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A Shifting Trump-Era Public Finance Landscape.

State and local financial managers face the impact of federal aid cutbacks, plus new rules and even some opportunities. It's time to focus on what's practical and necessary, both near and longer term.

When it comes to the federal-state-local fiscal relationship, the Trump administration and its allies in Congress have driven more changes in less than one year than any other presidency since Franklin Roosevelt's, most of them going in the opposite direction politically. A clear takeaway for state and local financial managers and their policymaking bosses is that they can no longer count on fiscal federalism — dollars from Uncle Sam — to alleviate budgetary problems.

But there are also some quirky features of this new landscape that present more obscure challenges and even some economic development possibilities. For the public workforce, implementing new payroll features to comply with the 2025 tax law, particularly its overtime taxation provisions, will be the first order of the day, but that's a bookkeeping and software sideshow in the long run. The main event is that many states' and some municipalities' budget reserves are shriveling.

While states and localities collectively face cost shifting for essential functions once paid for by Uncle Sam, such as cybersecurity networks, the most important task for many in 2026 will be a review and reset of their financial reserves policies. If Uncle Sam is now prone to write counter-cyclical checks to taxpayers rather than sending money to states in the next recession, and less likely to provide natural disaster recovery aid, then rainy-day funds may need to be beefed up, not depleted in futile efforts to provide end-of-life support to formerly federally funded programs that remain popular locally.

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