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ADVANCING
LIBERTY WITH
RESPONSIBILITY
BY PROMOTING
MARKET SOLUTIONS
FOR MISSOURI
PUBLIC POLICY

USING MISSOURI'S FISCAL RELIEF AND INFRASTRUCTURE FUNDS TO GROW THE ECONOMY, NOT GOVERNMENT¹

EXECUTIVE SUMMARY

Missouri has received billions in debt-financed federal spending earmarked for recovery and infrastructure needs. It is not free money; if misspent, it could worsen inflation and labor shortages and create long-term budgetary obligations. However, if used in accordance with sound free-market principles, the funds can support pro-growth private-sector investment.

Legislators must consider not only **what** to spend such one-time funds on, but **whether** to spend some of these funds at all. This document provides legislators some guidance for what some good investments would look like. Such investments would include:

Education

- Supercharge Empowerment Scholarships with a one-time kick-start appropriation of \$25 million to fully fund this program for its first year.
- Bridge the COVID-created gaps in kids' education by creating \$50 million in time-limited learning-loss scholarships.
- Back education innovations by establishing a \$100 million fund to provide grants to alternative learning providers and learning pods.

Infrastructure

- Fix Missouri's roads by applying IIJA funds to road and bridge projects that have been identified as the highest priorities with the greatest economic benefit.
- Jump-start the modernization of Missouri's information technology system by identifying ARPA-eligible, one-time expenditures that could meaningfully update Missouri's systems.

Workforce

- Replenish the Unemployment Trust Fund to protect businesses from a hike in unemployment insurance taxes by making a one-time \$417 million contribution.

Transparency

- Enhance state transparency by making all state budget documents available in easily accessible machine-readable format, and improve local government spending transparency by upgrading the state's Show-Me Checkbook portal with \$250,000 in ARPA funds and requiring local participation and reporting.

¹ Contributors to this document include: Corianna Baier, Aaron Hedlund, Patrick Ishmael, Susan Pendergrass, Jakob Puckett, David Stokes, Brenda Talent, and Elias Tsapelas.

INTRODUCTION

The federal government has passed roughly \$3 trillion in stimulus and infrastructure spending in the last year: \$1.9 trillion in the American Rescue Plan Act (ARPA) and nearly \$1 trillion in the Infrastructure Investment and Jobs Act (IIJA). Both bills have serious defects, but the biggest is that they add to the gut-churning level of our national debt. The ARPA, in particular, has been described as the “least responsible” macroeconomic policy in the past four decades by none other than Larry Summers—former Clinton Treasury Secretary and Director of the National Economic Council under the Obama-Biden Administration—who correctly predicted the inflationary consequences of the reckless deficit spending and work disincentives in the bill.

Missouri state and local government are now tasked with spending (or not spending) the ARPA and IIJA funds appropriated to the state. ARPA sends \$2.7 billion in state fiscal relief funds to Missouri state government and another \$2.5 billion combined to Missouri’s localities, while the IIJA allocates \$9 billion in formula funding to Missouri, with additional funds potentially available.

But this federal “assistance” is not free: along with the mountains of federal debt it incurs, these spending programs also often come with strings attached. It is critical for Missouri lawmakers to recommit themselves to sound, pro-growth, free-market principles when deciding which funds to spend and which to reject. This document sketches a framework for how legislators can allocate these funds in a principled way to grow the economy with accountability, investment, and reform.

IMPORTANT BACKGROUND INFORMATION

On January 6, 2022, the U.S. Treasury Department released its final rule outlining the approved uses of state and local relief funds under ARPA. The federal government has provided only preliminary information about the IIJA and has not yet issued an interim or final rule.

State and Local Relief Funds

Approved uses: Under ARPA, the state and local fiscal relief fund provides money for five broad categories:

1. Replacing lost government tax revenue
2. Supporting the COVID-19 public health response
3. Addressing negative economic impacts
4. Providing premium pay for eligible workers performing essential work
5. Investing in water, sewer, and broadband infrastructure

Key dates: States and localities can only use the funds for costs incurred on or after March 3, 2021. They must obligate the funds by December 31, 2024 and spend all of the funds by December 31, 2026.

Lost government tax revenue: States and localities have broad leeway for how to use funds to replace lost government tax revenues. For these purposes, lost revenue is either a standard allowance of \$10 million or an amount calculated under a formula issued by the U.S. Treasury Department. It should be noted that as of FY2021, net general revenues for state government were over \$500 million higher than FY2019 revenues, after adjusting for growth, and thus *state government* did not lose government tax revenues.

