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What a Trump Presidency Could Mean for State and Local Finances.

An early review of Donald Trump's health-care and trade policies reveals some potentially bad news for state and local governments. According to Fitch Ratings, Trump's proposals would "significantly lower federal transfers to state budgets and could negatively affect economic growth and revenues."

Specifically, Trump has proposed converting Medicaid funding into a block grant program, which Fitch says would lead to much lower federal funding for the states. A Congressional Budget Office (CBO) assessment of earlier Medicaid block grant proposals projected declines of between 4 and 23 percent in federal funding over 10 years.

The president-elect has also harshly criticized the North American Free Trade Agreement and said he would slap tariffs on goods imported from countries, such as China, that have cheaper labor than in the United States. Fitch Ratings said Trump's trade policy would have adverse implications for U.S. investment and growth, and would push up prices.

On the positive side, Trump has also talked about major investments in infrastructure. But he's been low on details for his plan — only suggesting that federal tax credits could encourage private investments in revenue-generating projects — and could make it more expensive for state and local governments to borrow money for those infrastructure projects. That's because his planned tax cuts would lower the benefit of buying tax-exempt municipal bonds for many individual investors. Without the full benefit, governments may have to swallow a higher interest rate payment in order to attract investors.

The Takeaway: Let's put things in perspective. Since when has a presidential candidate gotten everything he wanted once he took office? Chances are low that every single outcome listed above will actually happen. It's also important to note that President Obama has also called for reducing the municipal bond tax benefit for much of his presidency. So, that particular threat to state and local finances is not a new one, although some suspect tax reform will make its way from the back to the front burner now that Republicans control the executive and legislative branches.

The proposed changes to Medicaid are perhaps the most worrisome for state and local budgets because aid from the feds makes up approximately 15 percent of total state expenditures, according to the National Association of State Budget Officers. If the CBO's estimates are accurate, "reductions of this magnitude would have a significant effect on states' budgets," according to Fitch. And you can bet that states will pass some of that hurt on down to local governments in the form of reduced state aid.

But right now, the word of the day is ambiguity: Trump has been fuzzy on details up to this point, so it remains to be seen if his policies will pass muster with Congress and how, specifically, they'll impact state and local government coffers. Even the proposed changes to Medicaid aid could have a happier ending if states get more spending autonomy under a block grant system. "Depending on the specifics of the program," Fitch said, "states could lower their Medicaid costs with that

flexibility.”

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