that districts countered state aid cuts following the Great Recession with local and property tax revenue increases (relative to the pre-recession period) -- seems to stem mostly from the responses of the high wealth districts. This is largely due to the interaction of state aid cuts with the existing STAR program. The STAR program operates like a matching grant, lowering voters'

[9] These estimates are obtained from specifications that include school district fixed effects. Instrumental variables estimates—which are qualitatively similar—reveal that a dollar decrease in per pupil state aid led to a *relative increase* of 24 cents in local funding per pupil, and a *relative increase* of 20 cents in property tax revenue per pupil.