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What the Federal Reserve's Policy Shift Means for State and Local Budgets.

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The Federal Reserve intended for today's interest rate cut of 0.5 percentage points to stimulate the broader economy, but this shift in monetary policy also represents a subtle but important change in the operating environment for state budgets. Interest rates affect every aspect of government finance, from revenue to infrastructure projects, and although the effects on state and local budgets will be gradual, the first rate cut in four years sends a message.

"This decision reflects our growing confidence that, with an appropriate recalibration of our policy stance, strength in the labor market can be maintained," Federal Reserve Chair Jerome Powell said at a press conference after announcing the cut. He also cautioned that the Fed is "not on any preset course—we will continue to make our decisions meeting by meeting."

One of the most immediate impacts of lower rates will be lower borrowing costs for state and local governments seeking to finance critical projects, particularly infrastructure, and make other long-term investments. The higher interest rates of recent years have discouraged borrowing and, as Utah Legislative Fiscal Analyst Jonathan Ball noted during an interview with The Pew Charitable Trusts, this has led some lawmakers to tap historically large general fund and other cash balances to pay for capital projects.

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