



Platte Institute recommendations for American Rescue Plan dollars

Nebraska will receive around \$5 billion from the [American Rescue Plan Act](#) (ARPA), the latest round of COVID relief enacted by Congress. Nebraska state and local governments were [allocated more than \\$2.3 billion](#). Of that amount, the state of Nebraska will receive \$1.1 billion, counties will get \$375.2 million, and municipalities will be given \$292 million. A spreadsheet with [federal data on the distribution of funds can be found here](#).

This money should be spent strategically while adhering to sound spending principles that keep all levels of government solvent. The new round of federal aid should be spent transparently to promote public health, expand needed infrastructure, and to help businesses most affected by the pandemic. ARPA funds should not be used for recurring expenses. In addition, Nebraska needs to prepare for the possibility of future federal tax increases or reductions in federal aid that may be needed to pay for the record-breaking national debt.

All recommendations in this plan follow the outlined “use of funds” established in the ARPA legislation (Sec. 602 and Sec. 603). The ARPA legislation says states and local governments can and should use this money to respond to the public health emergency which includes “assistance to households, small businesses, and nonprofits or to aid impacted industries such as tourism, travel and hospitality...workers performing essential work.... for the provision of government services to the extent of the reduction in revenue.... or to make necessary investments in water, sewer, or broadband infrastructure.”

While the state has limited control over how the local governments spend their funds, it would be in the state’s best interest to issue a prioritization of use for these funds to municipalities to ensure their best possible use, and to avoid local property tax increases. For example, prioritizing a standardization of accounting codes and financial reporting will not only help with oversight of the federal funds, but also help with modernizing local government accounting processes.

Summary of Recommendations

State Government

- Bring Nebraska’s Cash Reserve Fund to \$800m or 16% of state revenue
- Invest in infrastructure such as broadband
- Invest in Nebraska’s State Auditor’s office for additional spending oversight
- Pandemic-related public health expenses
- Grants to leisure and hospitality businesses

Local Government

- Determine if a revenue loss has occurred, if so, use to backfill lost revenues
- One-time credit for locally levied taxes (property, tangible property, occupation)
- Invest in accounting infrastructure
- Pay down debt, which lowers property taxes
- Invest in infrastructure such as broadband, utilities, ambulance, police & fire, etc.

State Government

Within the ARPA legislation there is a [condition placed on states](#) if they choose to accept the money. In short, indirectly offsetting a [state tax cut is in violation of the Act](#) and will result in Nebraska having to repay a part or all



the funds it was sent. This provision is causing many, including Nebraska's Attorney General, to [question the constitutionality](#) of the language, leaving [states in limbo](#) until Treasury Guidance is published.

One option is to put the money into the state's Cash Reserve Fund. According to the [February General Fund revenue report](#), the state is ahead of its forecast and posting collections nearly \$500 million more than last fiscal year. Because the list of expenditures which the state can partake according to the federal legislation is relatively short, and given Nebraska does not have a revenue shortfall, it is wise to use this money in a way that does not jeopardize the state's plans for tax modernization or our existing property tax credit programs.

Fiscal experts and lawmakers agree the Cash Reserve Fund should be at [\\$800 million \(or 16% of General Fund revenue\)](#), yet [according to the Appropriations Committee Preliminary Budget](#) the unobligated balance is only projected to be \$446 million. Putting money into the Cash Reserve Fund is the safest option while the state awaits U.S. Treasury guidance on the interpretation of the law's intent on indirect offsets to state tax cuts through 12/31/2024. Putting ARPA funds into the Cash Reserve Fund also allows the state to operate its fiscal house as it sees fit while also preparing for future needs.

Another option is to use the money for one-time infrastructure spending. An example of this would be to extend broadband to rural areas and facilitate access to telehealth, telecommuting, e-commerce, or online education.

The federal government is requiring a detailed accounting of the use of ARPA funds. Currently, Nebraska does not have the capacity in the State Auditor's office to audit every level of government receiving federal funds to ensure proper accounting. All local governments receiving money are required to have a special audit of the federal money. While they are supposed to use some of their federal relief funds to pay for these audits, many subdivisions might need assistance or want to use the auditors in the Auditor's Office for this function.

A one-time investment in the State Auditor's office would not only alleviate future issues with federal compliance at the state level, but also help aid local governments that need assistance reporting these funds, especially since many townships and villages receive annual waivers from audit requirements, when their expenditures are under the \$300,000 threshold ([Neb. Rev. Statute 84-304 \(4b\)](#)).

While the federal government has allocated spending for pandemic-related public health expenses, such as personnel for vaccinations and infrastructure costs for vaccine delivery, if any additional needs arise, this money should be spent towards that effort. Additionally, grants should be given strategically to businesses that were disproportionately impacted by the pandemic, such as hotels, restaurants, bars, theaters, and other venues that rely on public gatherings.

Local Government

Unlike the state government, the only [restriction placed on local governments](#) is not being allowed to deposit the funds into any pension fund. This means tax reductions *are* allowed at the local level.

First, a local unit of government should certify whether they have experienced a revenue loss from the pandemic or not. If a revenue loss is present, the funds from the federal government should be used to backfill those revenue losses and make the local government whole.



Nebraska has the [8th highest property taxes in the nation](#), and even with the relief programs implemented by the state, property taxes have become more of a burden during the pandemic. To make matters worse, last year the state took away a [\\$10,000 *de minimis* exemption](#) to businesses and farmers for the tangible personal property tax.

Local governments can and should issue property tax rebates or credits to their residents for a [one-time reduction](#). Another tax many Nebraska small businesses pay are occupation taxes. During the pandemic, many of these same businesses have experienced economic hardship due to public health measures. A way to help these businesses would be to return a portion or all their occupation taxes.

Local governments receiving federal relief funds are required to have a special audit of the federal money. They should use some of this money for this audit but can also use the money to update or modernize their accounting processes. Under current law, local entities do not have standardized accounting codes or standardized financial reporting. ARPA relief money could be used to standardize accounting and annual reports, providing more accurate oversight of the funds at the state level.

Another way to help lower property taxes and be good stewards of the federal relief money is to pay down outstanding debt. In total, Nebraska counties have [\\$397.6 million](#) in outstanding debt while municipalities (cities, villages, and townships) have nearly [\\$3 billion](#) in outstanding debt. Using this money to pay down debt will reduce interest payments and allow bonds to be paid off faster, ultimately resulting in a property tax reduction.

Another option for local governments is to use the money for a one-time investment into local utilities, such as water, sewer, electricity, or broadband. Other options include ambulance services and local police and fire that have assisted with vaccine distribution or emergency medical situations. Roads might also be of need in some local governments if the pandemic reduced road spending or maintenance operations. This is also a suitable infrastructure spending item and would fall into the category of a one-time investment. Ultimately, the focus should be on essential, core functions of government that residents rely upon, not items that are nice to have, like swimming pools and golf courses.

Conclusion

In an unprecedented situation like the COVID-19 pandemic, Nebraska state and local governments need to prioritize [good governance](#) to ensure these policy decisions have the best outcomes possible. The federal aid provided by ARPA is temporary, so creating permanent programs and obligations with one-time federal dollars will only endanger Nebraska taxpayers in the future. Regardless of what may happen in Washington in the future, using this money to ensure the state and local governments remain fiscally sound will serve Nebraska's long-term strategy and planning for years to come.