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Updated April 22, 2022

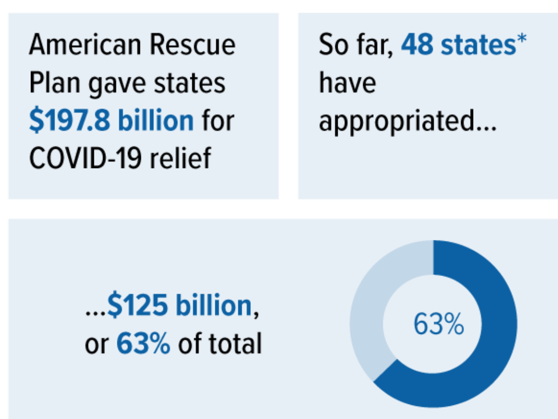
How States Can Best Use Federal Fiscal Recovery Funds: Lessons From State Choices So Far

By Ed Lazere[1]

States across the nation are using the $195 billion Fiscal Recovery Funds (FRF), created under the federal American Rescue Plan, to address the COVID-19 pandemic's harmful economic and health effects. Our review of these spending decisions shows that many states are using these funds constructively: to offset declines in their revenue collections; to address the health, economic, and fiscal impacts of the pandemic and contribute to the economic recovery; and to start new long-term investments to address racial and economic inequities. Decisions in some states are not constructive. All offer important lessons for how states should use the more than $70 billion in remaining funds, which will be critical both to addressing the pandemic's ongoing damage and to putting states' economies on a path toward a strong recovery.

FIGURE 1

Most States Have Started Using Fiscal Recovery Funds; Over a Third of Funding Remains



*Number of states includes D.C. and Puerto Rico.
Source: CBPP analysis

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States are making substantial progress in using FRF, our review shows. As of March 23, 2022, some 48 states, the District of Columbia, and Puerto Rico have appropriated $125 billion. (See Figure 1.) That is 63 percent of the full $198 billion set aside for them, and 80 percent of the $155 billion distributed to them in 2021 (the rest will be this year). Among states that have allocated funds, the median state has committed 58 percent of its full allocation. The three states that have allocated little or no FRF to date — Mississippi, Nebraska, and South Carolina —

[1] The author thanks colleagues Julian Legendre, Iris Hinh, and Maria Perez, who gathered and organized much of the data on state allocation of Fiscal Recovery Funds highlighted in this report. They relied in part on fund tracking conducted by the National Conference of State Legislatures.

are making spending decisions as part of their 2022 sessions. States have until the end of 2024 to fully "obligate" their FRF (decide how they will be used), and until 2026 to complete their spending.

States have tremendous flexibility over how they use FRF. The most substantial use of these funds to date has been to replace state revenues that fell below projected levels as the pandemic pushed state budgets out of balance. This use has been important, because states must balance their budgets every year, even during economic downturns when demands for social services rise and revenue collections decline, for instance through lower sales tax and income tax collections. The FRF used to replace state revenues helped sustain state funding for schools, health care, and other services and avoided deep cuts to these services during the pandemic, including by minimizing layoffs for teachers and other public employees. Following the Great Recession, the federal response to which was inadequate, lagging state economies held back the economic recovery. But this time around states, localities, U.S. Territories, and tribal governments using their FRF wisely are contributing to the economic recovery and are well-positioned to leave the country more prepared when the next downturn hits.

Beyond that, many states have used FRF to respond directly to the impacts of the pandemic, including for public health or other health care services; food, housing, and other social services; assistance to businesses and workers and other investments in economic development; investments in K-12 and higher education; and expanded access to high-speed internet, key for remote learning. Several states are using FRF to address not just the immediate harms of the pandemic but also long-standing gaps in state services. California, for example, is revamping its youth mental health system. Other states are making transformative investments in affordable housing, mental health services, aid to immigrants excluded from public benefits, and more.

Unfortunately, some states have used the funds for initiatives that do not address the pandemic, the resulting hardships people are experiencing, or the underlying racial and economic inequities the pandemic has made so apparent. Alabama, for example, devoted nearly one-fifth of its funds to build new prisons. Some states used FRF to rebuild their unemployment insurance (UI) trust funds — rather than refilling them gradually in future years through modest employer taxes. A handful of states are using FRF for highway construction or other capital projects unrelated to the pandemic.

States have appropriated a substantial share of their Fiscal Recovery Funds, but more than $75 billion remains, including $40 billion that the Treasury Department will distribute this year to the states receiving FRF in two tranches. That means most states still face important decisions over how to use these flexible funds. They should prioritize investments that will help residents who continue to struggle, support a robust recovery, and reduce long-standing racial and economic inequities in education, employment, housing, and health care that the pandemic has exacerbated. Spending funds in ways that fail to serve these purposes would be a lost opportunity to create more equitable state services and could slow the recovery of state and national economies, similar to the inadequate response to the Great Recession.

Purposes of FRF Include Responding to Pandemic, Preventing Service Cuts

The pandemic continues to impact public health and the financial security of many U.S. residents, key sectors of the economy, and the education system. Racial inequities widened in the pandemic, as

Black, Latino, and Native American residents bore the brunt of the job losses and illness and death.[2] While unemployment has fallen sharply in recent months, Black and Latino workers continue to face higher unemployment than before the pandemic.[3] Also, rising food and energy prices, stemming largely from disruptions to the global supply chain, are hitting people with low incomes hard.[4] These outcomes reflect wealth and income disparities, inadequate access to health care, and racial discrimination built into the health system and labor market.

The American Rescue Plan, adopted in March 2021, included an array of aid to reduce the extreme hardship many people and businesses faced. In addition to targeted aid for child care, eviction prevention, and other services, the Rescue Plan provided $350 billion in State and Local Fiscal Recovery Funds for states, localities, tribal nations, and territories. These jurisdictions have flexibility to use the funds over several years to address pandemic-related budget gaps and to help people and businesses hit hardest.

