

HOW THE OCEAN STATE SHOULD SPEND ITS FEDERAL COVID RELIEF FUNDS

Background

The old saying goes, “there’s no such thing as a free lunch,” but advocates of the left-wing’s modern monetary theory (MMT) want you to think there is.

Under traditional economic theory, every government dollar spent or borrowed must be eventually paid back, leading to upward pressure on taxes imposed on the citizenry. But according to this more-recent socialist monetary theory, federal governments that control their own currencies, as does America, should be free to print (without backing) and spend as much money as they desire to fulfill their political and societal goals, without regard to debt levels or offsetting funding via tax and other revenue receipts. According to today’s Left, there can be as many free lunches as they can possibly imagine.

In reality, the MMT economic approach is a myth, albeit a popular one. As has resulted in virtually every socialist country, most recently Venezuela, this approach to wanton government spending will necessarily lead to disaster *over the mid-to-long term*: hyper-inflation and massive devaluation of the core currency ... and inevitable economic despair.

But most politicians are concerned only with *the short-term* time-period of their political careers.

Since states cannot print their own money out of thin air and must operate under a balanced budget, leftist MMT advocates have devised a scheme whereby the federal government will print trillions in “fake money,” spend some on what it desires, and then distribute the rest to states and localities to spend as they wish.

While anyone with an economic background knows that this irresponsible approach will eventually backfire, the illusion of a free lunch will become widely promulgated... and will be highly popular among an unsuspecting citizenry.

Localities and states across America will soon be receiving a significant windfall in millions and billions of dollars of perceived free money from the federal government under the guise of COVID relief funds. How to productively spend that money is a public policy question that every governor, mayor, town or county manager, and legislative council will soon have to consider.

The Federal Rules

According to the relevant language in the actual federal legislation, there are generally authorized “uses” for the funds, along with a few specifically barred uses. State and local government will have approximately two-and-one-half years to spend the money, with all funds to be spent by December 31, 2024.

The American Rescue Plan Act provides \$350 billion to state and local governments, with \$219.8 billion distributed to states, territories and tribal governments and \$130.2 billion for local governments.

In general, the money is authorized to be used for:

- Costs incurred to respond to the pandemic emergency or its negative economic effects, including assistance to households, small businesses, non-profits, and affected industries (such as tourism, travel, and hospitality)
- Premium pay for eligible workers who do essential work
- Replacing lost tax revenue relative to revenue collected in the most recent fiscal year
- Investments in water, sewer, and broadband infrastructure

States are expressly prohibited from using the funds to directly or indirectly offset a reduction in net tax revenue during the covered period (March 1, 2021, through December 31, 2024) or to delay the imposition of any tax or tax increase. States are also prohibited from using the funds to make deposits into pension funds. Notably, local governments are also prohibited from using the funds to make deposits into pension funds. However, local governments are not prohibited from using the funds for tax relief.

National Highlights¹

- State and local governments are expected to experience \$140 billion in revenue losses from 1Q20 through 2Q21.
- Congress has already allocated approximately \$400 billion in state and local aid.
- State and local governments started the pandemic recession with over \$200 billion in rainy day and other fund balances.
- States are incurring additional expenditures due to increased Medicaid enrollment. The costs are more than offset by temporarily increased federal Medicaid support, but states are prohibited from removing ineligible individuals from the program.
- Additional funds to state and local governments are not needed. Instead, Congress should focus on policies that will spur economic recovery.²

General Risks to State and Local Governments

Additional federal aid could harm the long-term financial health of states by:

