

# POLICY MEMO

## HOW OHIO SHOULD SPEND PHASE II OF AMERICAN RESCUE PLAN FUNDS FEBRUARY 7, 2022

### The Buckeye Institute's Recommendation

The federal government soon will give states a second payment from the American Rescue Plan Act (ARPA). Ohio's share of that payment will be **\$2.6 billion**—a significant sum that first should be used to **replenish** the state's unemployment trust fund to its pre-pandemic balance and safeguard families and businesses from future downturns and tax increases. On April 1, 2022, new federal rules will restrict Ohio's latitude in managing its unemployment compensation system, so policymakers must act now.

### Background

The Covid-19 pandemic **dramatically impacted** local, state, and national economies as governors shuttered businesses and employers furloughed employees. Ohio was no exception. Unemployment **spiked** and **strained** Ohio's unemployment compensation system that collects taxes from employers and gives **benefits** to eligible claimants.

Responding to these economic effects, Congress enacted ARPA in 2021, which will send Ohio **\$5.4 billion** in federal funding—the first half paid in 2021, and the second installment scheduled to be paid in the spring of 2022. This massive, **inflation-inducing** sum will tempt state lawmakers to spend imprudently beyond the state's financial means. But it also gives Ohio—and other states—the opportunity to prudently rebuild solvency in state unemployment compensation funds. Consistent with **guidance** from the U.S. Department of the Treasury, states may legally use ARPA funds to restore unemployment funds by contributing the difference between the fund balance on January 27, 2020, and the balance that remained on May 17, 2021. In some states, like Ohio, that have already begun replenishing their compensation fund, contributing that full difference back into the fund will mean new balances that exceed even what the funds held before the pandemic.

Replenishing unemployment fund reserves will help prevent Ohio from resorting to federal loans to weather the next economic downturn or viral catastrophe. In September 2021, Governor Mike DeWine followed The Buckeye Institute's **recommendation** and wisely **repaid** Ohio's federal unemployment loan. That prudent **move** prevented Ohio taxpayers from paying millions of dollars in interest to the federal government. Refilling the state's unemployment coffers with ARPA dollars would be another sound, strategic decision. Paying unemployment claims as they arise with unemployment fund reserves instead of borrowing new federal loans will protect against future interest payments and tax increases, a move that will pay off for Ohio families and businesses over the long run.

Unfortunately, to take advantage of a federal grace period and avoid a “maintenance of effort” provision in ARPA's federal rule, state lawmakers must adopt this strategic use-of-funds policy before April 1, 2022. The Ohio General Assembly must therefore act quickly to authorize sending

ARPA funds to rebuild Ohio's unemployment compensation fund. In accordance with the guidance, the funds do not have to be deposited by April 1, but enabling legislation is needed to avoid the onerous federal rules.

### **Conclusion**

Ohio should use its second ARPA payment to replenish the state's unemployment compensation fund by enacting a fund rebuilding policy before the new April 1 deadline. Rebuilding the state's compensation fund is a prudent use of the second tranche of funds and will help Ohio weather future downturns without borrowing from Washington. Replenishing spent reserves now will reduce the need for tax increases later, and gives Ohio more time to fix structural problems in its unemployment compensation system.