[Bond Case Briefs]

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[States Are Using Federal Fiscal Aid But Need Substantially More.]

The Trump Administration and some news outlets are citing Treasury Department data showing that states had spent 25 percent of the CARES Act's Coronavirus Relief Fund (CRF) as of June 30 to argue that states don't need more fiscal aid to address their massive, pandemic-induced budget shortfalls. Policymakers shouldn't take this argument seriously, for three main reasons:

- **States have already allocated three-quarters of the CRF, a [survey] by the National Association of Budget Officers found.** This means they've committed those funds to health care providers, local governments, businesses, and others whose costs have risen due to the pandemic. Those entities are counting on the funds to reimburse costs they've already incurred or will soon incur. That's why the bipartisan National Conference of State Legislatures has expressed concern that the Treasury report "is not a complete picture of how states have budgeted money under the CRF."
- T**reasury's data cover less than half the time that states have to spend the CRF.** Recipients may spend the CRF to cover costs incurred to respond to COVID-19 from March 1 through December 30. Treasury's data cover spending for just four of those ten months, so it's no surprise that states haven't yet spent most of the funds. With the money meant to cover a ten-month period, it would be irresponsible for states to spend all or most of it in the first four months and then have none left to contain and respond to the virus and recession for the rest of the year.
- **Treasury's [confusing guidance] has hampered CRF recipients.** Treasury's confusing and contradictory guidance about the CRF's allowable uses, which it issued gradually over several weeks, slowed the process significantly as states, localities, and other governments tried to decipher it and sought further clarification. Most importantly, Treasury barred states from using the aid to offset the massive revenue losses from the pandemic and resulting economic downturn, which is the main cause of the fiscal crisis. Further, Treasury issued the guidance in fits and starts from late April (when states got their CRF allocations) through early July — the period covered by Treasury's data on CRF spending. The fact that states still managed to allocate and spend a significant share of the funds during this period highlights the urgency of their needs.

The reality is that states, localities, tribal nations, and U.S. territories need significantly more federal aid. The pandemic has caused their revenue to collapse, creating an extraordinary fiscal crisis. Based on past recessions and economic forecasts from the Federal Reserve and Congressional Budget Office, we project that states alone face shortfalls totaling about $555 billion through fiscal year 2022.

States and localities already have furloughed or laid off some 1.5 million workers. Without substantially more aid, they will permanently lay off more of these workers and cut other jobs for teachers, health care workers, and others — making the recession worse — and cut services that help people who've lost their jobs and others struggling due to the pandemic and its harmful impacts on families and communities.

Center on Budget and Policy Priorities

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