This analysis focuses on states' $195 billion in FRF, distributed based on each state's share of unemployed people and with a minimum allotment of $500 million per state, as well as funding for Puerto Rico. (See box, "Fiscal Recovery Funds for Localities and Tribal Nations," for resources detailing these jurisdictions' use of FRF.) States with especially high increases in unemployment during the pandemic received all of their FRF funds in one allotment. Others received half of their funding in spring 2021 and the other half will come this year. States have until December 31, 2024 to obligate all of the funds and until 2026 to finish spending them. Appendix Table 1 shows states' allocation in 2021 and total funding per capita. Note that because all states were guaranteed $500 million, smaller states generally received more per capita than other states.

The Rescue Plan provides that states and other governments may spend these funds to:

- respond to the pandemic and its negative health and economic impacts;
- provide bonus pay to essential workers;
- prevent cuts in public services caused by pandemic-induced revenue losses and avoid additional cuts; and
- invest in water, sewer, or broadband infrastructure.

[2] The Centers for Disease Control and Prevention (CDC) notes that "racial and ethnic minority groups" are "more at risk of getting sick and dying of COVID-19" as a result of health inequities. See CDC, "Health Equity Consideration and Racial and Ethnic Minority Groups," updated April 19, 2021, https://www.cdc.gov/coronavirus/2019-ncov/community/health-equity/race-ethnicity.html. A 2021 survey found that Black and Hispanic residents were more likely than white residents to experience a job loss in their household and to know someone who contracted COVID-19. See Aaron Morrison, Kat Stafford, and Emily Swanson, "AP-NORC Poll: People of color bear COVID-19's economic brunt," AP, March 12, 2021, https://apnews.com/article/ap-norc-poll-people-of-color-covid-19-economy-421f0582650c02a42508fb46aa461a7b.

[3] CBPP, "Chartbook: Tracking the Post-Great Recession Economy," updated April 1, 2022, https://www.cbpp.org/research/economy/tracking-the-post-great-recession-economy.

[4] Chuck Marr, "Rising Food and Energy Prices Underscore the Urgency of Acting on the Child Tax Credit," CBPP, March 28, 2022, https://www.cbpp.org/blog/rising-food-and-energy-prices-underscore-the-urgency-of-acting-on-the-child-tax-credit.

States may *not* use the funds to offset tax cuts above a certain size (although this has been

Fiscal Recovery Funds for Localities and Tribal Nations

In addition to the $195 billion for states and the District of Columbia, the Rescue Plan provided $65 billion in Fiscal Recovery Funds to counties, $45.6 billion to larger cities, $19.5 billion to smaller cities, $20 billion to tribal nations, and $4.5 billion to U.S. Territories, to be spent in the same way that states can spend theirs. While this analysis focuses on *state* spending decisions, in part because of the sheer volume of counties, cities, tribal nations, and territories, other organizations are tracking FRF spending decisions at these other levels. For example, see the National League of Cities "COVID-19: Local Action Tracker "[a] and the National Association of Counties' county-level funding list.[b]

All jurisdictions must report on expenditure of their FRF resources as described below:

- All local governments, tribal governments, and territories were required to report on FRF expenditures by October 31, 2021 and must do so every quarter or annually after that, depending on their size;
- Counties, cities, and territories with populations over 250,000 must submit annual "Recovery Plan and Performance" reports.

In addition, all local governments, territories, and tribal governments must describe how their planned or current use of funds incorporates written, oral, and other forms of input that capture diverse feedback from constituents, community-based organizations, and the communities themselves.[c]

[a] National League of Cities, "COVID-19: Local Action Tracker," https://www.nlc.org/resource/covid-19-local-action-tracker/.
[b] National Association of Counties, "County Responses to the COVID-19 Pandemic: State and Local Coronavirus Fiscal Recovery Funds," https://www.naco.org/resources/featured/state-and-local-coronavirus-fiscal-recovery-funds.
[c] See Treasury Department, "Compliance and Reporting Guidance: State and Local Fiscal Recovery Funds," November 5, 2021, https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf.

challenged in court), to support public employee pensions, or to pay off existing debts.

Treasury Encourages States to Use FRF to Address Racial and Economic Inequities

Guidance from the Treasury Department, which is administering the FRF, explicitly encourages states and localities to help people most affected by the pandemic and to address racial and economic inequities that predate, but worsened in, the pandemic.[4] Specifically, Treasury's interim guidance:

- Encourages states to focus on households "most disproportionately impacted by the pandemic";
- Promotes using funds for "a strong, inclusive, and equitable recovery, especially uses with long-term benefits for health and economic outcomes";
- Allows a broad array of spending targeted to people with low incomes or in low-income communities; and
- Allows spending that reduces health inequities across racial and economic groups.

Treasury's final rule on Fiscal Recovery Funds clarifies that investments to support people or communities with low incomes are allowable and simplifies the process for making these kinds of investments. The final rule creates new definitions of individuals and communities that the pandemic has "impacted" or "disproportionately impacted" and lists the kinds of services that states and localities can provide for each group using State and Local FRF. "Impacted" people include those with incomes below 300 percent of the federal poverty line (about $66,000) for a family of three, and "disproportionately impacted" people include those with incomes below 185 percent of the poverty line ($40,600 for a family of three).[5]

The federal guidance notes that some of the pandemic's impacts may be long lasting — and thus may require investments for an extended period to be successful. For instance, the guidance notes that many children whose schooling was disrupted during the pandemic will experience long-term learning losses that diminish their prospects. The pandemic's impacts on mental and physical health, children's cognitive functioning, and the employability of adults who lost jobs during the crisis may also be long lasting, it notes.

