

POLICY MEMO

HOW TO SPEND FEDERAL
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MARCH 15, 2021

The Buckeye Institute's Recommendation

Ohio will soon receive billions of dollars in federal COVID-19 aid under the American Rescue Plan, and that 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 new federal aid should be spent transparently and on temporary projects; it should help businesses most affected by the pandemic; it should promote public health and expand needed infrastructure; and it should help Ohio prepare for future federal tax increases that will eventually arrive to service the national debt and pay for Washington's spending spree.

Background

President Joe Biden recently signed the American Rescue Plan, legislation that will give \$350 billion of federal aid directly to states, counties, and cities. Under the law, Ohio may soon receive an estimated **\$17 billion** even though its tax receipts exceed pessimistic **projections** and its robust rainy day fund remains unscathed by the pandemic. As the federal aid arrives, policymakers must resist the temptation to over-spend Washington's "free" money, which isn't really free and will ultimately require federal tax increases or spending cuts to afford the higher interest payments on the national debt. To resist this temptation, Ohio policymakers should adhere to the following prudent principles and spend the federal funds wisely.

1. Spending projects should be temporary with defined project end dates. Specifically limiting project duration will help prevent permanently enlarging the government sector. And money spent on construction projects should include cost-overrun limits and penalties for not completing projects on budget.
2. Spending should be transparent for taxpayers so that government expenditures can be examined, understood, and their necessity evaluated.
3. Spending should help Ohio address persistent demographic, economic, and infrastructural challenges, such as unemployment, education, and broadband access. Ohio currently borrows federal money to pay its unemployment claims. It is unlikely that the state could use American Rescue Plan funds to repay existing federal unemployment trust fund loans, but Ohio could collect unemployment tax receipts and use them to eventually repay Washington. The state should also use federal aid—or state dollars freed by the largesse—to create **education savings accounts** for families with K-12 children to spend on educational expenses. And Ohio can invest one-time infrastructure spending to complete water treatment and transportation projects, or to extend broadband to unserved areas and facilitate access to telehealth, telecommuting, e-commerce, and online education.

4. Spending should strategically help business sectors disproportionately impacted by the pandemic, such as hotels, restaurants, bars, theatres, and other venues that rely on public gatherings. Government regulations restricting capacity or business hours have hindered their operations and earnings. Targeted grants to the most-affected businesses will be more effective than spending federal money on general economic incentives.
5. Spending should help pay for pandemic-related public health expenses, such as personnel for contact tracing and vaccinations, and infrastructural costs for vaccine delivery.
6. Prepare for federal tax increases tomorrow by ensuring efficient, low-rate, broad-based state taxes today. The American Rescue Plan **prohibits states** from using the federal funds to execute tax reform or lower net state revenues for the duration of the spending program. The constitutionality of such restrictions is dubious and should be challenged. In the meantime, Ohio can save some of the federal aid and prepare for state reforms that will be needed when federal taxes inevitably rise to service the bloated national debt.

Conclusion

Adhering to these rudimentary principles and considerations will help Ohio in the long run. The new federal aid is temporary, so creating permanent state programs and obligations with one-time federal dollars will only endanger Ohio's taxpayers and balance sheets down the road. But spending prudently and transparently on short-term projects that serve strategic long-term purposes will serve Ohio well for years to come.