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Beyond Spending Levels: Revenue Uncertainty and the Performance of Local Governments*

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Abstract

Revenue uncertainty is a common concern among public administrators, but little research examines its effects on service delivery. Using a novel empirical strategy to capture how revenues deviate from administrators' expectations, we estimate the impact of revenue uncertainty on Ohio public school districts' educational effectiveness. We find that errors in districts' revenue forecasts can have a significant negative impact on student achievement, beyond what one would expect based on changes in spending levels. In particular, a one percentage point increase in error involving revenue shortfalls can lead to declines in student achievement growth of up to 0.02 standard deviations during the following school year, which equates to about 8 days' worth of learning. These effects are concentrated in large, non-rural school districts with relatively low fund balances.

JEL codes: H71, H75, I22

Keywords: revenue uncertainty, revenue forecasting, student achievement

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