Most States Have Started Allocating Fiscal Recovery Funds

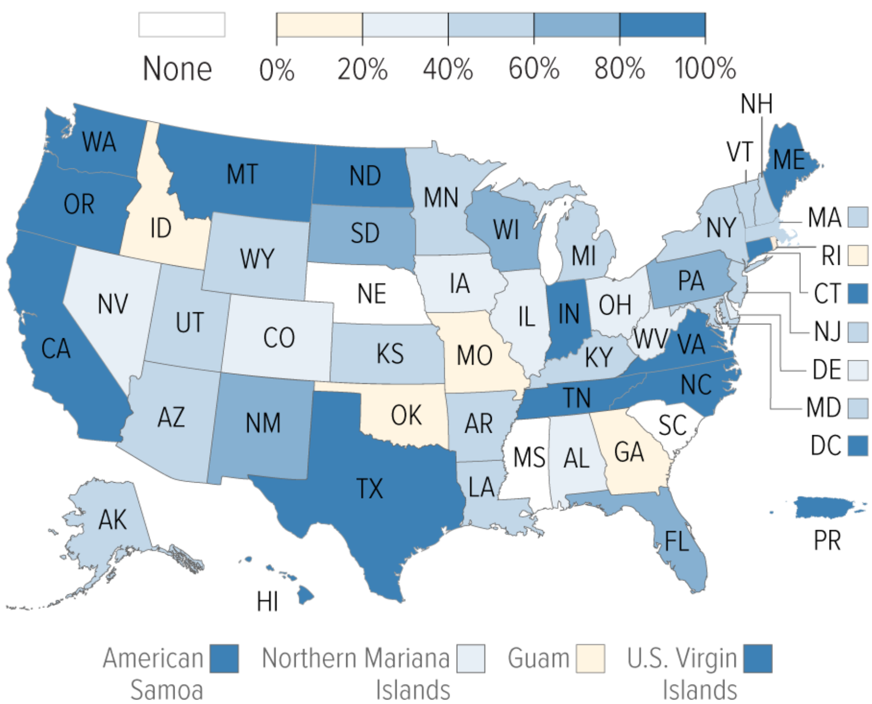
As of March 23, 2022, some 48 states, D.C., and Puerto Rico have appropriated $125 billion of these funds. This is 63 percent of the $198 billion FRF provided to them — and 80 percent of the $155 billion distributed to them in 2021 (the remainder will be distributed in 2022). In addition, American Samoa, Guam, the Northern Mariana Islands, and the U.S. Virgin Islands have appropriated $1.2 billion of FRF collectively.

[5] The full definition of "impacted" and "disproportionately impacted" people and communities can be found in a summary of the final rule at https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-Overview.pdf. Treasury's interim and final rule can be found here: https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds#main-content.

FIGURE 2

States Are Using Their Fiscal Recovery Funds

Share of total state Fiscal Recovery Funds appropriated (excludes funds granted to local governments)



Note: The American Rescue Plan gave states $197.8 billion in Fiscal Recovery Funds to combat the effects of the COVID-19 pandemic.

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As noted above, states, localities, territories, and tribal governments have until December 31, 2024 to obligate these funds, or as many as three more budget cycles. The actions to date show that states are actively using this money as a vital source of funding in the pandemic. Some states allocated funds for the end of fiscal year 2021 (which ended June 30, 2021 in most states) while most allocated for 2022 and a few (especially those with biennial budgets) also allocated for 2023. In nearly every state, the legislature is involved in allocating FRF resources, either by including them as part of an annual or supplemental budget, or through legislative fiscal committees authorized to spend the money. In a handful of states, the governor has control over the allocation decisions.[6]

Of the states that have started appropriating FRF:

[6] As shown in Appendix Table 3, FRF allocation in some states is controlled entirely by the governor, such as in Arizona. In some other states, such as Arkansas and Tennessee, the governor has created a special task force or committee to guide decisions. And in some states, such as Nevada and New Hampshire, spending decisions are made by a legislative fiscal committee.

- Six states[7] — California, Indiana, Maine, Montana, North Carolina, and Washington — and Puerto Rico have appropriated all or nearly all of their FRF resources;
- Thirteen states, D.C., and Puerto Rico have appropriated more than 80 percent or more (including those that have allocated 100 percent);
- Six states have appropriated 60 to 80 percent;
- Sixteen have appropriated 40 to 60 percent;
- Seven have appropriated 20 to 40 percent; and
- Five states have allotted under 20 percent. (See Figure 2 and Appendix Table 2 for details.[8])

Mississippi, Nebraska, and South Carolina have allocated little or no FRF as of March 23, 2022. Policymakers in those states are appropriating FRF as part of their 2022 budget and legislative cycle. See Appendix Table 3 for details on the next step in FRF allocations in all states.

Tracking States' Spending Choices With Fiscal Recovery Funds

As noted, the Rescue Plan gave states substantial flexibility over the use of funds, and spending choices to date reflect that. (See Appendix II for details on some states' choices.)

- **Replacing lost revenue (19 percent of funds nationally).** The largest single use of FRF allocated to date has been to replace revenue losses caused by the pandemic. Nine states have used FRF as a general revenues source in this way.[9]
- **Unemployment insurance (13 percent).** Twenty-one states have used FRF to shore up their UI trust fund or in some cases, to improve their UI system.
- **Human services (13 percent).** Human services programs receiving funds include cash aid, housing, food assistance, and social services. Thirty-seven states have devoted funds to this purpose.
- **Economic development (12 percent).** This includes aid to businesses, support for targeted industries, and job training and other workforce development services. Forty-one states have used FRF funds for economic development.
- **Broadband (7 percent). Twenty-four** states have allocated FRF to expanding access to high-speed internet.

[7] This report focuses primarily on states, the District of Columbia, and Puerto Rico. However, the U.S. Virgin Islands and American Samoa also appropriated 100 percent of their FRF.

[8] A suite of interactives with data in this report is available at https://www.cbpp.org/research/state-budget-and-tax/resource-lists/fiscal-recovery-funds-in-the-american-rescue-plan.

[9] FRF rules allow states to spend the funds in an amount equal to the revenue decline they experienced in the pandemic. Funds used under this provision can be spent on any government purpose. Many states have taken advantage of this provision, in most cases by allocating funds for specific purposes that might not be eligible under FRF rules, such as Florida using FRF for highway construction. Those specific state allocations are not included here but instead in the category of spending they fall under. The states counted here are those that used FRF as a general revenue source in their budget, without allocating it to any specific purpose.

