Policy Memo

Responsibly Spending Remaining ARPA Dollars

April 5, 2023

The Buckeye Institute's Recommendation

State legislatures must decide what to do with the remaining American Rescue Plan funds. The money should be spent strategically while adhering to sound spending principles that will keep the state solvent without risking future tax hikes or painful spending cuts. The Buckeye Institute recommends that remaining federal aid should be spent transparently on temporary projects; it should help businesses most affected by the pandemic; it should promote and expand needed infrastructure; and it should help states prepare for future federal tax increases that will eventually arrive to service the national debt and pay for Washington's spending spree.

Background

In March of 2021, President Joe Biden signed the American Rescue Plan Act (ARPA), which sent **$350 billion** to cities, counties, and states through the state and local fiscal recovery fund (SLFRF). The money **could be used for** water, sewer, and broadband infrastructure; public health projects; and programs that offset COVID-19's economic impact on small businesses, nonprofits, households, and industries. These funds must be **apportioned** by the end of 2024 and spent by the end of 2026.

Congress passed ARPA in anticipation of precipitous declines in state and local tax receipts as Covid-19 forced budget cuts and triggered lockdowns that stalled economic activity. But the projected budget shortfalls never materialized and many states **saw** budget surges rather than shortfalls. Congress sent the money anyway and cities and states spent it.

The National Association of State Budget Officers estimates that **more than 80 percent** of the ARPA funds have already been spent. Policymakers across the nation should continue investing the remaining aid in projects that will increase financial returns for the American people, and The Buckeye Institute's five "Ts" of prudent spending should be their guide:

1. **Temporary**: Without a specific end date, short-term government expenditures run the risk of becoming permanent government programs. Time-limited projects reduce the risk of cost overruns, so ARPA-funded projects should designate a clear end date.
2. **Transparent**: ARPA project funding should be transparent and easily available to the public. Taxpayers have the right to audit the projects and independently assess their costs, benefits, and necessity. Transparency will facilitate community debate, elicit diverse responses, and help ensure project success.
3. **Tackling**: ARPA projects should anticipate and address tomorrow's problems today. All states will inevitably contend with demographic, economic, and infrastructural challenges. Using ARPA funds preemptively to address these challenges today will forestall future federal bailouts tomorrow.

4. **Targeted**: States should only spend ARPA funds on projects focused on helping businesses adjust to the new remote-work reality of the post-Covid America. Remote work helped depopulate downtown districts across the nation, reducing foot traffic at restaurants, coffee shops, stores, hotels, and other establishments. Funding programs that bring foot traffic back to urban centers will help stabilize revenues for restaurant owners and shopkeepers.
5. **Tax Cuts**: Tax cuts ease the financial burden on taxpayers and take some of the sting out of rampant inflation. ARPA money cannot be used to directly cut taxes, but policymakers should strategically spend ARPA funds on existing projects to create space in the budget for tax cuts. Rising interest rates and federal over-spending have ensured massive federal tax hikes in the future. States need to proactively provide tax relief now in anticipation of big tax hikes later.

These five principles have guided Ohio policymakers' astute use of the federal windfall. Ohio has transparently apportioned its ARPA funds to **numerous** state and local projects, and wisely followed The Buckeye Institute's **guidance** to use ARPA dollars to pay off a $1.5 billion U.S. Treasury **loan** to cover unemployment benefits. This prevented a massive interest payment on the debt and an otherwise inevitable tax increase. Other states should follow Ohio's lead as a case study in best practices.

Conclusion

When spending residual ARPA funds, states must prioritize projects that will provide value to their citizens. Policymakers who follow the five "Ts" of sound spending will ensure that ARPA money is spent on temporary, fiscally responsible, and beneficial projects that foster trust in state and local government without jeopardizing sustainable economic growth.