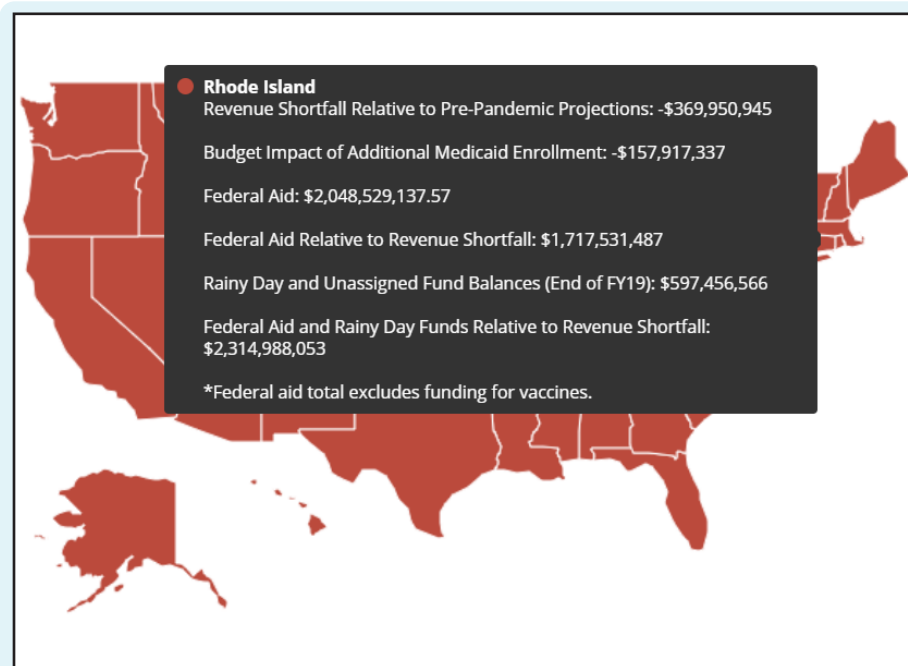
- Overwhelming state and local governments with more money than they can effectively spend.
- Making it more difficult for states to maintain balanced budgets in the future.
- Incentivizing states to rely on the federal government for financial support in future crises instead of developing their own fiscal responsibility.
- Making spending decisions based on directives from DC instead of the local needs of constituents and communities.
- Funding new and expanded programs that require future tax increases to sustain.
- Enlarging state and local governments to a point where they cannot adjust accordingly and become a larger portion of the economy while the private sector contracts.

Rhode Island Federal Aid

The latest revenue projections show that states are not experiencing as much of a shock from lost revenue as anticipated. The projected \$140 billion in lower revenue is more than made up for with approximately \$400

¹ Most of the data and analysis in this report was originally developed in partnership with Marc Joffe, Senior Policy Analyst at Reason Foundation, and Michael Lucci, Senior Policy Advisor at State Policy Network.

² <https://www.aei.org/economics/state-and-local-government-budgets-are-in-better-shape-than-expected/>



RI Federal Aid in Excess of Revenue Shortfall

In RI, as in most states, federal aid exceeds losses experienced as a result of the pandemic.

Note: Totals are state tax revenue and all non-vaccine-related federal aid, compared to pre-pandemic projections. Positive numbers reflect additional or excess dollar amounts; negative numbers reflect loss.

Source: <https://spn.org/state-covid-relief-guide/>

billion in various forms of federal aid to state and local governments. In fact, 48 out of 50 states received more federal aid than anticipated revenue lost, and Rhode Island falls into this category.

State and local governments will now need to adjust their finances for a different economic reality than existed pre-pandemic.

Estimated Aid to Rhode Island and Its Municipalities

Rhode Island will receive a total of approximately \$1.78 billion in federal COVID relief aid:

- \$1.12 billion for the state government
- \$0.11 billion for capital projects
- \$0.54 billion to be distributed to its 39 local governments

City and Town Aid

Rhode Island’s six largest cities will receive the lion’s share of allocated municipal funds, with significantly less for the smaller cities of Newport and Central Falls and the other 31 towns. (See table on next page.)

The Center’s Recommendations

In general, the COVID relief funds to states and localities should not be spent on any project or initiative that permanently expands the scope or size of government. Spending projects should be temporary, with defined end dates and should have no risk of incurring associated maintenance costs in future years.

Furthermore, all spending plans should be 100% transparent, with full and detailed reporting on the status of all projects and all vendor disbursements. If the function is not adequately staffed within the governmental unit, an auditor or inspector-general-type oversight capacity should be established, temporarily, with the relief funds.

While the federal government has provided general guidelines for authorized spending uses, plenty of grey areas that will be clarified in the coming months and years, as inquiries to the U.S. Treasury are responded to or as inevitable future court cases set precedent.

Based on calls with our national partners and our collective best efforts to interpret these federal guidelines and navigate the grey areas, our Center puts forth the following specific project ideas. For Rhode Island, some of these ideas are applicable only at the state level and some only at the local level, while some others may be applicable at both levels.

The state of Rhode Island is expected to receive approximately \$1.8 billion in COVID Relief Funds. All but a few hundred million, which will be spent to plug anticipated budget gaps due to lost tax receipts resulting from the pandemic shutdowns, may be available for special projects or purposes.

The Center’s recommendations are conceptual only. We do not attempt to calculate the cost of each program.

Rhode Island, Massachusetts, and Connecticut Federal COVID Relief Estimates by Government Tier (\$ millions)

	State	State Capital Projects	Large Cities	Other Cities and Towns	Additional Municipal Aid	Total
Rhode Island	1,124	113	282	55	205	1,780
Massachusetts	4,513	174	1,710	368	1,337	8,102
Connecticut	2,648	142	679	191	691	4,351

Note: Some sources label the additional municipal aid as “counties,” which may reflect the presence of county governments in some states. U.S. Senator Jack Reed of Rhode Island has said that this money will also be distributed to Ocean State municipalities, probably based on population.

