# The Tariff Effect

## The economic impact of tariffs on local government—and how strategic use of reserves can help mitigate risks

BY SKYLAR ALBERT

One word has been at the center of economic debate in recent months: tariffs. As the federal government continues to navigate a variety of economic sanctions, U.S. tariff policies have fluctuated significantly, creating widespread uncertainty in financial markets around the world. It's easy to view these policies as purely diplomatic or limited to the federal government, but their impact extends far beyond Washington. U.S. markets, businesses, and local governments are all experiencing the consequences, and public finance professionals acknowledge the real fiscal strain tariffs can cause.

Although the United States shares the global burden of the recent economic hardship brought on by COVID-19, the current climate of tariff uncertainty presents a different challenge. The effects of existing tariffs—alongside the speculation about future ones—do not stop at the federal level. Emerging research and expert insights suggest that local governments are increasingly exposed to the downstream effects of trade policy decisions.

This article will dive into the effects tariffs have on local governments. It will provide an understanding of the trade revenue link, discuss a case study, examine fiscal tools and strategies, and review implications for policy and risk planning.

### Explaining tariffs

Before discussing recent U.S. tariff policies and their economic effects, a basic understanding is needed of what tariffs are, what they are designed to do, how they can be used, and their link to trade revenue. Import tariffs are taxes on goods entering from another country. The revenue generated by tariffs is transmitted directly to the federal government. Since most of our recent tariff policies are import-based, that's what we'll focus on. The revenue generated by tariffs is transmitted directly to the federal government. The tax is paid by the importer, but who actually bears the burden of the tariff is situational and debatable.

Tariffs are designed to protect domestic industries and penalize unfair trade practices. They are most commonly used either as a negotiation tool or as a source of permanent government revenue. These goals are contradictory and mutually exclusive. If tariffs are used for generating a permanent source of government revenue, it wouldn't make sense to roll them out all at once, and drastically altering them at the last minute would be counterproductive. The first-order economic effect of tariffs in general is that once the import prices go up, demand shifts away from imports, leading to higher consumer prices. This disrupts supply chains and results in changes in production.

And these effects generate second-order effects for local governments. Sales tax revenue based on inflated prices may increase, but only if demand stays at current levels. If reduced demand causes lower consumption, sales tax revenue will likely fall. Similarly, a weaker economy will likely result in business license revenue declining. Over the long term, construction and industrial investment will slow down, also slowing the growth of property tax base.

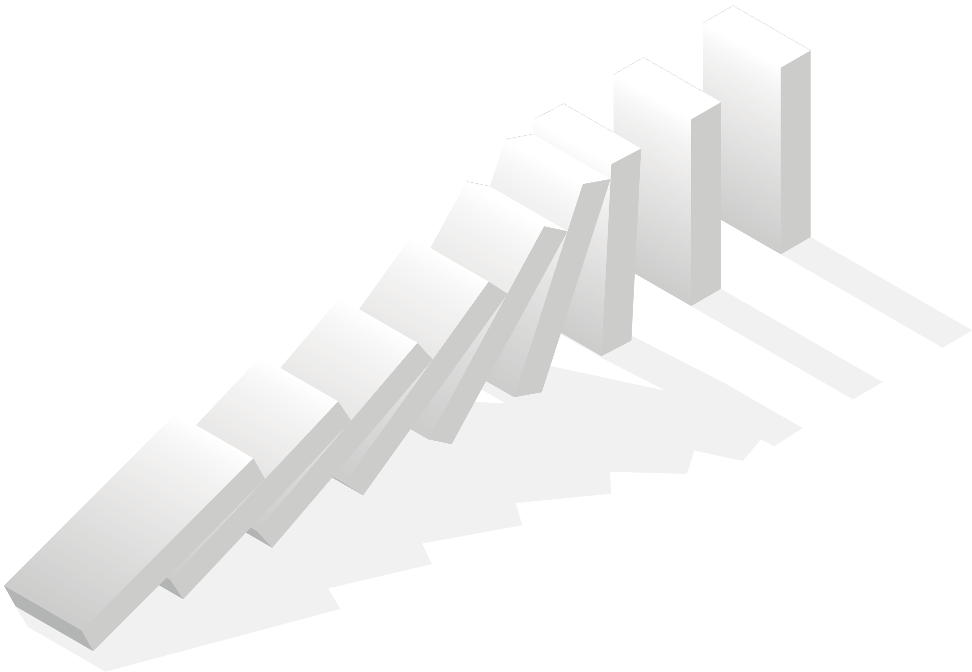
In fact, according to a paper written by members of the Federal Reserve Board, the 2018 to 2019 U.S. tariffs led to lower domestic manufacturing employment and harmed other countries with an already established manufacturing base.[1] This was due to higher prices and retaliatory tariffs. In fact, many countries with an already well-established manufacturing base failed to thrive.

