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## States Can Center Equity to Strengthen Their Economic Relief and Recovery Spending

By Ed Lazere and Maya El Jawhari

Many states are using flexible federal funds provided under the American Rescue Plan to support the economic recovery from the COVID-19 pandemic, helping millions of people who lost their jobs, as well as the many businesses — especially small businesses — that have been put at risk of closing. As of March 2022, 33 states, Washington, D.C., and the U.S. Territories have allocated over \$14.8 billion of their Fiscal Recovery Funds (FRF) — about 12 percent of all states’ FRF allocations to date — to economic relief and development projects.<sup>1</sup> As states make decisions about how to allocate the rest of their recovery funds, they should make investments that center racial and economic equity to support the people and communities hardest hit by the pandemic and help ensure a widespread and equitable recovery.<sup>2</sup>

With \$70 billion remaining in FRF, states have considerable opportunity to focus additional spending on continued economic relief and development programs, including direct aid to businesses, premium pay for people working in critical roles, workforce development, return-to-work bonuses, and other community investments to support economic growth. States have until December 31, 2024 to obligate those funds (that is, decide how they will be used — they have a longer period to then spend all of the resources).

While some state relief efforts have centered equity, many others have failed to prioritize those most acutely harmed by the crisis, such as low-wage workers, communities of color, and small businesses. For example, state spending on premium pay has largely been provided to people working in public safety, and far less often to those who work in direct personal or health care, transit workers, or grocery store workers. Although the U.S. unemployment rate continues to fall in 2022, the recovery has not been uniform. For example, unemployment has not recovered to pre-pandemic levels for Black and Hispanic/Latino workers, or for women.<sup>3</sup>

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<sup>1</sup> This report reflects data collected by CBPP on state uses of Fiscal Recovery Funds. It relies in part on extensive Fiscal Recovery Fund tracking conducted by the National Conference of State Legislatures.

<sup>2</sup> Cortney Sanders and Maya El Jawhari, “States Should Apply 3 Principles to Create an Antiracist, Equitable Recovery,” CBPP, March 31, 2022, <https://www.cbpp.org/blog/states-should-apply-3-principles-to-create-an-antiracist-equitable-recovery>.

<sup>3</sup> CBPP, “Chartbook: Tracking the Post-Great Recession Economy,” updated April 1, 2022, <https://www.cbpp.org/research/economy/tracking-the-post-great-recession-economy>.

The following sections highlight how states have used FRF to support economic relief and development (see Table 1), and ways to ensure that they can be targeted more equitably.

TABLE 1

## State Uses of Federal Fiscal Recovery Funds for Economic Development

As of March 31, 2022

Type of Use	Total State FRF Appropriations
Assistance to Businesses	\$5.1 billion
Premium Pay	\$1.7 billion
Workforce Development	\$2.5 billion
Return-to-Work Bonuses	\$295 million
General Economic Development	\$4.3 billion

### Assistance to Businesses

Twenty-six states, D.C., and the U.S. Territories have allocated \$5.1 billion of their Fiscal Recovery Funds to boost their state and local economies by funding business grants and relief funds, with most states targeting these dollars toward small businesses. Some states have further focused on small businesses that the pandemic hit the hardest, providing models for such targeted assistance.

Some notable examples of states using their FRF on assistance to businesses include:

- **California** used \$1.5 billion to provide small business grants across the state.
- **D.C.** invested \$40 million to provide relief to small businesses and an additional \$5.4 million in the Small and Medium Business Grant Fund, which supports existing and new growth-focused programs.
- **Rhode Island** allocated \$12.5 million to direct grants for businesses, with 20 percent of the funds going to minority-owned businesses.<sup>4</sup>
- **Washington State** appropriated \$50 million to small business grants, and \$9 million to a grant program to improve food supply chain infrastructure and market access for farms, food processors, and food distributors. The state also spent \$8 million on local food system infrastructure and market access grants; it prioritized women, people of color, and small business owners for these grants.

As states consider using their remaining FRF to support small businesses, they should especially focus on equity-enhancing investments. Black small business owners were hit hardest at the start of the coronavirus pandemic, with over 40 percent of Black business owners stating they were no longer working in April 2020 due to inaccessible loans and resources to move their businesses

<sup>4</sup> Rhode Island Commerce Corporation, “Raimondo Announces \$100 Million in Funds for State’s Small Businesses,” July 16, 2020, <https://www.ri.gov/press/view/38848>.

online.<sup>5</sup> Similarly, women-owned small businesses experienced a disproportionate hit compared to small businesses owned by men during the pandemic.<sup>6</sup> By prioritizing socially disadvantaged businesses, assisting business funds can help dismantle the economic and racial inequities exacerbated by the pandemic.

