

We, the undersigned organizations, representing millions of Americans and thousands of state and local officials, write to express our profound concerns with provisions in the American Rescue Plan Act of 2021. Elements of this recently adopted legislation fundamentally threaten the principles of federalism and fiscal responsibility.

The American Rescue Plan Act includes [\\$350 billion](#) in State and Local Fiscal Recovery Funds. This is despite [early reports](#) that show total state and local revenue actually increased in calendar year 2020, and many states currently have significant surpluses. These funds also are in addition to the hundreds of billions in federal assistance to state and local units of government through the CARES Act and other measures in 2020. Over the past year, our organizations raised concerns around the many public policy problems created by a federal bailout of state and local government budgets. Additionally, hundreds of [state legislators voiced their numerous policy concerns](#).

Now that this bailout of state and local governments has been signed into law by President Biden, there is perhaps an even more troubling element than any of us could have anticipated. As the editorial board of *The Wall Street Journal* recently pointed out, states [are prohibited](#) from using these new federal funds to directly *or indirectly* reduce net state tax revenue through 2024. With the fungible nature of budgeting, and absent any clarifications from the Department of Treasury, the incredibly ambiguous language involving indirect net revenue reductions means that any tax relief at the state level could potentially be called into question by aggressive federal action. This will undoubtedly harm state taxpayers and the future economic competitiveness of states.

To address this glaring policy mistake, U.S. Senator Mike Braun's "Let States Cut Taxes Act" would allow states more flexibility in the way they can use federal funds, if they chose to take the money. We understand Congressman Dan Bishop plans to propose policy reforms as well. Absent reforms like these, states will be pressured into using federal funds to grow government and baseline spending totals. We watched this play out more than a decade ago with the Obama-era "American Recovery and Reinvestment Act of 2009" (ARRA) and those infamous "shovel ready" projects. Growing state government bureaucracy with federal funds would create massive state budget challenges as the money disappears, but the federal requirements live on for years to come.

Using federal coercion to artificially elevate state tax burdens at a time when small businesses and hardworking American taxpayers need real tax relief is nonsensical. Our groups have spent decades working with state policymakers and watching them achieve more economically competitive business climates through pro-growth tax and economic reforms. Having the federal government use "the power of the purse" in an attempt to curtail the use of competitive federalism is incredibly damaging to our American system of government.

We will work to protect the fundamental principle of federalism and allow states to continue their progress in pursuing economic gains as the "laboratories of democracy." Restricting states from providing pro-growth net tax relief tips the scales of federalism inexorably toward central planning and micromanagement by the federal government.

We applaud Senator Mike Braun and Congressman Dan Bishop for taking on this important fight to shield states and their hardworking taxpayers from burdensome federal overreach. We stand ready to assist you as you work to expose the numerous areas of harmful policy implemented by the American Rescue Plan Act.

Respectfully,

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The Honorable Tim Jones
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