- **Health care (9 percent).** Forty-three states have spent FRF on public health interventions, mental health services, supports for health care organizations, and other health care.
- **Water and sewer infrastructure (6 percent).** Twenty-six states have devoted FRF to this.
- **Education (5 percent).** This excludes targeted education relief funds in the Rescue Plan. It includes K-12 funding supports and higher education investments in colleges and universities, as well as direct aid to students. Thirty states have devoted FRF to education.
- **Other infrastructure (4 percent)**. Transportation especially has received FRF in this area. Twenty-two states have allocated FRF for this purpose.
- **Criminal justice (2 percent).** This includes premium pay for public safety workers, education and training programs for people who are incarcerated, and investments in policing alternatives such as violence interrupters: community-based groups that mediate disputes that could otherwise lead to violence. Alabama is the only state to use FRF to date for prison construction. It has devoted $400 million (18 percent of its total FRF resources) to build two new prisons.

Some States Making the Most of FRF to Meet Intended Goals, Others Are Not

CBPP's analysis of state allocations of their FRF reveals three broad ways that states are using FRF. Two of these are highly consistent with the goals of the Rescue Plan — to fight COVID-19, help people harmed by its health and economic effects, and support a strong recovery — but the third area is not:

- **Replacing lost revenue.** Many states are using FRF as a core funding source in their budget, supporting services and avoiding budget cuts that they otherwise would have had to make because their own revenue collections have fallen below projected levels.
- **Proactive investments to address harms of the pandemic**. This includes both short- and long-term investments that address economic and racial inequities.
- **Unrelated expenditures.** Some states are using FRF for services or capital construction projects that are largely unrelated to the pandemic or to promoting an equitable recovery. While the Rescue Plan may legally allow these uses, they are inconsistent with its spirit and with the spirit of the Treasury Department's guidance on using the funds, particularly its encouragement that states prioritize reducing inequities and supporting communities that the pandemic has most harmed.

Using FRF for Revenue Replacement Was a Reasonable Short-Term Action

As noted, the largest single use of FRF by states to date has been to address the loss of state revenue in the pandemic. States must balance their budgets every year, and they face challenges in economic downturns when tax and other revenue collections tend to fall and the demand for social services increases. Federal aid to states thus helps avoid painful cuts in state-funded services in an economic downturn, which otherwise would add to its hardships. During and after the Great Recession, federal aid to states was much less than was required to make up for state revenue losses, and ended too soon.[10] As a result, states and localities continued laying off workers and cutting back spending, slowing the nation's economic recovery.[11]

This is why one of the stated purposes of the FRF is to replace revenues that fell below projected levels because of the pandemic. The Treasury guidance provided a formula for states to calculate how much their revenues have fallen from otherwise expected levels, and then allows states to use that amount of FRF as a revenue replacement. When states use FRF to replace lost revenue, they can direct those funds to any program or service, other than those the Rescue Plan explicitly prohibits.

It makes sense that states have used FRF to replace lost revenue. State revenues fell dramatically in 2020, and while they have recovered since then (in large part due to federal relief efforts that kept residents and businesses afloat), that recovery was gradual, was far from complete when the FRF became available, and varied widely by state. Beyond that, the Rescue Plan's spring 2021 adoption was late in many states' legislative cycles — and in some states after the cycles had ended — giving policymakers little time to consider nuanced near-term spending of their FRF. Using the funds to replace lost revenue was a straightforward way to use funds quickly and in ways that supported state economies.

States using a substantial share of FRF in this way include Alaska, California, Connecticut, Maryland, Minnesota, New York, Pennsylvania, Washington, and Wyoming. These uses add up to $24 billion, or 19 percent of state uses of FRF money to date.

Some states have used FRF to create a fund that their governors have discretion to use to meet demands caused by the pandemic. Colorado created a $300 million fund that the governor can use for any allowable purpose, in any state department, and Minnesota created a $425 million COVID-19 response fund to allocate to state agencies as needed. Illinois set aside $258 million for this purpose, and New Jersey set aside $200 million. Wisconsin set aside $525 million for "pandemic response and government operations."

Using FRF to replace lost revenue appears to have allowed states to avoid further layoffs and spending cuts and to begin restoring jobs and services lost after the pandemic hit. At the start of the pandemic, states and localities cut public employment sharply, by nearly 1.5 million in April and May 2021. Beyond the job losses themselves, this had a serious impact on access to key services for residents. Federal funds have helped states and localities undo some of those cuts. As of February 2022, state and local governments added back nearly 800,000 jobs, offsetting more than half of the early-pandemic cuts. And state and local employment may grow further as fiscal year 2022 continues.

At the same time, using FRF to replace lost revenue typically means that funds are being used for services that existed prior to the pandemic, up to the level of need projected before the pandemic

[10] Elizabeth McNichol, "Out of Balance: Cuts in Services Have Been States' Primary Response to Budget Gaps, Harming the Nation's Economy," CBPP, April 18, 2012, https://www.cbpp.org/research/out-of-balance.

[11] Michael Leachman and Erica Williams, "States Can Learn From Great Recession, Adopt Forward-Looking, Antiracist Policies," CBPP, February 11, 2021, https://www.cbpp.org/research/state-budget-and-tax/states-can-learn-from-great-recession-adopt-forward-looking.

hit. This use, therefore, may not help much to address the unexpected economic and health impacts of the pandemic or to reduce the racial and economic inequities that have made the pandemic's impacts particularly harsh in certain communities. As states complete their 2022 legislative sessions and write their budgets for the upcoming fiscal year with more stable finances and more time to consider how to use FRF, they should target investments that respond to the pandemic, address current issues such as rising food and energy costs, and reduce long-standing structural inequities.

States Are Using FRF to Promote Economic and Racial Equity

Many states are directing a portion of their Fiscal Recovery Funds to helping residents hit hardest by the pandemic's economic and health effects. Several states are also using their FRF to jumpstart initiatives to address long-standing racial and economic inequities in access to health care, housing, nutritious and adequate diets, and education and other public services. These investments will help states fully address the health and economic impacts of the pandemic and support a more equitable future.