Tariffs also lead to decreased consumer sentiment, resulting in households tightening their budgets. From there, decreases in consumer demand lead to cuts in production.

Although it may seem logical that this revenue would increase, as tariffs are a revenue-generating tax, this only occurs if domestic production increases to replace any foreign imports, which is not likely. Businesses initially pay the tariffs, so they are forced to either absorb the financial blow or raise prices. When prices increase, consumers may elect to make fewer purchases, or purchase lower cost alternatives, both of which lead to lower sales tax revenue.

Tariffs also affect income tax. When businesses choose not to raise their prices to consumers, they find ways to cut their costs internally, which often means layoffs. Unemployment is a common result of poorly planned tariffs. When the unemployment rate goes up, government revenue generated from income tax goes down, as many people's incomes are lowered, and government revenue tends to go down.

In fact, most states should expect a low to mid single-digit average shortage in recurring revenue, somewhere around two to six percent.[2] Schools and municipalities should expect a low, single-digit revenue shortfall as well.[3] Unpredictable changes make estimating the effects of recent tariffs particularly challenging, but most states will be hit—it's just unclear how bad the blow will be.



Emerging research and expert insights suggest that local governments are increasingly exposed to the downstream effects of trade policy decisions.

CASE STUDY

## The Port of Vancouver weathers change through planning and diversification

Many U.S. local governments and port authorities are feeling the effects of recent tariffs, including the Port of Vancouver, Washington. Located on the Columbia River between the states of Oregon and Washington, the port is legally and administratively part of the State of Washington, one of the most trade-dependent states in the United States.

In an interview with GFOA, Port of Vancouver CFO Scott Goodrich explained that the Port of Vancouver doesn't handle containers; rather, it focuses on breaking bulk cargo, specializing in moving large and difficult items like wind turbine parts. The port also imports steel and aluminum, and exports grain, corn, peas, lentils, soda ash, and copper—all common tariff-affected items. The Port of Vancouver is the primary point of entry for Subaru vehicles west of the Mississippi, handling 70,000 to 90,000 units annually. The port is not a small operation; in fact, although it directly employs only 125 people, more than 3,500 workers come through the port daily. The port is also unique because it is the most inland deep-water port on the West Coast, which gives it an edge with rail, river, and road access. In terms of exports, the bulk of them go to China, Japan, Brazil, Korea, Vietnam, India, and parts of Europe.

Approximately 65 percent of the Port of Vancouver's revenue comes from marine terminal operations—the loading and unloading of ships. Another 20 percent comes from industrial and commercial activity, mainly warehouse and light manufacturing. The rest of its revenue comes from commercial real estate waterfront development. The port is only able to levy taxes for debt services or environmental remediation. Labor is one of the port's largest costs because of the skilled workers required to complete break bulk operations.

The Port of Vancouver saw a huge influx of imports earlier in 2025, as companies tried to get ahead of the tariff change. The effect was seen in autos, wind tech, steel, and aluminum. In fact, the first half of 2025 was one of the port's busiest times ever. This increase in imports is no surprise—when organizations anticipate higher prices in the future, they increase supply. The port aims for 25 to 30 percent margins overall, and it stresses diversification, so if one sector suffers (like autos, for example), others (like grain exports) can help them stay stable.

The port's finance staff prepares for uncertainties (like tariff changes) mainly through planning and diversification. Goodrich and his team made changes starting in the current presidential administration's first term, when tariffs began to spike. In response to declines in copper exports and autos, the team adapted and transitioned one of their facilities from copper/bentonite exports to soda ash. To accomplish this, they created a public-private partnership with Solvay and Vancouver Bulk Terminal.