ARPA restrictions regarding tax cuts: The most contested restriction for state and local relief under ARPA is that *state government* cannot use the funds to offset revenue losses from tax cuts. No such restriction apparently applies to other units of government. States are permitted to transfer funds to other levels of government; thus, the state could transfer some of the state-level funds to counties and municipalities on the condition that they pass the savings along to families and small businesses who have been negatively impacted by the pandemic.

Not all state-level tax cuts are prohibited, either. For one, the restriction is supposed to apply only to “new” tax cuts passed after ARPA. The final rule also provides a safe harbor for states: as long as state tax revenue stays above its 2019 level adjusted for inflation, the state is considered to be in compliance.

Other restrictions: State and local governments are prohibited from using funds to make extraordinary contributions to a pension fund for the purpose of reducing an accrued, unfunded liability, and they cannot use the funds for debt service or to replenish rainy-day funds. However, Missouri *can use* ARPA money to restore its unemployment insurance (UI) trust fund balance to pre-pandemic levels to prevent businesses from facing a hike in UI taxes. The state also may use funds to address negative economic impacts of the pandemic, and the final rule from Treasury states that recipients (each state or local government) must identify the negative impact to a specific household, business or nonprofit or class of households, businesses, or nonprofits and design a response that is “related and reasonably proportional” to the harm. The rule also gives an enumerated list of guaranteed acceptable uses and impacted classes.

IIJA Funds

Detailed guidance from the federal government on state allocations of IIJA funds is still pending, but as of now, Missouri can expect to receive:

1. \$7 billion in federal highway funding for roads and bridges. Missouri can also compete for \$12.5 billion from the Bridge Investment Program and \$15 billion for megaprojects. Missouri can also expect to receive about \$400 million over five years to reduce transportation emissions, enhance “transportation resilience,” and improve safety.
2. \$732 million in public transportation funding.
3. \$99 million over five years for a network of electric vehicle charging stations.
4. The ability to compete for \$5 billion in rail improvement and safety grants and \$3 billion for grade-crossing safety improvements.
5. \$247 million over five years for airports.
6. A minimum of \$100 million to help provide broadband coverage across the state.
7. \$866 million to improve water infrastructure.

SOUND PRINCIPLES FOR THE USE OF FEDERAL FUNDS

State and local governments have the opportunity to make valuable investments in public goods, enhance government accountability, and institute pro-growth reforms that increase the size of the economy rather than the footprint of government. To do so successfully, lawmakers should follow these sound budgeting practices and free-market principles:

1. ***Use one-time funds for one-time spending.*** It would be fiscally irresponsible for Jefferson City to take on new fiscal commitments that are likely to last longer than the duration of the stimulus funds. The most responsible way to manage such funds is to use them only in a manner consistent with their availability. Recurring revenues should pay for recurring obligations; likewise, one-time revenues should pay for one-time projects.
2. ***Fund activities that complement the private sector, not that substitute for or compete with it.*** Where possible, lawmakers should use public funds in ways that enhance the productivity of the private sector. Roads, for instance, facilitate commerce, and it is to the benefit of Missourians for the state to properly build and maintain such assets. At the same time, government should not embark on activities that would compete with private providers or establish functional monopolies in such sectors. A policy that, for example, effectively establishes single-provider services for broadband should be a nonstarter.
3. ***Don’t abandon fiscal responsibility thinking that the federal money is “free.”*** The fact that the federal government has chosen to dramatically increase the public debt without regard to its inflationary consequences today and costs to future generations does not mean that states and localities should abandon their responsibility to be good fiscal stewards of taxpayer money. How Missouri lawmakers use these funds will affect the health of Missouri’s economy and public finances into the future.

Any stimulus funds that cannot be spent in accordance with the principles above should not be spent at all. It is better to “do no harm” than to spend just because the money is there for the taking.

There are endless ways in which these funds *could* be spent, but the following proposals meet the high bar of fiscal responsibility and appropriate state investment necessary to justify such expenditures. These proposed uses meet state needs, they are time limited, they are not funded within the current state budget, and they better position Missourians and Missouri government to meet the challenges of the next decade.