Examples of state uses of FRF in this way include the following:

- **Housing assistance and eviction protection.** Connecticut is devoting some of its FRF to legal assistance for residents facing eviction, and Washington State provided $400 million to cover past rent due for residents who face eviction.
- **Food assistance.** Utah allocated $17 million to establish two food banks, including one in the Navajo Nation, and Oregon devoted $14 million to support emergency food supplies.
- **Immigrant assistance**. Washington State allocated $340 million to provide financial support to immigrants affected by the pandemic, many of whom were ineligible to receive other public benefits. Illinois made a number of appropriations to assist immigrants, including direct cash assistance and support for immigration welcome services.
- **Education**. New Jersey provided $600 million between 2022 and 2024 to offer an additional year of schooling to special education students who otherwise would age out.[12] Connecticut allocated $26 million to strengthen early literacy efforts across the state, with special assistance for students reading below grade level and to school districts with the lowest early literacy outcomes.

Beyond these short-term investments, several states are using FRF to address long-standing gaps in some services, such as mental health, which people of color have faced barriers in accessing.[13] Other states are trying new approaches to addressing long-standing inequities in the criminal legal system, such as by investing in alternatives to policing. Shifting to policing alternatives can reduce unnecessary police stops that too often escalate and result in arrests and incarceration that

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[12] Eligibility for K-12 special education services ends at age 21 under federal law.

[13] Jennifer Sullivan, Miriam Pearsall, and Anna Bailey, "To Improve Behavioral Health, First Close the Medicaid Coverage Gap," CBPP, October 4, 2021, https://www.cbpp.org/research/health/to-improve-behavioral-health-start-by-closing-the-medicaid-coverage-gap.

disproportionately target people of color and communities that have been marginalized.[14] All of these states are reforming systems to deliver services, expanding staff to provide services, and adding funds to existing programs.

While it is not clear whether states will continue all of these initiatives when the relief funds run out, the systemic nature of these changes suggests that many states will look for ways to maintain services with their own funds. Certainly, the long-term impact of these changes will depend on their continuation beyond the availability of FRF.

Here are a few examples of states making these kinds of transformative investments:

- **California** is investing $530 million to expand access to mental health and substance use services and $100 million to revamp its approach to youth mental health services. The state also committed $1.8 billion to create new child savings accounts, which will set aside funds for every child from birth through age 18 that can then be invested in education, homeownership, and other economic opportunities.
- **Maryland** used $480 million to fund its groundbreaking Blueprint for Education Reform, an initiative created pre-pandemic that called for billions of new investments in education over several years, with a focus on addressing racial and economic disparities in education. Until recently, the state's policymakers had not devoted many resources to the Blueprint, which means the federal funds will help launch this important initiative.
- **Colorado** committed over $130 million to affordable housing, mostly by distributing funds to localities to build affordable housing.
- **Illinois** is investing $52 million to support alternatives to policing, particularly by supporting expansion of violence interruption services.
- **Utah** devoted $90 million to support a new mental health facility at the University of Utah.
- **New Jersey** provided $100 million to its Child Care Revitalization Fund to fund facility improvements, employee supports, and workforce development programming.
- **Virginia** devoted $77 million to raise salaries for direct care staff at state behavioral health facilities and intellectual disability training centers. Direct care staff typically are low-paid workers and are disproportionately women of color.

[14] Ed Lazere, "Using Federal Relief Funds to Invest in Non-Police Approaches to Public Safety," CBPP, November 18, 2021, https://www.cbpp.org/research/state-budget-and-tax/using-federal-relief-funds-to-invest-in-non-police-approaches-to.

Public Engagement and Reporting on Use of FRF

The Rescue Plan includes important reporting and public engagement requirements to help residents and organizational stakeholders influence the use of FRF and follow the outcomes of state spending decisions. The requirements include the following:

Recovery Plan Performance Report

Every state had to submit a "Recovery Plan Performance Report" by August 31, 2021, and must do so every following year by July 31 until all of its funds are expended. States must post the reports on a public-facing, state-hosted website and also submit them to the U.S. Treasury Department. (In addition, the National Association of State Budget Officers has posted all of the first-round state reports.) These reports include the following:

- **Use of funds.** Amounts dedicated to public health response, amelioration of negative economic impacts, support for disproportionately affected communities, premium pay, water/sewer and broadband infrastructure, and replacement of lost state revenue;
- **Impact on equity.** How each investment will promote equity;
- **Community engagement.** How the state engaged residents to get input on their recovery plan;
- **Labor practice.** How the state used FRF to create good job opportunities;
- **Use of evidence.** How the state used evidence to make spending decisions;
- **Project list.** A list of projects funded with FRF;
- **Performance indicators.** How many people or businesses were helped, and levels of services provided; and
- **Expenses.** Actual expenditures for projects in the recovery plan report.

Expenditure Reports

In addition, states must submit quarterly reports on actual expenditure of FRF resources. This reporting allows stakeholders to track progress in implementing the approved projects. The quarterly reports must list:

- **Project name.**
- **Total expenditures for each project** in the quarter, all expenditures to date, and what fraction of the project has been completed.
- Whether the project targets an **economically disadvantaged community**.
- **Expenditure details** by project, including payroll, premium pay, assistance to households, assistance to businesses, and details of infrastructure projects. States must report both dollars expended and the level of services provided (for example, the number of households helped or miles of high-speed internet fiber installed).

States Not Making the Most of Their FRF

Some states have used the flexibility of the FRF to spend resources in ways that don't respond directly to the pandemic and its impacts, and others that don't help build a stronger recovery or address racial and economic inequities. While allowable under FRF rules, the following choices states have made are not making the most of the opportunity the FRF provide to support an equitable recovery from the pandemic.

- **Rebuilding UI trust funds without expanding benefits or improving systems.** Twenty-one states used FRF to put almost $16 billion into their unemployment insurance trust funds.[15] Filling up the trust funds does not address UI's programmatic shortcomings, including low benefits and outdated IT. Of the $16 billion states devoted to UI, only $216 million (in Nevada, New Jersey, Tennessee, Virginia, and Washington) was for modernizing unemployment insurance IT and other systemic changes to improve program operations.