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Rhode Island Cities and Towns Federal COVID Relief Estimates

	Aid (\$ millions)
Providence	131.77
Pawtucket	46.02
Woonsocket	33.30
Cranston	27.39
Warwick	24.37
East Providence	19.00
Cumberland	3.50
Coventry	3.45
North Providence	3.24
South Kingstown	3.01
Johnston	2.92
West Warwick	2.87
North Kingstown	2.61
Newport	2.41
Westerly	2.22
Lincoln	2.18
Bristol	2.17
Smithfield	2.17
Central Falls	1.94
Portsmouth	1.71
Burrillville	1.67
Barrington	1.59
Middletown	1.58
Tiverton	1.55
Narragansett	1.52
East Greenwich	1.30
North Smithfield	1.25
Scituate	1.06
Warren	1.04
Glocester	1.02
Hopkinton	0.80
Charlestown	0.78
Richmond	0.77
Exeter	0.65

Rhode Island Cities and Towns Federal COVID Relief Estimates (continued)

	Aid (\$ millions)
West Greenwich	0.63
Jamestown	0.55
Foster	0.47
Little Compton	0.34
New Shoreham	0.10

Note: Estimates use FY2020 HUD data to identify populations eligible for assistance, and may not include localities that relinquished their CDBG allocation in that year. Funding to localities on this list would be reduced to the extent that such cities apply for and receive funding as a metro city under this proposal.

State Government

Educational Uses

- “Catch Up ESAs” — up to a \$750 scholarship “match” for every public and private school K–12 student who was forced into distance learning, to fund complementary educational activities or items, such as tutors, online classes, or other learning aids, where that locality has itself enacted a similar Catch Up ESA scholarship program.

Small Business Uses. The most important component in achieving a full economic recovery is to ensure that a strong foundation exists in the small business community. Without more and better companies, there cannot be more and better-paying jobs for Rhode Islanders.

- Eliminate fees in specified occupational licensing industries.
- Allow for immediate and full “expensing” of capital expenditures on RI tax returns through 2024.
- Fund an increase the Earned Income Tax Credit (EITC) to support low-income working families that were hit hardest by the pandemic lockdowns. NOTE: this EITC increase is only recommended if the state’s minimum wage mandate on employers is not increased.
- Temporary tax credits for businesses in industries hardest hit by the pandemic lockdowns. Since the government created the lockdown problem, it should play a role in a solution.

- Temporary waiver of the annual corporate tax, to encourage small business creation.
- Partially fund cities and towns to phase-out or create/increase the exemption level for the unpopular “tangible assets” tax.

Infrastructure Uses

- Upgrade Rhode Island’s power grid by moving underground major electric lines on state roads to help avoid future mass power outages.
- Expanded broadband wireless coverage in remote and low-income areas to allow for increased educational or telehealth options.

General Budget and Public Uses

- Pay out of Unemployment Insurance benefits.
- Eliminate “beach fees” through 2024.
- Pay off some our state’s bonded debt.
- Build up “Rainy Day Fund.”
- Fund a temporary Office of the Inspector General with full authority to oversee expenditures and publicly report on inappropriate use of funds.

Civics Use

- Provide a print copy of the United States Constitution and the Rhode Island Constitution to every elected official and government employee at the state and local level.

Municipal Governments

Larger municipalities will receive tens of millions of dollars in windfall funding.

Unlike the restrictions on state governments, the federal guidelines for the COVID Relief Funds do not ban municipalities from using these funds to reduce taxes.

Educational Uses

- “Catch Up ESAs” — a \$500 scholarship for every public and private school K–12 student who was forced into distance learning, to fund complementary educational activities or items, such as tutors, online classes, or other learning aids.
- Property tax refund in recognition that full in-person learning was not made available to students in 2020 or 2021 and other government services were curtailed.

Small Business Uses

- Property tax credits for businesses in the hardest hit industries or for all businesses.
- Phase-out or create/increase the exemption level for the unpopular “tangible assets” tax (potentially funded via state use of COVID Relief Funds)

Senior Citizens Uses

- Upgrade senior centers with a one-time purchase of recreational aids (audio/visual, for example) or transportation (shuttle buses).

Infrastructure Uses

- One-time upgrades to parks, sports facilities, and other recreational areas.

General Budget and Public Uses

- Pay off some the locality’s bonded debt.
- Build up “rainy day funds.”
- Fund a temporary Office of the Inspector General with full authority to oversee expenditures, and publicly report on inappropriate use of funds.