ADDRESS K-12 LEARNING LOSSES

Supercharge Empowerment Scholarships

Missouri students have experienced significant learning loss in the last three school years. Fewer than one third of Missouri students scored at grade level on the state math assessment in 2021. The results for Missouri students who were restricted to learning virtually through their district were significantly worse.

Missouri’s new Empowerment Scholarship Account (ESA) program can help provide Missouri students the opportunity to recoup learning losses and receive a high-quality education. Parents can use these scholarships for tuition to send their child to a school of their choice, as well as for other approved educational expenses such as tutoring.

The program is designed to be funded through tax credits with a yearly program cap of \$25 million. Currently, to be eligible for the program a student must live in a city or county of 30,000 or more people and also either (a) be in a family that makes less than 200% of the federal free or reduced-price lunch program eligibility threshold and/or (b) be a special-needs student with an individualized education plan.

According to the Treasury Department’s interim final rule, state governments can use ARPA Fiscal Recovery Funds for school and education services, particularly those intended to reduce educational disparities. Since Missouri’s ESA program is primarily targeted at students

from low-income families and students with disabilities, ARPA money can likely be used.

Action Item: Fully fund Missouri’s ESA program for the first year. Although the program is designed to be funded through private donations that generate tax credits, lawmakers could, as a one-time expense, appropriate \$25 million to fully fund the first year of the ESA program. In addition, legislators could expand the eligibility for the scholarships to students outside of the designated geographical areas.

Bridge the Gaps in Missouri Kids’ Education Stemming from the Pandemic

Significant learning loss during Covid-19 school closures was not limited to students who qualify for the ESA program. Awarding scholarships to students across Missouri who have fallen behind to help pay for out-of-school tutoring could help bring them back to grade-level academic achievement.

According to the Treasury Department’s interim final rule, state governments can use ARPA Fiscal Recovery Funds to address educational disparities through methods such as tutoring and afterschool and extended learning programs.

Action Item: Create time-limited learning-loss scholarships. Using \$50 million in ARPA funds could provide one-year, \$500 enrichment scholarship grants to 100,000 students who are at least one grade level behind to use for tutoring, supplies, and other needs as determined by the student’s parents.

Sustain Education Innovations

When schools were forced to shut down, many extra-curricular organizations, like Boys and Girls Clubs and YMCAs, stepped in to help children who needed supervision for in-person learning. In addition, small groups of families created collaborative learning environments such as learning pods. Many students and families found these programs to be a good fit. Those that can demonstrate a positive academic impact or other benefit should have an opportunity to build on their innovation.

Action Item: Award grants to those institutions and family groups providing education spaces. An Education Innovation Fund of up to \$100 million could provide one-time grants to be used towards the establishment and continuation of alternative learning providers and learning pods.

INVEST IN INFRASTRUCTURE AND MODERNIZATION

Fix Missouri's Roads

Missouri's roads and bridges are an important part of the state's economy, and lawmakers should ensure that they are well maintained.

Numerous surveys and reports state that 15% of Missouri's roads and 10% of its bridges are in poor condition, putting Missouri in one of the worst positions nationally for outstanding road maintenance. MoDOT estimates that each year hundreds of millions of dollars of high-priority road and bridge projects focusing on maintenance, safety, and expanding the transportation network for future growth go unfunded, resulting in a fast-growing project backlog. Road quality deteriorates faster each year it is left unaddressed, so delaying maintenance now means more expensive repairs later.

Action Item: Fund high-priority road and bridge maintenance needs. Missouri will receive \$6.5 billion in IIJA funding for state-maintained roads and another \$484 million dedicated to bridge repair and replacement.

Lawmakers should use this money to complete the projects with the highest priority and greatest economic impact on MoDOT's list. Additionally, MoDOT should be transparent about the use of IIJA funds to ensure the money goes toward pressing needs rather than being spent on projects of questionable urgency. Since this is one-time money, care must also be taken to ensure future maintenance dollars will be available if any funds are used to build new infrastructure.

Many road projects can be funded with one-time payments. MoDOT's 2021 State Transportation Improvement Plan identified \$540 million in high-priority, Tier 1 projects encompassing \$244 million in road, bridge, and interstate repair and \$296 million in safety, network expansion, and economic growth projects that could be undertaken immediately given adequate

funding. Also in Tier 1 are \$80 million in projects to improve bridge conditions and hundreds of millions of dollars for maintenance of well-traveled state highways.

