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State-Aid Disagreement Proves Big Hurdle for Coronavirus Talks.

Democrats seek $915 billion in anticipation of long slump, while Republicans say a fraction of that is needed now

WASHINGTON—How much aid to give state and local governments has emerged as one of the widest chasms between negotiators in stalled coronavirus relief talks, with Democrats pressing for more than $900 billion to fill several years' worth of budget holes and Republicans seeking a more modest patch.

Top Democrats and Trump administration officials ended formal negotiations last week with no agreement on another bill, even as programs providing aid for small businesses and expanded unemployment payments created in the spring have expired. The stalemate persisted through the week, with both the Senate and House now scheduled to be out of Washington through the rest of August, and White House and Democratic negotiators have rejected overtures to come back to the table.

While Republicans and Democrats harbor disagreements on a host of issues in the relief negotiations, the difference between the two parties is perhaps the greatest on aid for state and local governments. Facing both increased costs for responding to the pandemic and a decreased tax revenue caused by the recession, state and local governments have already started making a number of spending reductions, including cutting more than one million jobs from March through July.

House Speaker Nancy Pelosi (D., Calif.) said Thursday that heavy state and local aid was needed to keep schools and local services running, and to avoid more layoffs.

"Without an infusion, they will be furloughing or firing people," she said. "They will go on unemployment insurance. So what are we saving there?"

Senate Majority Leader Mitch McConnell (R., Ky.) has derided the Democrats' plan as a "trillion-dollar slush fund" for state and local governments and said their negotiating stance amounts to political gamesmanship.

The two sides started far apart and have moved only slightly to close the gap.

In their initial $1 trillion overall proposal for the next bill, Republicans included no new funding for state and local governments, though they did grant those entities more flexibility in using money leftover from the $150 billion Congress approved for them in March. But during meetings with Mrs. Pelosi and Senate Minority Leader Chuck Schumer (D., N.Y.) last week, Treasury Secretary Steven Mnuchin and White House chief of staff Mark Meadows offered $150 billion in more funding.

The Democratic negotiators rejected that offer, insisting that the bill include at least $915 billion for states and municipalities.

The split between Democrats and Republicans over how much aid states and cities need is explained in part by how long they think aid will be needed.

Democrats argue that double-digit unemployment and the risks of a second wave of outbreaks will put pressure on state and municipal finances for years to come. Their proposal would cover expected shortfalls over three fiscal years, well into 2022, when the Congressional Budget Office estimates the jobless rate will still be twice as high as it was in February before the pandemic began.

“There was an understanding that we should do it all in the beginning, that was what the economists were telling us: Don’t do it little by little,” said Rep. Don Beyer (D., Va.), vice chairman of the Joint Economic Committee.

Republicans, by contrast, have held firm in their view that the economy will rebound strongly by the end of the year as a vaccine becomes available, social-distancing measures abate and businesses are able to rehire workers laid off earlier this year.

Mr. Mnuchin said in a Fox Business Network interview this week that the additional $150 billion Republicans have offered, along with the easing of restrictions on earlier funds, is “more than enough money for the majority of the states.” He said Congress could approve more aid later if a narrower bill fell short, an approach Democrats have so far rejected.

Economists have estimated the need is somewhere in the middle of Democratic and Republican proposals. Moody’s Analytics said the state and local budget shortfalls, including lost revenues and increased health-care costs, would total $500 billion over fiscal years 2020, 2021 and 2022, with the biggest hit coming during the current fiscal year that began July 1. If the economic situation deteriorates, that number could rise to $750 billion, they said.

Finding a compromise on the issue will likely come down to deciding how long the money should last. Rep. Tom Reed (R., N.Y.), a leader of the bipartisan Problem Solvers Caucus, supports offering $500 billion to state and local governments—but doesn’t want the aid to last beyond the immediate future.

“When you start getting into two-, three-year type of windows to get assistance through today’s package—for two or three years down the road—that is opening Pandora’s box,” he said.

Rep. Dean Phillips (D., Minn.), who faces re-election in a competitive district this fall, said that Democrats should narrow the time-frame for the state and local aid to move toward reaching an agreement.

“Many of us believe that speed is so important we should be focused on getting us through at least the next sixth months and then reassess,” he said. “The length of the time is one way to trim the expense.”

Some Republicans have been wary of providing any new aid to state and local governments, calling it a bailout. While some states entered the pandemic with fiscal challenges, the looming shortfalls are driven primarily by the virus and are likely to hit every state to varying degrees, economists say. Most U.S. cities expect they will face even deeper financial troubles in the coming year than they did earlier in the coronavirus crisis.

“There is not a situation where states misspent or misallocated or got themselves into this situation,” Federal Reserve Bank of San Francisco President Mary Daly said on a call with reporters Wednesday, adding that states will need more assistance. “It’s a pandemic. It’s a shock not of their making.”

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