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'Way outside of the need': Strong state finances suggest pricey Biden relief package is overkill

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States' finances are roaring back compared to the dire forecasts in the throes of the coronavirus pandemic, lending ammunition to critics who say the \$350 billion-plus for states and localities in President Biden's \$1.9 trillion relief package is overkill.

Though officials caution the country is nowhere close to out of the woods, states from California to West Virginia reported windfalls in recent months after stronger-than-expected tax collections.

California Gov. Gavin Newsom recently bragged about his state's newfound \$10.3 billion budget surplus. A video of his boasting was played by Republicans at a House panel hearing on the \$350 billion in relief payments to state and local governments.

Despite the surplus, California is still in line to receive an additional \$41.2 billion in House Democrats' plan, said Rep. James Comer of Kentucky, the top Republican on the Oversight and Reform Committee.

"[This is] about Democrats shoving out billions of dollars to line the pockets of their political allies to pay for partisan pet projects," Mr. Comer said.

Democrats on the committee countered that the money is required to be used specifically for COVID-19-related purposes.

"States and local governments, Republican and Democratic alike, are desperate for help," said Rep. Carolyn Maloney of New York, chairwoman of the committee.

Around the nation's capital, Virginia Gov. Ralph Northam announced this week the commonwealth is expecting an additional \$730.2 million over the next two budget years compared to a forecast from December.

And in Maryland, the board of revenue in December revised its revenue projections upward by more than \$200 million over the 2021 and 2022 budget years.

Under congressional Democrats' plan, Virginia is in line to receive \$6.5 billion and Maryland is slated to get \$5.9 billion in federal aid.

Chris Edwards with the libertarian Cato Institute used federal data to project that state and local tax receipts across the U.S. ticked up slightly in 2020, to \$1.9 trillion, compared to a year earlier, before the pandemic took hold.

"There was never a problem with local governments," said Mr. Edwards, the group's director of tax policy studies.

West Virginia Gov. Jim Justice reported that general revenue collections in the state came in last month at \$46.6 million above estimates, a 1.6% increase from January 2020.

“We have a cash surplus in this state right now that is extremely healthy and extremely large,” said the Democrat-turned-Republican governor. “We’re going to hope and pray that we continue to grow.”

At the same time, Mr. Justice called on Congress to pass Mr. Biden’s package.

He said the proposal is preferable to a \$618 billion counter-offer from Senate Republicans, including Sen. Shelley Moore Capito of West Virginia, that did not include any specific state and local funding.

“I don’t think that America can go wrong being too high. I really don’t,” the governor said.

In addition to state and local aid, the \$1.9 trillion package includes direct payments of up to \$1,400 for millions of Americans, a gradual increase in the federal minimum wage to \$15 per hour, \$170 billion for K-12 schools and colleges, and \$25 billion for cash-strapped restaurants.

Mr. Biden hosted governors and mayors of both parties at the White House last week to make the case for his proposal.

Arkansas Gov. Asa Hutchinson emerged from the gathering to say he understands the urgent need for more relief but that Mr. Biden’s \$1.9 trillion plan is too expensive.

“I think it sets a poor precedent for the future to ram that through on a partisan vote,” said Mr. Hutchinson, a Republican. “I urge bipartisanship.”

Mr. Hutchinson said his state was running a surplus and that he was looking for flexibility on how any funding might be used.

The data indicate that state coffers are inching back from the depths of the pandemic-related shutdowns and lockdowns.

A recent study from JPMorgan Chase found that 2020 tax receipts across 47 states declined by just 0.12% compared to 2019.

The White House shrugged off the data.

“I think our objective is to focus on not JPMorgan reports, but what state, local governments and others are telling us they need to ensure that the people in their districts, the resources in their districts, the people who are making government function in their districts have the funding and resources they need,” said White House press secretary Jen Psaki.

Marc Goldwein with the Committee for a Responsible Federal Budget estimated that money for states and localities in Mr. Biden’s proposal tops \$500 billion when counting other measures such as money for schools and transit.

“That’s consistent with maybe the need we thought they had 10 months ago, but since then state and local revenues have improved dramatically,” said Mr. Goldwein, the group’s senior vice president and senior policy director. “Five hundred billion seems to me to be way outside of the need.”

The pandemic's effects on state coffers are not uniform. States such as California and Idaho reported surpluses, but tourism-heavy states such as Hawaii and Nevada remain in dire budget straits.

Mr. Edwards said California is unique in that Silicon Valley is doing well, even during the pandemic.

“The stock market's up, so capital gains are up,” he said. “High earners are doing well. As you know and everyone agrees that it's low earners who have been harder hit, but of course, it's high earners who pay most of the income tax money.”

Local leaders say they need the help. More than 420 mayors petitioned Congress to pass Mr. Biden's plan quickly, saying the \$350 billion could go toward local vaccination efforts as well.

Tacoma, Washington, Mayor Victoria Woodards said the city is facing a \$20 million budget shortfall that is expected to swell to \$35 million by 2022.

“Because of the shortfall, we implemented a 2% reduction to our police department and recently took one fire engine out of commission,” Ms. Woodards said.

Other experts caution that the fiscal picture across the country isn't exactly good — it just might be better than had been expected last March when the pandemic took hold and budget officials assumed the worst.

State general fund spending in fiscal 2021 was projected to decline for the first time since the Great Recession, according to the National Association of State Budget Officers.

Compared to pre-pandemic budget proposals, state general fund revenue was projected to decline by close to 11%, according to the association.

The group also pointed out that last year's tax deadline shifted from April to July, which could be skewing the totals.

Total state taxes increased by 10.8% in December from a year earlier, though state economies remain “depressed,” according to a recent study from the Urban Institute.

That study found total state tax revenues were down by \$14 billion between March and December of last year when compared to the same time in 2019.

“Local governments have been impacted far harder than states due to the pandemic-induced recession and reliance on different revenue sources,” wrote Lucy Dadayan, a senior research associate at the Urban Institute. “Local governments are much less reliant on income taxes and often rely on specific sales taxes related to tourism and service industries.”