  States do not need to use FRF to restore depleted trust funds; there is already a system in place for that. UI trust funds are designed to raise revenue through employer taxes during good times to pay for worker benefits during hard times, and employer tax rates are adjusted automatically when trust fund balances are inadequate. Trust fund balances also will improve as unemployment falls and as business taxes gradually replenish trust funds over the next few years. While modest tax increases may be required as the economy recovers, states can design these tax increases to protect small employers still struggling in a difficult economy and to take effect once the economy is on firmer footing (as it already is). Because replenishing trust funds largely serves to provide a tax cut for businesses, largely in future years when the recovery is even further established, using FRF to replenish UI trust funds should be a low priority. Relying on these existing funding systems, rather than FRF, would help preserve FRF for more immediate needs and to address structural inequities.
- **Capital construction unrelated to pandemic relief.** Alabama devoted $400 million of its FRF allocation — nearly 20 percent — to building two new prisons, despite the pandemic's harmful impacts in Black and low-income communities long neglected by state policy. Florida devoted $2 billion of its FRF funds — 23 percent — to highway construction. Other states, including Colorado, Louisiana, and Washington, also devoted a large share of their FRF allocations to transportation projects. While spending on highways may help produce a stronger recovery, it is often poorly targeted to the communities that need help the most, making it a relatively low priority in states with substantial unmet pandemic-related needs and deep, long-standing structural inequities.

State Tax Cuts Weaken Impact of Fiscal Recovery Funds

The Rescue Plan prevents states from making deep tax cuts by reducing federal relief to states that cut taxes deeply, although this is being challenged in court. Despite this, policymakers in at least 14 states, including Arizona, Idaho, and Ohio, are considering or have enacted tax cuts limiting their long-term opportunities for investment. In some of these states, policymakers have proposed dramatic changes to their tax systems, including proposals to eliminate the income tax in Mississippi, Arkansas, and West Virginia.

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[15] The states are Arizona, Connecticut, Hawai'i, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Michigan, Nevada, New Mexico, Ohio, Texas, Utah, Virginia, and Washington.

Even when states are not directly using FRF to cut taxes, tax cuts are relevant to the successful use of FRF because they limit a state's ability to make investments, for example in education and health care, that help people struggling due to the pandemic and to rising costs, reduce structural inequities, and promote a strong economy. Cutting taxes now would have a serious opportunity cost, reducing states' ability to address these challenges and leading to long-term harm on the economy and the communities that the pandemic has most affected. To the extent states considering tax cuts are also making strategic investments to support their pandemic recovery, tax cuts would limit states' ability to maintain those investments in the future.

How States Can Make the Most of Remaining Fiscal Recovery Funds

State budget choices over the next several years will be critical to addressing the suffering caused by the pandemic and to putting states' economies on a path toward the strongest possible recovery. A substantial share of the Fiscal Recovery Funds has been allocated, but more than $80 billion remains, meaning important decisions remain over the use of these funds in most states. As states consider their decisions, mostly in this year's legislative sessions, the experiences of the past year offer the following lessons on how to use FRF to support residents and businesses still struggling, and to build a strong recovery that benefits everyone:

- **There's less need for states to use FRF to replace revenue.** Most states are in much stronger fiscal shape in this year's budget season (for fiscal year 2023) than they were last season, and all of them have had time to consider the best ways to spend relief funds. The improving fiscal situation should mean that states can use smaller shares of their remaining allocations for revenue replacement. That would make more room for addressing COVID-19-induced hardships and reducing racial and economic inequities.
- **States should not use FRF to replenish their UI trust funds.** State trust fund balances will improve as state economies grow and more people return to work, since UI is funded with taxes that employers pay on behalf of each employee. And states can strengthen trust funds through modest increases in employer tax rates as the economy improves; indeed, federal UI taxes *automatically* increase gradually until loans taken during the downturn to pay benefits are repaid. Devoting FRF to UI trust funds should thus be a low priority and will not result in any expansion of unemployment services.
- **States should prioritize investments that will help residents who continue to struggle and that will support a robust and equitable recovery.** Many states are using FRF to support pandemic relief and a number are addressing long-standing challenges such as lack of affordable housing and inadequate access to mental health services. These investments hold the most promise for creating a strong recovery and addressing systemic economic and racial inequities. By contrast, using FRF for services unrelated to pandemic recovery — such as highway or prison construction — ignores the needs of people facing immediate hardships and neglects the opportunity the funds provide to address structural inequalities.
- **States should sharply limit tax cutting.** Tax cuts that benefit wealthy people and profitable corporations undercut the FRFs' opportunity. Even if targeted elsewhere, tax cuts that hinder a state's ability to provide strong schools, high-quality health care, and other needed services are also harmful. States may wish to adopt or expand tax credits targeted to low-income people, such as earned income tax credits, to supplement their investments in

people and communities hardest hit by the pandemic. But they should generally avoid tax cuts at this time of great need and historic opportunity for new, transformative investments.

Appendix I

TABLE 1

Fiscal Recovery Funds by State

State	Total FRF Allocated (millions)	Portion Received in 2021	State Population	Amount Per Capita
Alabama	$2,120	$1,060	4,921,532	$431
Alaska	$1,012	$506	731,158	$1,384
Arizona	$4,183	$2,091	7,421,401	$564
Arkansas	$1,573	$787	3,030,522	$519
California	$27,017	$27,017	39,368,078	$686
Colorado	$3,829	$3,829	5,807,719	$659
Connecticut	$2,812	$2,812	3,557,006	$791
Delaware	$925	$925	986,809	$937
District of Columbia	$1,802	$1,802	712,816	$2,529
Florida	$8,817	$4,408	21,733,312	$406
Georgia	$4,854	$2,427	10,710,017	$453
Hawai'i	$1,642	$1,642	1,407,006	$1,167
Idaho	$1,094	$547	1,826,913	$599
Illinois	$8,128	$8,128	12,587,530	$646
Indiana	$3,072	$1,536	6,754,953	$455
Iowa	$1,481	$740	3,163,561	$468
Kansas	$1,584	$792	2,913,805	$544
Kentucky	$2,183	$1,092	4,477,251	$488
Louisiana	$3,011	$3,011	4,645,318	$648
Maine	$997	$499	1,350,141	$739
Maryland	$3,717	$3,717	6,055,802	$614
Massachusetts	$5,286	$5,286	6,893,574	$767
Michigan	$6,540	$3,270	9,966,555	$656
Minnesota	$2,833	$1,417	5,657,342	$501
Mississippi	$1,806	$903	2,966,786	$609
Missouri	$2,685	$1,343	6,151,548	$437
Montana	$906	$453	1,080,577	$839
Nebraska	$1,040	$520	1,937,552	$537
Nevada	$2,739	$2,739	3,138,259	$873
New Hampshire	$995	$497	1,366,275	$728
New Jersey	$6,245	$6,245	8,882,371	$703
New Mexico	$1,752	$1,752	2,106,319	$832
New York	$12,745	$12,745	19,336,776	$659
North Carolina	$5,439	$2,720	10,600,823	$513
North Dakota	$1,008	$1,008	765,309	$1,316
Ohio	$5,368	$2,684	11,693,217	$459
Oklahoma	$1,870	$935	3,980,783	$470
Oregon	$2,648	$2,648	4,241,507	$624
Pennsylvania	$7,291	$7,291	12,783,254	$570
Puerto Rico	$2,470	$2,470	3,159,343	$782