MoDOT has also identified \$2.2 billion worth of Tier 2 projects to be undertaken with adequate funding. These include over \$522 million for interstate reconstruction, nearly \$536 million for improving road and bridge conditions, and \$1.1 billion for improving safety and increasing economic growth. MoDOT has made public its list of specific projects in Tiers 1 and 2.

Given the amount of federal funds dedicated to road and bridge infrastructure, lawmakers should also reassess whether the scheduled increases in Missouri's fuel tax are still warranted or need to be revisited to ensure that the vehicles that cause the most road damage are bearing their fair share of the expense. This is an opportunity for the current state leadership to solve a generational challenge without compromising the rest of the state budget.

Update Missouri's Information Technology Systems

Several of Missouri's information technology (IT) systems used for crucial parts of state government are aging and must be fixed or replaced. ARPA funds offer an excellent opportunity to bring Missouri's government into the 21st century.

According to the U.S. Department of the Treasury, ARPA Fiscal Recovery Funds may be used to improve the efficacy of programs addressing negative economic impacts, including through use of data analysis, targeted consumer outreach, improvements to data or technology infrastructure, and impact evaluations. In July 2020, the state's website for unemployment insurance shut down briefly as a result of heightened use. In addition, a significant portion of Missouri's Medicaid system still runs on COBOL, a long out-of-date programming language.

Across Missouri's government, executive departments and legislative inquiry are frequently hamstrung by inadequate data quality. Ensuring that all public state documents are easily available online and in machine-readable formats would drastically improve government accountability. Additionally, improving data-collection practices to meaningfully measure outcomes or performance would help improve the state's ability to administer government programs and help ensure tax dollars are used wisely.

Action Item: Lawmakers should determine what ARPA-eligible one-time expenditures could meaningfully move Missouri’s data transformation forward.

While upgrading the state’s Medicaid system is an ongoing process, one-time ARPA funding could speed up the replacement process while improving program data quality and recipient customer service.

With respect to the UI system, these funds should be used to address the serious flaws exposed by the COVID-19 pandemic. First, IT and accounting systems should be strengthened to handle higher web traffic, faster eligibility verification, and streamlined payment processing, which would help ensure continued customer service in case of a future emergency. Second, UI systems should be upgraded to allow flexible adjustments to UI benefit amounts and eligibility in the event of a future crisis. During the pandemic, antiquated systems were the reason that enhanced unemployment benefits took the form of flat weekly supplements (initially \$600, later \$300) instead of amounts tied to each worker’s past earnings. Thus, many unemployed workers received larger UI checks than paychecks, creating a strong work disincentive. Modernizing IT and accounting systems would give policymakers greater flexibility to adjust UI benefits depending on economic conditions without creating damaging work disincentives.

A brief warning is appropriate here. The history of government IT acquisition is replete with instances of gross incompetence and waste. Missouri has a unique opportunity to do the job right, but consistent oversight from the governor’s office and legislature will be essential. Leaving the bureaucracy to spend this money on a “business as usual” basis is a recipe for disaster.

PROMOTE MISSOURI BUSINESSES FROM TAX INCREASES

Replenish the Unemployment Trust Fund

Large numbers of people out of work have drawn down Missouri’s Unemployment Insurance Trust Fund, from which the state pays unemployment benefits. When the balance of the UI Trust Fund is too low, an automatic increase in tax contribution rates on business owners is triggered. If necessary, policymakers should be ready to use

ARPA funds to replenish the UI Trust Fund. The last thing Missouri’s economy needs as it recovers from the pandemic is a tax increase.

According to 31 CRF 35.6(b)(4) and the Treasury Department’s interim final rule, states may use ARPA Fiscal Recovery Fund money to replenish unemployment insurance trust funds to their balance level on January 27, 2020.

Action Item: Replenish the UI Trust Fund. Depositing stimulus funds into the UI Trust Fund is a one-time expense. States can replenish their UI Trust Funds up to the difference between the balance on January 27, 2020 (\$1.054 billion) and May 17, 2021 (\$637 million). Thus, Missouri lawmakers should make a one-time contribution to the state UI Trust Fund of \$417 million to prevent small businesses from facing hikes in their UI taxes and to keep the fund balance healthy in case of heavy future use.

