Author's Accepted Manuscript

www.elsevier.com

The Housing Crisis, Foreclosures, and Local Tax Revenues

James Alm, J. Sebastian Leguizamon

PII: S0166-0462(17)30162-X
DOI: https://doi.org/10.1016/j.regsciurbeco.2017.09.006
Reference: REGEC3292

To appear in: *Regional Science and Urban Economics*

Received date: 3 May 2017
Revised date: 20 September 2017
Accepted date: 29 September 2017

Cite this article as: James Alm and J. Sebastian Leguizamon, The Housing Crisis, Foreclosures, and Local Tax Revenues, *Regional Science and Urban Economics,* https://doi.org/10.1016/j.regsciurbeco.2017.09.006

THE HOUSING CRISIS, FORECLOSURES, AND LOCAL TAX REVENUES

James Alm and J. Sebastian Leguizamon*

Abstract: The housing crisis that began with the "Great Recession" led to a dramatic increase in home foreclosures, and these foreclosures likely had subsequent impacts on local government tax revenues. We investigate the impacts of foreclosures on local government tax revenues, using a reduced form estimation approach that relates changes in foreclosures to changes in local government tax revenues. Unlike most previous work, we focus mainly on the nationwide revenue impacts of new foreclosures, using data across all local governments in the entire United States during the worst years of the Great Recession. We also use an instrumental variable approach that controls for possible endogeneity of foreclosures and housing prices. Overall, we find evidence that the new foreclosures had a *direct*, negative, but small effect on total tax revenues at the local level, although there is only weak evidence that this impact can be attributed to declines in local property taxes. However, we also find that foreclosures had an *indirect* and negative impact on local governments via declines in state government funding. We suggest that foreclosures may have affected the real economy, thereby reducing the state government revenues dependent on real economic activity that were used to finance transfers to local governments.

Key Words: Foreclosures, property taxation, local government, intergovernmental transfers.

JEL Codes: H2, H7, R3, R5.

---

* Tulane University and Western Kentucky University. Please address all correspondence to James Alm, Department of Economics, Tulane University, 208 Tilton Hall, 6823 St. Charles Avenue, New Orleans, LA 70118 (phone +1 504 862 8344; fax +1 504 865 5869; email jalm@tulane.edu). We are grateful to Dan McMillen and to two anonymous referees for many helpful comments and suggestions. This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.