The team also runs a standard annual budgeting process, and they plan out 10 years. For example, Goodrich mentioned that some economists are predicting a downturn in the early 2030s, so they are building reserves now to remain in compliance with their debt covenants if or when things slow down. Their capital program usually ranges from $30 million to $50 million annually in new construction and $5 million to $10 million in maintenance, and they update their 10-year plan annually to adjust based on near-term conditions.

The port is a separate entity, but the city and county around it are affected—the tariffs have an indirect impact on construction costs, which has made it harder for cities and counties to maintain infrastructure.

## The importance of reserves

Current U.S. tariff policies, along with COVID-19, have shown the world that assuming global markets will always be stable is wishful thinking. The uncertainty of 2025's tariff policies makes strong fiscal tools and strategies key to remaining financially sound. Now more than ever, municipalities need diversified revenue models built to withstand shocks and monitor key industry exposure in the local tax bases. Strategic use of economic development incentives is also significant. For local economies that are tied to trade, there is value in establishing early warning systems.

The best way for governments to respond to the economic strains brought on by economic volatility is by developing strategies for use of reserves. GFOA outlines four main reasons for this:

- Reserves are the main tool governments have to manage risk, so as risks evolve and shift, the way in which reserves are understood should change and evolve as well.
- As public trust in governments declines, finance professionals will face more pressure to justify larger reserves.
- As government resources become more strained, the margin for error in using reserves shrinks.
- New technology allows governments to optimize reserve strategies.

Governments should frame reserves as an "insurance policy" rather than a savings account. This is because most people save reactively, meaning they save after accumulating money or after a negative financial event takes place. Governments should contribute to their reserves preemptively. People also typically think the rule for savings accounts is "the more in it, the better"—but adding additional funds to government reserves is not always better. Exactly how much money a government should deposit into its reserves is situational and depends on a number of factors.

By reframing reserves by thinking of them as an insurance policy, a government can balance its risks by controlling its reserves. To do this, GFOA recommends four steps:

- **Develop a comprehensive reserve policy**, addressing the amount of reserves a government aims to maintain as well as its minimum and maximum amounts.
- **Optimize the combination of insurances**, both self and commercial.
- **Optimize investment strategies.** Knowing how much of the reserve should remain liquid and how much should be invested is vital.
- **Learn about bond ratings.** Is a higher level of reserves worth a potentially lower bond rating?

When considering the implications for policy and risk planning, keep in mind that many local governments find themselves on the front lines of global shocks. Most local governments do not regularly consider changes to tariffs, global supply chains, or trade policies, but they should factor these things into their economic forecasts, budget stress testing, and long term capital planning. Collaboration between local governments, state governments, and federal policymakers is crucial, especially in port or export-reliant regions.

In the increasingly interconnected economy of today, policies created in the highest offices can trickle down far beyond their diplomatic or fiscal goals.

## Conclusion

In the increasingly interconnected economy of today, policies created in the highest offices can trickle down far beyond their diplomatic or fiscal goals. Tariffs are a legitimate macroeconomic tool that can influence trade balances and foreign policy—but they come with a cost. The negative effects can have a downstream effect on local and state governments, businesses, and homes. Income tax and sales tax revenues drop as consumer sentiment lowers and businesses increase their price or pursue internal layoffs. Local governments with concentrated revenue streams, like the Port of Vancouver, can be especially at risk.

In seemingly more diversified economics, the fiscal blow can be softened. But in communities with concentrated revenue streams, the financial pain feels everlasting—and that means municipal finance professionals should not treat tariffs as simply someone else's problem. Revenue diversification and proactive planning are essential.

***Skylar Albert*** *is an intern in GFOA's Research and Consulting Center.*

1 Aaron Flaaen and Justin Pierce, "Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected U.S. Manufacturing Sector," Finance and Economics Discussion Series, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, 2019.

2 Justin Theal and Alexandre Fall, "State Tax Revenues Are Dropping Below Long-Term Trends," *Governing*, June 23, 2025.

3 Girard Miller, "State and Local Fiscal Fallout From a Trumpian Economy," *Governing*, April 15, 2025.