



Washington Misses the Target on State and Local Aid

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In new legislation designed to lessen the economic effects of the COVID-19 pandemic on state and local budgets, Speaker of the House Nancy Pelosi has **proposed** giving state and local governments a check for \$436 billion. This doesn't even include the \$225 billion in education spending that would go to local school districts under the proposal. Of the direct state aid figure, \$238 billion is designated to support state budgets—even poorly managed state budgets that were facing shortfalls before the pandemic. Ohio's slice of that pie? About \$8.9 billion based on the Pelosi bill and using Ohio's August unemployment numbers to calculate the state's share of the bailout.

Treasury Secretary Steven Mnuchin made his own **proposal** that included \$250 billion for state and local aid along with \$150 billion in education funding. Although the breakdown between state and local aid, and the specifics of how it would be distributed, have not been made public, the total amount of state and local aid would eclipse \$400 billion.

While all this money gives the illusion of helping states during the pandemic, it is important to ask tough questions about whether this much taxpayer-funded aid is completely necessary and whether there is a better, more responsible, way to assist states facing budget shortfalls due to the pandemic—a way that doesn't unnecessarily add to America's \$26 trillion and growing debt.

First, let's take an unbiased look at projections for state revenue shortfalls—the reason so many claim this aid is needed. **According** to Chris Edwards at the Cato Institute, total state and local tax revenue fell just three percent. In Ohio, revenues for the recently concluded fiscal year declined by about **\$262 million**, down 0.8 percent over last year. Furthermore, in **July** and **August**, Ohio saw tax revenue beat expectations by a combined \$254 million. While these shortfalls certainly require belt tightening, adding more money to our nation's debt to send Ohio nearly \$9 billion to cover a **projected \$2 billion shortfall** does not sound like a responsible proposal.

Ohio's experience mirrors the revenue situation in other states according to recent reports from the **Tax Foundation** and **Brookings Institution**, both of which predict declines in state and local tax revenue to be significantly less than current proposals would fund.

Second, let's look at how the money is being distributed under Speaker Pelosi's plan. Under this plan, a state's aid is distributed not according to their COVID-related revenue shortfalls, but according to how many people are unemployed in the state in August of this year. Not only does basing aid on a single month's unemployment rate make little sense, it also penalizes states that have wisely taken steps to make it easier for businesses to hire workers and instead rewards states that have done little or nothing to fight unemployment by giving them more taxpayer money.

Fortunately, there is a better way.

Instead of giving states a cash windfall, Americans and Ohioans would be better off if states were given aid based on their true revenue needs. One option, among many, would be to require states to show “demonstrated losses”—an economic jargony way of saying how much money states need to fill actual COVID-related shortfalls—and then have the federal government give taxpayer-funded aid to fill that hole. Such a strategy would avoid making the federal government guess how much aid each state needs while avoiding policies that penalize work.

Instead of waiting to be bailed out by Washington, the Buckeye State needs to continue to take **concrete steps** now to get its finances in order. Ohio must be vigilant in **controlling spending** and **cutting waste**, which can be difficult with the lure of “free” federal aid. But here too, there is a solution. The Buckeye Institute has **identified** nearly \$3 billion in Ohio’s bloated state budget that can be used to fight the pandemic and its aftermath. Additionally, Ohio can also use part of its rainy day fund to make up budget shortfalls and refill the fund as the economy improves.

While state and local governments do need *targeted* financial aid for COVID-related shortfalls, the current proposals coming out of Washington, DC would do more harm than good and could reward reckless spending, which would have devastating consequences on Ohio’s economic recovery.