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State and Local Fiscal Fallout From a Trumpian Economy.

Trade wars, federal aid cutbacks and IRS layoffs will all have an impact on revenues, though the shocks may not be as bad as some fear. Still, for most jurisdictions budget and staffing freezes or cuts lie ahead. But for now leaders should resist the temptation to raid rainy day funds.

Washington is reeling from budgetary blitzkrieg. As the White House continues to flood the zone with head-spinning rapid-fire executive orders, intergovernmental grant clawbacks, Department of Government Efficiency (DOGE) wood-chipping, federal layoffs and flip-flopping global tariff pronouncements, the fallout for state and local budgets is worsening. The most obvious and immediate impacts are frozen funding, shakeups at the Department of Education and likely Medicaid cost-shifting, plus unprecedented staff reductions in various federal departments that work with states, municipalities and public schools. Now we have to deal with “Tariff Terror” as China and others impose countermeasures.

The other shoe will drop in the upcoming round of congressional budget cuts that are expected to reinforce these dramatic executive branch barrages. More immediately, though, public finance officers must also gauge how federal trade policy, a U.S.-China trade war and the other new tariffs elsewhere will affect their own states’ economies and thereby their own fragile tax revenues.

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