## Premium Pay for Workers in Critical Roles

The shortage of workers brought on by the pandemic created a high demand for people who provide critical goods and services including groceries, health care, and transportation — jobs often requiring on-site work that cannot be completed remotely. As a result, many public- and private-sector employees worked in person and in risky conditions, regardless of whether they had children home due to remote education or the closure of child care facilities. In response, 13 states, Puerto Rico, the Northern Mariana Islands, and the Virgin Islands have used \$1.7 billion of their Fiscal Recovery Funds to support premium pay programs for workers performing such critical roles.

Some significant examples of states using their FRF on premium pay for key workers include:

- **Florida** allocated \$208.4 million to award bonuses to first responders.
- **Maryland** invested \$100 million in quarantine and response pay for employees providing “essential services,” including health care workers, corrections officers, and police officers.<sup>7</sup>
- **Puerto Rico** appropriated \$250 million to fund premium payments to public- and private-sector workers who played a key role in responding to COVID-19.
- **Rhode Island** used \$12.5 million to help stabilize the direct care staff of service provider organizations with which the Rhode Island Department of Children, Youth, and Families contracts, providing wage supplements and hiring bonuses for lower-income employees.

Most states using FRF to provide premium pay to workers have left out key groups of workers in both the public and private sectors, such as home health aides, early childhood educators, pharmacy aides, and grocery store workers. Premium pay programs should target workers who continue to face higher exposure to coronavirus and those paid lower wages.<sup>8</sup>

## Workforce Development

Twenty-five states, D.C., and the Virgin Islands have invested \$2.5 billion in workforce development to provide workers with funds, grants, job training, and recruitment and retainment

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<sup>5</sup> Chairwoman Nydia M. Velázquez, “The State of Black-Owned Small Businesses in America,” House Committee on Small Business, February 26, 2021, [https://smallbusiness.house.gov/uploadedfiles/bob\\_report\\_final.pdf](https://smallbusiness.house.gov/uploadedfiles/bob_report_final.pdf).

<sup>6</sup> MetLife & U.S. Chamber, “Special Report on Women-Owned Small Businesses During COVID-19,” August 26, 2020, <https://www.uschamber.com/workforce/special-report-women-owned-small-businesses-during-covid-19>.

<sup>7</sup> Office of Governor Larry Hogan, “Governor Hogan, President Ferguson, Speaker Jones Announce Bipartisan Agreement For American Rescue Plan Funding,” March 31, 2021, <https://governor.maryland.gov/2021/03/31/governor-hogan-president-ferguson-speaker-jones-announce-bipartisan-agreement-for-american-rescue-plan-funding/>.

<sup>8</sup> Molly Kinder, “COVID-19’s essential workers deserve hazard pay. Here’s why — and how it should work,” Brookings Institution, April 10, 2020, <https://www.brookings.edu/research/covid-19s-essential-workers-deserve-hazard-pay-heres-why-and-how-it-should-work/>.

strategies. Some states used their FRF to support workforce development among certain industries and communities most affected by workforce challenges.

Some leading examples of states using their FRF on workforce development include:

- **California** allocated \$185 million toward youth workforce development.
- **D.C.** used \$42.6 million to provide residents with opportunities to earn income while gaining workforce experience and/or credentials related to high-demand occupations and in-demand job skills. The funds targeted residents without bachelor's degrees, those transitioning from jobs in the hospitality sector, and residents with multiple barriers to employment.
- **Florida** spent \$100 million on revamping its workforce information technology system and an additional \$56.4 million on modernizing its reemployment assistance system.
- **Montana** invested \$2 million into the employment engagement of individuals with disabilities.
- **Wisconsin** appropriated \$100 million to fund the Workforce Innovation Grant program, which encourages regions and communities to develop long-term solutions to the workforce challenges facing the state. The state also spent \$10 million on the Worker Connection Program to connect workforce career coaches with individuals attempting to reengage in the workforce post-pandemic.

