

July 6, 2020

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20514

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, D.C. 20514

The Honorable Mitch McConnell
Majority Leader of the United States Senate
Washington, D.C. 20510

The Honorable Chuck Schumer
Minority Leader of the United States Senate
Washington, D.C. 20510

Dear Speaker Pelosi, Leader McConnell, Leader McCarthy, and Leader Schumer:

On behalf of the many citizens and taxpayers that our organizations represent, we urge you to take common-sense steps to ensure a proper federal response to state and local budget strain caused by COVID-19.

The federal government has appropriated more than \$2.4 trillion to mitigate the economic effects of the pandemic. To achieve this goal, Congress has provided two types of funding: unrestricted aid and increases in aid for ongoing federal-state partnerships like unemployment insurance, nutrition assistance, and hospital reimbursements.

The Coronavirus Relief Fund, established by the CARES Act (Public Law 116-136), allocates \$150 billion to states. In addition, Congress allowed the Federal Reserve's Municipal Liquidity Facility to purchase up to \$500 billion in municipal debt.¹ A recent report estimates that when this aid is "combined with state rainy day fund balances, state governments have more than \$450 billion in liquidity available to address budgetary needs."² That amount is \$15 billion more than the \$435 billion in state budget shortfalls that the Center on Budget and Policy Priorities estimates through Fiscal Year 2021.³

Notwithstanding this surplus, states have requested additional funding.⁴ Given the disparity between projected needs and state requests, our organizations recommend that Congress require that funding recipients commit to providing information on how they will spend the additional aid before approving it.

Our organizations take various positions on what we consider the appropriate amount of federal aid to be and whether further aid is even necessary. But we all believe that any additional funding should be conditioned on reasonable transparency requirements of its recipients. To do so, we recommend that Congress incorporate the following four principles into any package. Adopting these principles will help Congress ensure that the states expend federal monies wisely:

¹ Committee for a Responsible Federal Budget, "[COVID Money Tracker: Policies Enacted To Date](#)," April 20, 2020.

² Dickerson, Matthew D. and Alison Winters, "[Federal Budget Assistance for State & Local Governments](#)," Americans for Prosperity, May 20, 2020.

³ McNichol, Elizabeth and Michael Leachman, "[States Continue to Face Large Shortfalls Due to COVID-19 Effects](#)," Center on Budget and Policy Priorities, June 15, 2020.

⁴ For example, New York Governor Andrew Cuomo has asked for an additional \$61 billion in funding, and California and four other Western states are seeking another \$1 trillion.

1. **Be Direct.** With the federal deficit projected to be \$3.7 trillion in Fiscal Year 2020,⁵ it is critical that Congress limit the additional aid it provides to compensate states and localities for expenses directly related to the coronavirus. Congress should not require taxpayers to cover legacy costs of programs unrelated to the pandemic.
2. **Be Transparent.** Congress should improve its ability to conduct oversight over the unprecedented federal spending triggered by this pandemic. To that end, it should require states to publish online how they spend funds within a reasonable period of time. This common-sense requirement will reassure both citizens and federal officials that recipients disbursed the provided aid effectively and efficiently.
3. **Be Fair.** Congress should apportion aid as simply as possible. The fairest method for apportioning any direct aid is on a per capita basis, similar to the CARES Act, because formulas based on context-specific metrics, such as public health data, risk creating perverse incentives. If Congress must provide aid based on revenue losses, it should use actual losses rather than projections. Congress should also ensure that the total amount of federal aid that it provides states and localities does not exceed the expenses incurred directly as a result of the pandemic.
4. **Be Responsible.** Congress must avoid creating moral hazard. It should strongly urge states and localities receiving further federal aid to have: (a) *sound pension funds* that are on a path to fully eliminating unfunded liabilities; (b) *truly balanced budgets* that don't achieve balance through borrowing or transfers from other state funds; (c) *comprehensive general fund accounting* that includes earned revenues and accrued expenses; and (d) *rainy-day funds* that have safeguards in place to prevent use of the funds for nonemergency purposes.

As with relief to individuals and businesses, any future aid that Congress provides to states should be as targeted and transparent as possible. Following these four principles will help Congress ensure fairness and avoid the potential for fraud and abuse. There is no more important time to guarantee proper stewardship of valuable taxpayer dollars.

Sincerely,

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⁵ Swagel, Phill, "[CBO's Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021](#)," *CBO Blog*, April 24, 2020.

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