TABLE 1

Fiscal Recovery Funds by State

State	Total FRF Allocated (millions)	Portion Received in 2021	State Population	Amount Per Capita
Rhode Island	$1,131	$1,131	1,057,125	$1,070
South Carolina	$2,499	$1,249	5,218,040	$479
South Dakota	$974	$487	892,717	$1,092
Tennessee	$3,726	$1,863	6,886,834	$541
Texas	$15,814	$15,814	29,360,759	$539
Utah	$1,378	$689	3,249,879	$424
Vermont	$1,049	$525	623,347	$1,683
Virginia	$4,294	$2,147	8,590,563	$500
Washington	$4,428	$2,214	7,693,612	$576
West Virginia	$1,356	$678	1,784,787	$759
Wisconsin	$2,533	$1,267	5,832,655	$434
Wyoming	$1,068	$534	582,328	$1,835
Total	$197,770	$154,891		

TABLE 2

State Appropriation of Fiscal Recovery Funds as of March 2022

State/Territory	Total FRF Allotted to State (millions)	Received in 2021 (millions)	Total Appropriations as of Dec. 31, 2021 (millions)	Appropriations as % of FRF received in 2021	Appropriations as % of total FRF received
Alabama	$2,120	$1,060	$1,060	100%	50%
Alaska	$1,012	$506	$729	144%	72%
Arizona	$4,183	$2,091	$1,867	89%	45%
Arkansas	$1,573	$787	$676	46%	23%
California	$27,017	$27,017	$27,017	100%	100%
Colorado	$3,829	$3,829	$1,245	33%	33%
Connecticut	$2,812	$2,812	$2,625	93%	93%
Delaware	$925	$925	$335	36%	36%
District of Columbia	$1,802	$1,802	$1,506	84%	84%
Florida	$8,817	$4,408	$5,346	121%	61%
Georgia	$4,854	$2,427	$940	39%	19%
Hawai'i	$1,642	$1,642	$1,263	77%	77%
Idaho	$1,094	$547	$50	9%	5%
Illinois	$8,128	$8,128	$2,819	35%	35%
Indiana	$3,072	$1,536	$3,116	203%	101%
Iowa	$1,481	$740	$495	67%	33%
Kansas	$1,584	$792	$879	111%	55%
Kentucky	$2,183	$1,092	$1,099	101%	50%
Louisiana	$3,011	$3,011	$1,600	53%	53%
Maine	$997	$499	$997	200%	100%
Maryland	$3,717	$3,717	$2,171	58%	58%
Massachusetts	$5,286	$5,286	$2,605	49%	49%
Michigan	$6,540	$3,270	$3,788	116%	58%
Minnesota	$2,833	$1,417	$1,644	116%	58%
Mississippi	$1,806	$903	$0	0%	0%
Missouri	$2,685	$1,343	$123	9%	5%
Montana	$906	$453	$907	200%	100%
Nebraska	$1,040	$520	$0	0%	0%
Nevada	$2,739	$2,739	$860	31%	31%
New Hampshire	$995	$497	$413	83%	42%
New Jersey	$6,245	$6,245	$2804	45%	45%
New Mexico	$1,752	$1,752	$1,144	65%	65%
New York	$12,745	$12,745	$6,000	47%	47%
North Carolina	$5,439	$2,720	$5,409	199%	99%
North Dakota	$1,008	$1,008	$945	94%	94%
Ohio	$5,368	$2,684	$2,092	78%	39%
Oklahoma	$1,870	$935	$24	3%	1%

TABLE 2

State Appropriation of Fiscal Recovery Funds as of March 2022

State/Territory	Total FRF Allotted to State (millions)	Received in 2021 (millions)	Total Appropriations as of Dec. 31, 2021 (millions)	Appropriations as % of FRF received in 2021	Appropriations as % of total FRF received
Oregon	$2,648	$2,648	$2,175	82%	82%
Pennsylvania	$7,291	$7,291	$4,600	63%	63%
Puerto Rico	$2,470	$2,470	$2,470	100%	100%
Rhode Island	$1,131	$1,131	$119	11%	11%
South Carolina	$2,499	$1,250	$0	0%	0%
South Dakota	$974	$487	$660	135%	68%
Tennessee	$3,726	$1,863	$3,428	184%	92%
Texas	$15,814	$15,814	$12,814	81%	81%
Utah	$1,378	$689	$571	83%	41%
Vermont	$1,049	$525	$606	116%	58%
Virginia	$4,294	$2,147	$3,533	165%	82%
Washington	$4,428	$2,214	$4,393	162%	81%
West Virginia	$1,355	$678	$415	61%	31%
Wisconsin	$2,533	$1,267	$2,033	162%	80%
Wyoming	$1,068	$534	$624	117%	58%

Appendix II: A Deeper Dive into State Spending Choices

This section highlights spending categories that some states that have prioritized. It shows any category that has received FRF in at least ten states and representing at least 5 percent of spending nationally. The Appendix provides notable examples of state allocations for each listed category. The percentages listed in this Appendix represent the share of a given state's FRF allocated to date for that specific purpose.