States should continue to put Fiscal Recovery Funds toward high-quality employment by providing disenfranchised workers with specialized job trainings and apprenticeship programs that are connected to in-demand jobs and that include employers, which have been proven to increase employment and earnings.<sup>9</sup> States also should consider allocating FRF to climate-related occupations to address rising climate concerns and workforce challenges. This could include efforts to mitigate the impacts of climate change in communities serving many people with limited employment opportunities.<sup>10</sup>

## Return-to-Work Bonuses

Five states and Puerto Rico have appropriated \$295 million of their Fiscal Recovery Funds to provide return-to-work bonuses to incentivize individuals who lost their jobs and businesses during the pandemic. Some states centered their return-to-work programs around industries and communities most affected by job shortages.

Some prominent examples of states using their FRF on return-to-work incentives include:

- **Arizona** spent \$238.4 million to fund return-to-work bonuses.

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<sup>9</sup> LaDonna Pavetti and Gina Azito Thompson, "Important Investments in Build Back Better Would Expand Pathways to Quality Jobs, Promote Equity," CBPP, February 9, 2022, <https://www.cbpp.org/research/poverty-and-inequality/important-investments-in-build-back-better-would-expand-pathways-to>

<sup>10</sup> *Ibid.*

- **Puerto Rico** used \$50 million to incentivize the return to work in the restaurant and bar industry, \$50 million on the return to work in the agricultural sector, and \$30 million on the return to work in the construction sector.
- **New Mexico** allocated \$5 million to its return-to-work initiative and \$5 million to provide returning Chilean farmworkers with bonuses.
- **Oklahoma** invested \$24 million to provide the first 20,000 Oklahomans receiving unemployment benefits who found new jobs with a \$1,200 one-time payment.

Most of these programs failed to address the primary concerns behind the substantial number of unfilled jobs: parents needing to be home while their children’s schools are closed, workplaces being a high-risk setting for coronavirus transmission, and workers seeking better pay and working conditions in a strong labor market.<sup>11</sup> Moving forward, states should invest their FRF in programs that address the systemic barriers behind unemployment through subsidizing child care and health care, and by investing in subsidized job programs that cover some or all of an individual’s wages to help connect them to permanent, unsubsidized employment.<sup>12</sup>

## General Economic Development

To address pandemic-related economic losses, 29 states, D.C., and the U.S. Territories have used \$4.3 billion of their Fiscal Recovery Funds to invest in targeted communities, such as downtowns in small cities, or in industries that are vital to the state economy, such as state agriculture, tourism, and community centers.

Some notable examples of states using their FRF on general economic development include:

- **Alaska** used \$90 million to provide grants to tourism and other businesses to offset revenue losses or to respond to the pandemic, and spent an additional \$50 million on grants to local governments with significant losses due to COVID-19.
- **Illinois** allocated \$45 million to support improvements and investment in commercial corridors and downtowns that experienced disinvestment, particularly in communities hardest hit by COVID-19.
- **Puerto Rico** invested \$50 million to promote Puerto Rico as a destination, \$20 million on encouraging domestic tourism, and an additional \$50 million on other tourism efforts.
- **Wisconsin** appropriated \$200 million to fund the Neighborhood Investment Fund, a competitive grant program geared toward helping communities. The state also spent \$50 million on grants to community partners to eliminate disparities and promote equity and inclusion.

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<sup>11</sup> Greg Rosalsky, “The Great Resignation? More like The Great Renegotiation,” NPR Planet Money, January 25, 2022, <https://www.npr.org/sections/money/2022/01/25/1075115539/the-great-resignation-more-like-the-great-renegotiation>.

<sup>12</sup> Ed Lazere, “States Should Use Federal Relief Funds to Jumpstart Long-Term Investments in a Better, More Equitable Future,” CBPP, October 7, 2021, <https://www.cbpp.org/research/state-budget-and-tax/states-should-use-federal-relief-funds-to-jumpstart-long-term>.

## **Recommendations for Using Remaining Federal Aid to Support an Equitable Economic Recovery**

With \$70 billion remaining in Fiscal Recovery Funds, states should continue to invest in economic relief and development programs that prioritize racial and economic equity. Some states — but far from all — have implemented equity-focused economic relief and development initiatives. Moving forward, state policymakers should use some of their remaining FRF resources to support an economic recovery in ways that focus on workers, communities, and businesses hardest hit by the COVID-19 pandemic and to address the racial and economic disparities that the crisis has widened.