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Democracy Dies in Darkness

White House opens door to state aid despite opposition from conservative groups, some GOP lawmakers

Surge in unemployment and severe pressure on state budgets has White House officials looking for answers

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White House officials have privately signaled that they are willing to provide tens of billions of dollars in relief to states as part of a bipartisan deal with Democrats in the coming weeks, despite President Trump's reluctance and strong opposition from conservative groups, according to seven people familiar with the internal deliberations who spoke on the condition of anonymity to discuss the matter.

Although that position is likely to anger some Republicans who have warned that Democrats want “blue state bailouts,” many White House officials now believe that providing new funding to states to deal with challenges related to the novel coronavirus will be necessary if they want to secure their own priorities, such as tax breaks and liability protections for businesses, the people said.

“The White House is moving to set up where a deal could be,” a veteran Republican close to Trump said. “The first thing is getting Republicans in Congress to come around on some money for states and that’s happening. It’s progress, for sure, but it’s only the first part of bringing it all together in a deal.”

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Two White House officials said they have made it clear to business leaders and conservative allies in recent days that Trump is “not willing to provide a blank check” to states, but is “open” to negotiating whether he can win concessions from Democrats on taxes in exchange for an influx of cash — and they have told conservative leaders that they will make sure any new cash is directed only toward problems sparked by the pandemic. An unveiling of the White House’s tax proposals is expected in the coming days.

States have asked for an enormous level of fiscal support, with the National Governors Association reiterating its call Wednesday for \$500 billion in aid to address budget shortfalls, among other things.

The discussions inside the West Wing and among Republicans comes as lawmakers are intensifying their jockeying over the next congressional aid package, with Speaker Nancy Pelosi (D-Calif.) on Tuesday unveiling a more than \$3 trillion package aimed at arresting the downturn.

While conservatives in and outside of Congress have urged White House officials to be cautious and ensure any money to states is directed toward pandemic-related items, budget experts say it will be difficult, if not impossible, to prevent funding from being redirected by state leaders, or used for unrelated programs.

“We’re weighing in heavily, saying ‘Don’t spend trillions on Nancy’s wish list,’ ” David McIntosh, the president of the Club for Growth, a conservative advocacy group, said, adding that he and others on the right will be closely watching to make sure states with budget issues that preceded the pandemic are not given a major federal lift.

The White House said in a statement that it remains focused on tax cuts and cutting regulations for the next stage of negotiations.

“The federal government and American taxpayers are not bailing out anyone,” said Judd Deere, a White House spokesman. “As President Trump has said, we are going to continue to take bold, aggressive action to help those most impacted by this unforeseen enemy so that we emerge from this challenge with economic prosperity, which is why the White House is focused on pro-growth, middle-class tax and regulatory relief.”

White House economic adviser Kevin Hassett told reporters on Thursday that the administration is studying additional state aid but has not reached a “firm conclusion” on how to proceed.

Pelosi’s latest proposal includes nearly \$1 trillion in aid for state, local and tribal governments, as well as an additional round of stimulus payments for households. Senior Republicans have expressed growing alarm about the escalating price tag of federal responses to the coronavirus, with new chief of staff Mark Meadows among the conservative White House advisers uneasy about an emergency package for the states.

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But inside Trump's circle, Meadows, a former conservative congressman from North Carolina, is not the lone voice. Treasury Secretary Steven Mnuchin, who has brokered past bipartisan pacts with Pelosi, remains a key player in congressional talks and is viewed as less likely to oppose state aid. And Trump himself, with an eye on his reelection campaign, is eager to win tax victories for the business community as the nation's rattled economy begins to reopen.

Less clear is whether Trump will support another round of direct payments to Americans, following the \$1,200 stimulus check payments previously approved by Congress. While three people involved in discussions with Trump said he is open to it, senior White House officials insisted that the president is not leaning in that direction and is more

willing to discuss money for states than more direct payments, at least at this time.

Publicly, Trump has expressed ambivalence about providing hundreds of billions in additional funding to states and has been noncommittal when asked about another round of stimulus payments.

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“I don’t think the Republicans want to be in a position where they bail out states that are, that have been mismanaged over a long period of time,” Trump told the New York Post earlier this month. “You look at Illinois, you look at New York, look at California, you know, those three, there’s tremendous debt there.”