PROMOTE ACCOUNTABILITY

Enhance Local Government Transparency

Residents of Missouri’s municipalities should be able to see how their local governments are spending their tax money. Currently, county governments can voluntarily join the state’s online Show-Me Checkbook program to publicize their spending, but most have not done so.

Rather than simply asking local governments to publish their spending information, the state should require it. The challenge of observing local government spending activity can be illustrated in tracking federal stimulus funds from the CARES Act. When Show-Me Institute analysts requested to see these already-existing expense records, 61 counties ignored the request and 15 requested varying levels of payment for access to the information. This means residents of 76 of Missouri’s 114 counties cannot easily access records of how federal stimulus funds were spent.

According to the Treasury Department’s interim final rule, state governments have broad latitude to use ARPA Fiscal Recovery Funds for the provision of government services, so long as those services do not incur debt or relate to the payment of a settlement.

Enabling citizens to see how the taxes they are compelled to pay are spent is a basic function of good governance.

Residents of cities or special taxing districts should know how their tax dollars are spent, as well.

Transparency is a highly important priority. Local governments across Missouri will be spending down the funds they have received from the federal government. We can hope the money will be used wisely, but hope is not a policy; the potential for waste or outright corruption is high. The legislature should act expeditiously to strengthen the guardrail of transparency, minimize waste, and ensure that the public knows its state government is squarely on the side of honest government.

Action Item: Upgrade the Show-Me Checkbook program to encompass more local government spending and fully digitize state budget documents to make them easily accessible in machine-readable format. Regular site maintenance is already codified through the law that established the voluntary Show-Me Checkbook website, so the ongoing costs are already accounted for. Costs to upgrade and expand the site were estimated recently to be no more than \$250,000. If necessary, lawmakers could use ARPA money to assist with those costs. Lawmakers could also devote more funding to the Missouri State Auditor's office to ensure that local governments spend their own relief and stimulus funds properly, and work with cities and counties to ensure they have the local resources to audit their own expenditures.

CONCLUSION

The federal government's pandemic decision to go more heavily into debt will be the subject of debate for years to come. In our estimation, most of that spending has been unwise, triggering not only inflation but the danger of a recession as well. None of this is free money; it is borrowed from our children and grandchildren, who eventually will have to pay this bill.

While there is little that Missouri can do about decisions made by the federal government, state legislators—now the stewards of this money—have control over how, and whether, those funds are spent in the Show-Me State. Legislators should use that power in a principled and judicious manner to ensure these one-time funds are used appropriately to promote government accountability, to invest in Missouri's human and capital assets, and to reform how the state does business in the 21st century.



SHOW-ME INSTITUTE ANALYSTS ARE AVAILABLE TO SHARE RESEARCH AND DATA REGARDING THE FOLLOWING POLICY AREAS:

- **BUDGET**
Elias.Tsapelas@ShowMeInstitute.org
- **BUSINESS REGULATION**
Corianna.Baier@ShowMeInstitute.org
David.Stokes@ShowMeInstitute.org
- **EDUCATION**
Susan.Pendergrass@ShowMeInstitute.org
- **ENERGY**
Jakob.Puckett@ShowMeInstitute.org
- **GOVERNMENT TRANSPARENCY**
Patrick.Ishmael@ShowMeInstitute.org
- **HEALTH CARE**
Patrick.Ishmael@ShowMeInstitute.org
Elias.Tsapelas@ShowMeInstitute.org
- **HOUSING**
Patrick.Ishmael@ShowMeInstitute.org
Elias.Tsapelas@ShowMeInstitute.org
- **LOCAL GOVERNMENT**
David.Stokes@ShowMeInstitute.org
- **PUBLIC-SECTOR PENSIONS**
Patrick.Ishmael@ShowMeInstitute.org
Susan.Pendergrass@ShowMeInstitute.org
- **GOVERNMENT UNIONS**
Patrick.Ishmael@ShowMeInstitute.org
- **TAXES**
Patrick.Ishmael@ShowMeInstitute.org
David.Stokes@ShowMeInstitute.org
Corianna.Baier@ShowMeInstitute.org
- **TRANSPORTATION**
Jakob.Puckett@ShowMeInstitute.org
David.Stokes@ShowMeInstitute.org
- **OTHER**
Brenda.Talent@ShowMeInstitute.org

5297 Washington Place | Saint Louis, MO 63108 | 314-454-0647
1520 Clay Street, Suite B-6 | North Kansas City, MO 64116 | 816-561-1777

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