Human Services

Thirty-one states, the District of Columbia, and all territories have used FRF to support human services programs, with four devoting 30 percent or more of their allocations to date to this purpose.

California: Of its $27 billion total, California devoted $4.9 billion to homelessness services, $2 billion to help residents pay utility or water bills, $1.8 billion to create child savings accounts, and $450 million for affordable housing programs.

New Jersey's human services spending was largely on funds to help keep residents in their homes, with $500 million in rental relief and $250 million in utility assistance for low-income residents.

Washington State devoted $800 million to housing assistance, with a mix of short-term pandemic relief and new, long-term affordable housing programs. The state also used $340 million to create a fund for immigrant residents excluded from public benefit programs, and roughly $100 million for food assistance.

The **District of Columbia** has allocated more than $450 million for programs addressing housing needs, including permanent supportive housing for more than 1,000 people experiencing homelessness and funding that supports construction of affordable housing. It also allocated $50 million to bring grocery stores to food deserts, and cash assistance for immigrants excluded from other federal pandemic aid.

Economic Development

Thirty-five states, the District of Columbia, and all territories have devoted FRF to economic development, with nine states appropriating one-fourth or more of their FRF allocations to date for economic development initiatives.

Wisconsin devoted more than half of its FRF allocated to date to economic development, a total of $805 million, including $645 million in grants to businesses and $130 million for workforce development.

Indiana allocated 26 percent of its funds to economic development, a total of $817 million, including $731 million in regional economic development grants and $75 million for workforce development.

Alaska devoted $171 million of its FRF (30 percent of allocations to date) to support the tourist and seafood industries, to help nonprofits that struggled in the pandemic, and to support cities that were especially hard hit by the pandemic.

Maine provided $345 million of its FRF (34 percent of its allotment) to economic development.

Massachusetts has used its Fiscal Recovery Funds to strengthen its health care and human services workforce, with almost $300 million to support workers in a variety of health care and human services settings. The state also appropriate $185 million for vocational training and other general workforce development programs.

North Carolina used its Fiscal Recovery Funds to provide bonuses to all state employees and to local education employees ($545 million), funds to assist business hit hardest by the pandemic ($500 million), and a range of smaller investments to support businesses in a given sector or general economic development.

Broadband

Twenty-four states have invested in improving access to high-speed internet, with a handful of states devoting a large share of their current FRF allocations to this purpose.

Arkansas allocated $316 million to broadband initiatives, nearly half of its FRF allocations to date.

Georgia allocated 19 percent of its Fiscal Recovery Funds. Of that, 45 percent, or $422 million, has been devoted to broadband projects.

Indiana committed $1.4 billion (43 percent of its FRF funds) to improve broadband access, with a focus on rural areas.

Iowa provided $210 million for broadband, 42 percent of its FRF allocations to date.

Kentucky devoted $300 million to broadband initiatives, 27 percent of its FRF allocations to date.

Montana allocated $267 million to communications improvements, with a focus on broadband. That equals 29 percent of its FRF funds.

Tennessee devoted $500 million (15 percent of its FRF appropriations so far) to broadband initiatives.

Vermont has devoted $150 million to support its universal broadband program.

West Virginia created a $90 million competitive grant fund to bring broadband to underserved communities.

Health

Most states allocating FRF funds have devoted some to health services — including directly supporting the public health response to the pandemic, supporting hard-hit health providers, and addressing gaps in mental health services. But these health expenditures are a relatively small share of states' FRF in many states.

Health expenditures represent a large share of FRF allocations to date in a handful of states.

Arkansas has allocated $327 million to health initiatives, roughly half of its FRF appropriations to date, primarily for health expenses directly related to addressing the pandemic.

Delaware devoted $130 million to health, 39 percent of its FRF allocations to date, primarily to support hospitals and other health care facilities.

Hawaii allocated $269 million to health, with the largest component used to support statewide emergency medical services.

New Jersey invested $450 million (16 percent of its FRF allocations) in three regional health centers to improve their emergency preparedness.

Tennessee devoted $730 million to health projects, or 22 percent of its FRF funds, including health facility construction, a state health lab, and hospital staffing

Utah devoted $90 million (26 percent) to support a mental health facility at the University of Utah and invested other funds to address the pandemic, such as vaccine outreach.

Education

Twenty-seven states, the District of Columbia, Puerto Rico, and the Northern Mariana Islands have devoted FRF to various education initiatives, including both K-12 and higher education. The investments include funds to help K-12 students recover lost ground in the pandemic, financial aid to help students attend college, and funds for higher education institutions.

Delaware used over $100 million to strengthen its community colleges and state universities.

Maryland is using FRF to advance its ambitious Blueprint for Education reform, a multi-year effort (enacted pre-pandemic) to improve education funding in the state, with a special focus on equity. The state also invested funds to improve HVAC in schools and support a healthy return to classrooms. Twenty-six percent of Maryland's FRF allocation to date has gone to education, a total of $561 million.

Nevada devoted $200 million to schools to assist students whose literacy skill development was affected by the pandemic. Overall education funding reflected 25 percent of Nevada's FRF appropriations through March 2022.

New Jersey funded an extra year of special education for anyone who aged out of special education services due to the pandemic[16] and also created a $180 million fund for schools and

[16] As noted above, federal eligibility for special education services ends at age 21.

businesses to upgrade HVAC and water systems. New Jersey committed 29 percent of its FRF to education initiatives.[17]

Water and Sewer

Twenty-six states, the District of Columbia, and all territories other than Guam have included water or sewer projects in their FRF spending.

Georgia devoted $422 million to water infrastructure, or 43 percent of its FRF allocations to date.

Michigan allocated $1.4 billion – or 37 percent of its FRF – to drinking water and wastewater management projects

Montana committed half of its FRF, or $409 million, to water projects.

North Carolina devoted $1.75 billion to water projects, equal to 32 percent of its FRF.

South Dakota has used all its FRF allocations to date -- $660 million – for water infrastructure.

Tennessee devoted $1.35 billion (42 percent of FRF allocations to date) to water and sewer maintenance and improvement.

[17] This assumes half of the $180 million HVAC money for schools and businesses will go to schools.