Texas Public Policy Foundation

Keep Texas Texan Path for COVID Relief Funds

Background

Texas looks to receive roughly $40 billion in taxpayer money provided by Congress through the American Rescue Plan Act (ARPA). This includes $11.2 billion already released to public schools and soon to be released $10 billion to local governments and $4 billion to infrastructure projects (i.e., only water, sewage, and broadband projects). And $15.8 billion in more flexible funding to the state in one payment given Texas's unemployment rate is more than 2 percentage points above the pre-pandemic rate.

Approach Given Restrictions

The U.S. Treasury recently released guidance (Fact Sheet) for the restrictions on how state and local governments can use the ARPA funds. There will now be a 60-day period for public comments on these restrictions before additional clarity will be provided. In the meantime, it appears that the state cannot use these funds for deposits into pension funds or direct or indirect state tax cuts, except for special cases that don't seem to apply in Texas while local tax cuts by state or local governments seem legitimate and advisable. Given strings attached, if the state accepts ARPA funds, there should be a pro-growth, long-term strategy to strengthen Texas while assisting struggling Texans from the pandemic and shutdowns.

Recommendations

The strategy should strive to return these funds to taxpayers by reducing and keeping taxes lower than otherwise, funding only one-time expenditures, and rejecting all or most ARPA funds with strings attached. This strategy would help avoid expanding government, reduce the impact on state sovereignty, mitigate the rising burden of the federal government's high spending and debt, and provide relief to families. Texas would recover faster and better withstand the Biden administration's onerous policies by using the **$15.8 billion in more flexible funding** on the following options to Keep Texas Texan.

If Texas accepts some or all the funds, consider the following:

- Provide Texans with Relief
    - **$9 billion** for federal unemployment trust fund loan and replenish state fund to avoid tax hike.
    - **$5.1 billion** for border wall completion and border security to provide relief of border crisis.
    - **$1.7 billion** for a 2-cent compression of local school M&O property taxes to provide relief.

- Ensure Accountability and Transparency
    - No ARPA funds for ongoing expenses to avoid fiscal cliffs (e.g., pub ed "cuts" after ARRA).
    - Place funds in separate Article from base budget like TPPF's Conservative TX Budget does.
    - Publish receipts and outlays of funds on Comptroller's or LBB's website.
    - Replace general revenue with federal funds for only one-time items.

- Support Reform—*May be restricted but possibly by swapping general revenue appropriations*
    - Fund Other Post-Employment Benefits (OPEB) with reforms for sustainability.
    - Swap with GR to pay down state debt with a high interest rate.
    - Use to fund defined-contribution retirement accounts or similar reforms for new employees.
    - Swap with GR to fund expanded special education microgrants created during COVID.
    - Swap with GR to fund market-based healthcare with direct primary care and other options.

Texas should consider rejecting some or all the funds, particularly those with strings attached that could create fiscal cliffs in subsequent sessions, eliminate tax relief opportunities through December 31, 2024, generate school finance problems, and more.

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