

Public finances and fiscal windfalls: Quasi-experimental evidence from local municipalities in Zurich

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We study the impact of a one-time exogenous fiscal windfall on local public finances in the canton of Zurich (Switzerland). The windfall was caused by the extraordinary tax bill of a resident of the municipality of Rüslikon (about CHF 360 million at the cantonal and CHF 160 million at the municipal level). Most of the extraordinary municipal tax payment entered the fiscal equalization scheme and, subsequently, rained down on the municipalities of the canton. Based on this quasi-random experiment we investigate the impact of a one-time fiscal windfall on municipal budgetary decisions. We assemble very detailed accounting data for all municipalities between 2008 and 2016 and estimate the impact of the windfall on all subaccounts. Our preliminary results show that the windfall caused relatively large budgetary shifts and seemed to have caused considerable expenditures beyond the windfall. We further investigate the impact of fiscal institutions such as financial referenda, municipal assemblies, the share of left-wing parties, and the share of female members in local governments on the budgetary impact of the windfall.