



## Dear Michigan Leaders:

Recently, President Joe Biden signed H.R. 1319, the American Rescue Plan Act of 2021 (ARPA). This federal legislation appropriates an additional \$5.7 billion in lightly restricted federal funds for the state of Michigan to spend between now and December 2024.

The organizations signing this letter urge you to keep the following principles front of mind as you consider your options with these additional federal funds.

1. **Exercise your due diligence and don't be in a hurry to accept these monies.** Michigan's short-term budget picture is stable, even without having appropriated all of the funds from last December's COVID-19 Economic Relief Bill. Also, the ARPA funds don't expire until December 2024. You have plenty of time to decide how to allocate these funds...if you decide to accept them at all.

For example, there is an effort underway in Congress to repeal a section pertaining to the state relief funds that seeks to prohibit states from reducing or rebating taxes through the end of 2024 or from depositing into state pension funds. Twenty-one state attorneys general have [threatened litigation](#) if Treasury Secretary Janet Yellen does not provide assurance by next week that her department's rulemaking process will not "strip States of their core sovereign authority to enact and implement basic tax policy." It may be worth seeing how these processes develop before making big decisions.

2. **Do not allow federal funds to undermine previous policy decisions.** Federal stimulus packages frequently include new policy conditions whereby Congress seeks to buy its preferred actions in areas where it lacks direct authority. More than one-third of the votes for ARPA came from three states with very different economies, demographics, and financial circumstances than Michigan. Preserve your ability to set policies that make sense for Michigan and for Michiganders.

Going back to the tax/pension section, the language also includes requirements for detailed reporting as well as clawback provisions. Depending how the U.S. Department of Treasury writes the rules around these restrictions, accepting these federal dollars could not only block you from proposed tax law changes wholly unrelated to COVID but interfere with the implementation of those previously adopted.

3. **Do not create ongoing obligations from one-time funds.** The federal government is not going to be able to borrow from the future like it has the past year for much longer. Responsible uses of the ARPA funds will expire as soon as (or before) the federal spigot shuts off.

4. **Prioritize ideas that will improve the state's financial footing 10 years from now.** While our state budget balances today, Michigan's debt overhang remains massive. Accelerating infrastructure projects, buying down liabilities, and pre-paying certain lawsuit settlements will generate a good rate of return and should be included in a broad supplemental appropriation.
5. **Remember that local governments and schools have their own pots of money in this bill.** Local governments in Michigan receive \$4.4 billion in direct allocations from the federal government under this bill, while school districts get \$3.5 billion. Economically distressed areas of our state are the biggest beneficiaries of the federal formulas in this legislation. Accordingly, monies received by the state should be spent exclusively on state-level needs and priorities.

Should you choose to accept these additional ARPA funds, the recommendations below reflect fiscally responsible options proposed by our organizations, which represent a broad swath of the Michigan business community and free-market movement.

#### **DIRECT BUSINESS RELIEF**

- Supplemental appropriations bills, HB 4047 and SB 114, contained several provisions that would have provided significant, comprehensive and fair relief to businesses that have been forced to close or strictly limit their capacity the longest. The relief came in the form of:
  - Direct Payments from the Department of Treasury
  - Liquor License Relief
  - Food Service Establishment License Relief
  - License Inspection Relief
  - Unemployment Insurance Relief
  - Property Tax Penalty/Interest Relief

Maintaining momentum and building off this proposal providing business relief needs to be a top priority.

#### **FISCAL STABILITY**

- While the ARPA law prevents these funds from being directly deposited into a pension fund, legislators should scour the budget for items currently being paid from the General Fund that can be temporarily replaced with ARPA funds. The freed-up General Fund dollars should then be applied toward the massive pension and other post-employment benefit liabilities in our state employee and/or public school employee retirement systems. A substantial pre-payment now could accelerate the date by which Michigan can escape the overhang of this debt.
- The Michigan Legislature should refill at least the \$350 million it withdrew from the state's rainy day fund during the pandemic. A larger deposit would position Michigan better for the future and help our state's credit rating.
- Legislators should also use ARPA dollars for complete payment of the \$600 million Flint water settlement, saving the estimated \$500-600 million in interest were the settlement to be bonded.

## UNEMPLOYMENT INSURANCE

- The American Rescue Plan Act exempts some unemployment insurance benefits from state taxes. Federal payments can be used to replace any losses where this causes expenditures to exceed expected revenue, and to support the state budget if next year's revenue is expected to decline.
- Funds should be used to shore up the unemployment insurance trust fund. State savings fell from \$4.7 billion coming into the pandemic to less than \$600 million and the system continues to pay out more than it collects in payroll taxes. Lawmakers ought to shore up the funds to prevent automatic tax increases upon employers, which would discourage employment as Michigan recovers the jobs lost due to the pandemic.

## INFRASTRUCTURE

- Legislators should consider a major investment in our state's roads by putting federal stimulus money in a lock-box to gradually release dollars to accelerate the State's road funding plan. This will allow for continued infrastructure investment while being conscious of the construction industry's project capability. Investment in roads and bridges has a strong economic impact that will be felt for several years down the "road".
- Governor Whitmer's executive budget proposed \$300 million in General Fund spending on local roads and bridges. This priority should be paid for with federal stimulus dollars to create more flexibility with General Fund revenue, which we recommend redeploying towards addressing long-term, one-time issues with state finances.
- The Dam Safety Task Force's report shows a \$415 million need for dam improvements. Federal funding could accelerate dam repair and safety, which is especially important after last May's dam collapses along the Tittabawassee River.

Thank you for your leadership and service to our state. We look forward to working with you on a fiscally responsible stance regarding the federal ARPA dollars.

Sincerely,  
(in alphabetical order)

**Americans for Prosperity – Michigan Chapter**  
**Associated Builders and Contractors of Michigan**  
**Grand Rapids Area Chamber of Commerce**  
**Mackinac Center for Public Policy**  
**Michigan Chamber of Commerce**  
**Michigan Freedom Fund**  
**Michigan Restaurant & Lodging Association**  
**National Federation of Independent Business – Michigan Chapter**  
**Small Business Association of Michigan**