September 9, 2020

Statement for the Record
On behalf of: **National Taxpayers Union**
Before the: **House Committee on Financial Services**

The Honorable Maxine Waters
Chairwoman
House Committee on Financial Services
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
House Committee on Financial Services
Washington, D.C. 20515

Dear Chairwoman Waters, Ranking Member McHenry, and members of the Committee:

On behalf of National Taxpayers Union (NTU), the nation's oldest taxpayer advocacy organization, I write to submit a statement for the record regarding an upcoming hearing entitled "The Need for Financial Aid to America's States and Territories During the Pandemic: Supporting First Responders, Assisting Schools in Their Efforts to Safely Educate, and Preventing Mass Layoffs." At this hearing you will have the opportunity to hear first hand from governors who are managing the fiscal implications of COVID-19 on state and local governments. No doubt, these witnesses will make an appeal for the Congress to pass a bill that contains significant funding to plug budget deficits. While additional funding for these governments may be necessary, it is our hope this hearing will also highlight the need to do so in a fiscally prudent manner by, for instance, maximizing unused federal dollars already allocated to state and local governments.

The Coronavirus pandemic is the most significant public health crisis the United States has faced in more than one hundred years. In order to curtail infections and "flatten the curve," many jurisdictions implemented stringent lockdown orders that shuttered businesses or significantly altered daily life for every American. As a result of this disruption to our economy, unemployment rates spiked in every state, millions experienced a drop of income, and thousands of small businesses have been faced with permanent closure. Not only is the pandemic a public health emergency, but combined with its financial impacts it is a recipe for catastrophe.

As unpredictable and unprecedented as COVID-19 has been, the same could be said about the federal government's extraordinary response. Within weeks of the first major outbreak, the Congress spent $3 trillion to help those most affected by job losses, lost income, and market uncertainty. The cornerstone of this response was the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which delivered direct payments to individuals, relief for businesses, unemployment aid, eviction moratorium, and mortgage forbearance for homeowners. The Federal Reserve has also taken significant new actions, including buying short-term municipal debt, a first in American history.

Pertinent to this conversation, Congress has delivered $765 billion in federal Coronavirus spending to state and local governments to help them meet the needs of their residents. Of this amount, the federal government has allocated over $260 billion in unemployment funds, $175 billion for health care providers in local communities, $30 billion for education, and billions in Medicaid spending. To this end, the CARES Act set aside $150 billion for state, local, territorial, and tribal governments, divided to states based on population with each state given a minimum of $1.25 billion. To say the federal government has left state and local governments out in the cold would be a complete distortion of the facts.

While the federal government has stepped up and allocated billions of dollars for states to use, it appears that state and local governments have left significant funds from the Coronavirus Relief Fund untouched. Of the $139 billion allocated for state and local governments, these governments have only spent $34 billion of that sum, not even a quarter of what was appropriated, according to data provided by the Department of the Treasury. That means over $100 billion in federal dollars remains unused, a significant sum that should either be used, reallocated for other purposes, or set aside for deficit reduction.

The Treasury report indicates that the vast majority of state and local governments are not anywhere near reaching the point of exhaustion of these funds. Of course, the needs of a state or locality are individualized and some have approached, or are approaching, an end balance. For example, the state of California has spent 100 percent of its allocation, as has New York City. Other state and local governments have spent 90 percent or more, but that is a small minority of jurisdictions. In many other states the financial picture is far less dire. Arkansas finished the fiscal year with $272 million above the reduced forecast, while Idaho just ended its fiscal year with a surplus nearly three times what was expected before COVID-19, resulting in a reserve balance of $580 million. Connecticut's rainy-day fund which stood at $2.5 billion prior to the pandemic, now approaches $2.8 billion, with tax receipts exceeding projections by nearly $200 million. In April, Oklahoma projected a budget shortfall of $416.9 million dollars and a 7 percent decline in general revenue. According to the Office of Management and Enterprise Services, the Oklahoma shortfall was $50.3 million less than expected and the general revenue for the first month of FY2021 was 9.5 percent higher than anticipated.

It is therefore concerning that many states have come back to Congress demanding more funding despite not spending what was already given. While some jurisdictions, particularly those hardest hit from the pandemic, may need more funding, the Treasury report paints a clear picture that most state and local governments do not even need more funding just yet.

Yet the House-passed HEROES Act ignored this reality and appropriated almost $1 trillion to state and local governments. Of that sum, $915 billion was considered flexible aid—which can be spent for any purpose, including to backfill revenue losses—in installments over the next year. This amount is thirty-three times the level of funding that state and local governments have spent in six months. Such an exorbitant amount is not based on actual data but rather with the intent to plug budget shortfalls caused by fiscal irresponsibility in states such as New York, New Jersey, Illinois and Kentucky. The ongoing crisis should not be used as an opportunity to bail out poorly run, high tax-and-spend governments.

Considering state and local governments have only used $34 billion of the Coronavirus Relief Fund, a $1 trillion refill of the program would be almost thirty-times more than what they have already spent and ten times higher than what remains in that current account. It's clear that a $1 trillion assistance package would far exceed what is needed based on actual data and accounting.

NTU agrees with lawmakers on both sides of the aisle that more funding for some states may be necessary. Just like most individuals and businesses, state and local governments were caught ill-prepared to handle such a remarkable event. Every state, whether well managed or mismanaged were caught flat footed by the virus.

But a trillion dollar funding package as proposed by the HEROES Act is fiscally irresponsible. Instead of more funding, Congress should change the rules on how states can spend these resources, as was done recently to the Paycheck Protection Program. Currently, these funds can be used only to cover costs directly related to the coronavirus that weren't already included in the state or local governments' budgets. The funds can't be used to address increased spending on unemployment insurance or Medicaid or to make up revenue shortfalls.

In our view, it is more efficient and fair for Congress to loosen these rules and allow states to reasonably spend these unused dollars to help stabilize budget disruptions caused by the coronavirus. These changes should include safeguards so states cannot use them to address budgetary problems that predate the pandemic, like mismanaged pension funds.

Thank you for holding this important hearing and your consideration of our views. We are not yet through the challenges COVID-19 presents to the public and to the economy, but the thoughtful consideration of what it will take to revive the American economy is a task lawmakers on this committee are well equipped to handle. A fiscally responsible approach that utilizes existing resources and prudently reforms the manner in which they can be spent would be best for all taxpayers - both in the present and in the future.

Sincerely,

Thomas Aiello
Policy and Government Affairs Manager