



May 2020

Coronavirus Relief Funds Options

As part of the federal Coronavirus Aid, Relief and Economic Security (CARES) Act, Pennsylvania is scheduled to receive \$3.9 billion in relief funds along with around \$3 billion in federal funds for Human Services, Education, and Transportation. An additional \$2.2 billion is available for localities of population greater than 500,000.

The Coronavirus Relief Funds must, according to [federal requirements](#), be used for effects of the virus between March 1 and Dec 30, 2020, not for items in the most recent state budget. Within these limits and list of examples, a great deal is subject to interpretation. Commonwealth Foundation suggests the following principles and recommendation for allocating these Coronavirus Relief Funds.

Guiding Principles

In fiscal years 2008-09 to 2010-11, the commonwealth used federal stimulus funds to replace state dollars for Medicaid expenses and basic education funding to school districts. Relying on temporary funds for ongoing programs proved to be a mistake. Appropriation of the Coronavirus Relief Funds should be:

- **Temporary:** Focus spending on needs that are temporary or one-time in nature and do not drive the expansion or creation of permanent, ongoing programs.
- **Clear:** Eligibility criteria should be clear and narrow, and widely published.
- **Direct:** To the extent possible, funds should be allocated directly, rather than creating new bureaucracies or using quasi-government or large institutions to deliver aid.

Recommendations

Aid families directly

- **Emergency scholarship accounts for students:** Establish and fund emergency [Education Scholarship Accounts \(ESAs\)](#). ESAs are restricted-use accounts that can be used for education purposes including tuition, online classes, curriculum, tutoring, and services for students with special needs. Unprecedented COVID-19 school closures have created unexpected expenses for families, and many schools are not yet providing continuity of education. Emergency ESAs would give parents financial resources to cope with costs associated with continuing education and making up for lost time. ESAs are popular, with support from 73% of Pennsylvanians.
- **Seed health savings accounts or general savings accounts, subject to taxpayer match:** Some families will or have already incurred unforeseen medical costs from COVID-19 or postponing non-urgent health care. CARES money could be used to seed tax-advantaged health savings accounts or general savings accounts to help families

survive unexpected expenses and encourage saving for the future. [Conservative organizations](#) at the national level and the [Wolf administration](#) have proposed similar measures, making this a potential area for bipartisan cooperation.

Help small business

- **Incentivize rehiring of workers.** Like federal loans for business, federal supplements to unemployment were also [poorly designed and create perverse incentives](#). To counteract this effect, Pennsylvania could allocate CARES Act money to the state unemployment office for a weekly bonus to workers who return to work. This would directly undo poor federal policy and assist workers in modifying childcare arrangements, commutes, or personal safety requirements as needed.
- **Targeted re-open grant program.** The Federal [PPP loan program](#) initially authorized \$349 billion to help small businesses make payroll, rent, and other fixed costs. It distributed \$56.9 billion to Pennsylvania businesses in the first round. However, the program was [criticized](#) after large corporations received loans and distribution did not align with the impact of COVID-19. Pennsylvania has numerous entities with an existing infrastructure for small business lending that could administer a temporary grant or loan program to help small businesses mitigate the costs of reopening.

Any business applying for funds should be required to prove that they applied for and were rejected for funding on regular commercial terms. The program must have a sunset date and set dollar limit.

Protect taxpayers

- **Refill the unemployment fund, address pension fund losses, or repay bonds.** While the Coronavirus Relief Funds cannot be used to replace revenue, it may be permissible to use them for debt repayment. Even before the pandemic, Pennsylvania had total public debt (including pension liabilities) of \$143 billion, or \$11,000 per citizen. Recent investment losses and new costs will only add to the total. If permissible by the CARES act, debt paydown would protect taxpayers from interest costs today and higher taxes in the future.

The unemployment insurance reserve fund is one example of where costs are skyrocketing new borrowing is likely to occur. The Secretary of Labor & Industry is already exploring [a federal loan](#) to shore up the fund. These loans are typically paid with higher taxes on workers and employers, making it more expensive to hire. Using Coronavirus Relief Funds to backfill the unemployment fund—something explicitly allowed—would prevent these tax hikes.

- **Property tax holiday.** CARES act money could be used to provide aid to municipal governments, in exchange for property tax holiday. Such action would help both municipalities that are strapped for revenue and individuals struggling to make rent and mortgage payments amid job loss.