

## State leaders missing opportunities on federal relief funds

While hundreds of thousands of Iowans probably have spent some of their \$1,400 stimulus checks by now, the state of Iowa is still waiting for a much bigger check. The state will soon receive about \$700 million in federal relief funds under the American Rescue Plan Act, the first half of the \$1.38 billion expected in total. While state legislators debate budget decisions — \$1 million more for this program, \$12 million less for that one — it is amazing there has been little discussion about how that \$700 million should be used.

Although detailed guidance from the Treasury Department is forthcoming by early May, the basic outline of how states can use the ARP aid have been available since President Biden signed the bill March 11. State leaders should have already begun discussion, with public input, on how those funds could best be used to bolster the economy and help Iowans suffering because of the pandemic and recession.

### Dollar-for-dollar federal aid loss with tax cuts

Instead, the state Legislature has put about \$350 million — or more — of those federal relief funds at risk. This is because state tax cuts the Senate is promoting would cost about \$350 million or more in state revenue, and the federal Rescue Plan specifies a dollar-for-dollar loss of aid for any net tax cuts.<sup>1</sup> The intent of this requirement is to assure the federal funding is used as the act intended.

### Missed opportunities with \$350 million loss of aid

What will that probable loss of \$350 million cost us in lost opportunities? The following are among the valid uses of the ARP state relief funds:

- ▶ Aid to households, including rental assistance and foreclosure prevention
- ▶ Aid to small businesses
- ▶ Aid to nonprofit organizations serving populations harmed by the recession
- ▶ Premium pay to essential workers
- ▶ Funding of public services hurt by revenue reductions due to the recession
- ▶ Investments in water and sewer infrastructure
- ▶ Investments in broadband

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### Broadband and other 'one-time' uses of funding in balance

The Governor's budget proposed \$400 million to expand rural broadband, an issue whose importance was made clear by the widespread use of remote work, remote learning, and telehealth during the past year. It is likely that the legislature will approve some funds for broadband, in the expectation that the Governor will use a portion of the ARP funds as well. But beyond that, no proposed uses have received public discussion.

The ARP funds can be spent now through the end of 2024. They are one-time funds, but that “one time” spans 3 1/2 years. Much could be done over that period to assist in recovery. And there are in fact a number of “one-time” uses that are allowed. Besides investments in broadband, water and sewer infrastructure projects are eligible, and other kinds of capital spending by nonprofits and the private sector could be supported.

### **Where is Iowa’s vision for recovery?**

The state needs to think more imaginatively about use of these funds. The Governor and many legislators said early on that they wanted to make child care and housing a priority. The business community has joined in the chorus of support for creating more affordable housing and expanding access to child care. But to date there is no agreement between the House and the Senate on whether either will actually happen.

Three pieces of child care legislation have passed the Iowa House creating tax incentives for the construction of child care facilities. The total spending estimate for the three bills is only around \$3 million per year. It is difficult to see how these credits could add much to the supply of child care slots in so-called child care deserts. A much more ambitious program could surely be funded over the next three years with ARP funds.

In the area of housing, lawmakers have proposed increasing the annual ceiling on workforce housing tax credits from \$25 to \$40 million. But once again, with a little imagination much more could be done to ramp up investment in affordable housing over the next three years. Why not use ARP relief funds to give grants to nonprofit agencies to develop affordable housing projects, for example?

### **The federal aid loss would be self-imposed**

All these ideas, however, are in jeopardy because of some legislators’ insistence on tax cuts. As noted above, under the ARP, if a state enacts legislation after March 3 that results a reduction in tax revenue, the state’s ARP relief funds will be reduced by the amount of the tax cut.

The Senate has passed two different bills and is moving another that would accelerate cuts in tax rates by removing revenue thresholds, or “triggers,” set in a 2018 tax bill. That move alone would result in \$335 million in lost revenue over the next three fiscal years, along with several million more in FY 2025. In addition, other tax cuts or expansions of tax breaks passed between now and December 2024 would take more federal aid off the table, unless offset by revenue increases.

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Legislators — and Governor Reynolds, who has joined a lawsuit against the no-net-tax-cut rules<sup>2</sup> — can argue all they want about the federal conditions on the use of federal funds, but they know the conditions. They can’t claim later they did not.

Over the last decade, Iowa lawmakers have intentionally held down revenues with tax cuts. By taking a different approach — one that recognizes the intent of the federal funding and the opportunity it presents to Iowa — Iowa’s leaders could make fresh investments in Iowa’s human and physical infrastructure, and claim a victory for Iowans needing an economic boost.

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1 Common Good Iowa fact sheet, “Reckless tax policy proposals would make Iowans pay twice,” April 2021. [https://www.commongoodiowa.org/media/documents/Reckless\\_tax\\_bills\\_expansion\\_final\\_672A3EB607AD6.pdf](https://www.commongoodiowa.org/media/documents/Reckless_tax_bills_expansion_final_672A3EB607AD6.pdf)

2 Cedar Rapids Gazette, “Iowa joins lawsuit against Biden administration,” April 1, 2021. <https://www.thegazette.com/government-politics/iowa-joins-lawsuit-against-biden-administration/>