Yet Republican opposition to state bailouts on Capitol Hill has softened in recent weeks, as the economic crisis leads to budget nightmares for local governments across the country, changing the dynamics inside the White House as they look toward “Phase 4,” or the fourth round of congressional legislating in response to the coronavirus pandemic. A number of states run by Republican governors are also facing severe budget shortfalls and are asking for assistance.

“Most Senate Republicans” are now ready to accept additional state aid, said Brian Riedl, senior fellow at the Manhattan Institute, a libertarian-leaning think tank, citing conversations he had with more than a half-dozen Republican Senate offices.

States across the country are bracing for significant budget cuts as demand for government services increases while tax revenue plummets because of a drop in economic activity. The Economic Policy Institute, a left-leaning think tank, said earlier this week that state and local governments could see revenue shortfalls of nearly \$1 trillion by 2021. Close to 1,000 firefighters have already been furloughed or laid off nationwide, according to the International Association of Fire Chiefs, with another 30,000 possible this year or next.

The \$2 trillion coronavirus relief package Congress approved in March included hundreds of billions of dollars to increase unemployment insurance benefits, send direct payments to tens of millions of Americans, and provide immediate relief to small business nationwide.

It also included more than \$500 billion in tax cuts, including a payroll tax holiday for employers and tax incentives for employers who keep workers on the payroll. Republicans used the must-pass legislation to make tax code changes they had sought for years, including returning to policies from the 2017 tax law. All Senate Democrats also voted for the legislation.

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“The White House is telling all of us they want to get a payroll tax through the end of the year and provide some capital gains breaks and incentives for businesses to bring their supply chains back to this country,” the veteran Republican close to Trump said. “They say if they can get some of that for money for states that’s relatively controlled, they’ll look hard at that kind of deal.”

Senate Republicans are broadly opposed to the payroll tax cut for workers that Trump has repeatedly pushed.

In addition, the veteran Republican and White House officials said, Trump and Senate GOP leaders are looking at liability protections for business and discussing whether new policies should be included in legislation or done through regulatory changes in the executive branch.

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Key GOP senators are circulating drafts of legislation to set up legal protections they say would give businesses the confidence to reopen without worrying about lawsuits.

“It seems intuitive to me that if you’re a marginal small business and you’re making the decision whether to hang in there and try to survive, or whether you’re just going to give up and either declare bankruptcy or just become insolvent, that this would around the margins, this could make the difference,” said Sen. John Cornyn (R-Tex.).

Cornyn is working on legislation that would shield businesses from liability over coronavirus-related claims as long as they comply with government guidelines. And McConnell has described the potential for a “second pandemic” of litigation.

Republicans' concerns about the November election hover over the discussions. Michigan and Wisconsin have Democratic governors but many worry Trump could still suffer politically and be blamed for the layoffs and cuts, particularly if the White House rejects an aid package led by congressional Democrats. A lawmaker in Michigan has warned of a 25 percent cut to state school budgets, according to the Associated Press.

"The thought this will backfire on the governors just doesn't add up to me," said Bill Hoagland, a senior vice president at the Bipartisan Policy Center and former Republican staff director for the Senate Budget Committee. "I think that is a dangerous political evaluation."

With those political considerations at the mind, some top Republicans have privately shifted from opposing new cash for states altogether to limiting the package's size and scope. One idea circulating among lawmakers has included tying the amount of aid allocated to each state to its revenue losses since the pandemic began, according to two outside advisers to the White House.

Lawmakers are also looking at modifying a pot of \$150 billion already approved by Congress to allow states to use it for spending needs unrelated to the coronavirus, which would ease their immediate fiscal

crunch.

Sen. John Neely Kennedy (R-La.) and a half-dozen other Republican senators went to the White House on Tuesday afternoon after Kennedy requested a meeting with Trump on the funding flexibility for states. The Republican senators were not directly pitching Trump on more money for state and local governments, but rather looser restrictions on how the money that is already out the door can be used.

“When it comes to taxpayer money, I am cheap. I’m tight. I squeak when I walk,” Kennedy said Wednesday. But “it is clear to me that just as shutting down the economy has impacted people and businesses, it’s impacted state and local governments” that have to pay essential personnel and services.

A senior administration official said the White House “definitely expressed openness” to the flexibility proposal during Tuesday’s meeting.

Erica Werner contributed reporting to this story.

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