Planned Uses of Fiscal Recovery Funds as Reported by States to U.S. Treasury

October 18, 2021

Introduction

The Coronavirus State and Local Fiscal Recovery Funds, authorized by the *American Rescue Plan Act of 2021* (ARPA), allocated $195.3 billion for states and the District of Columbia and $4.5 billion for territories. Under the Treasury Department's Interim Final Rule published on May 17, 2021, states and territories are required to submit annual Recovery Plan Performance Reports.

As of October 18, NASBO has compiled links to recovery plan performance reports for 39 states, the District of Columbia, and two territories. A review of these recovery plans reveals a great deal about the process states are following for allocating funds and planned fund uses. This issue brief presents some key findings and high-level analysis on these topics, based on information provided in states' recovery plan reports.

States' Processes for Allocating ARPA Fiscal Recovery Funds

States vary in how federal funds are treated in the budget process. According to NASBO's latest *Budget Processes in the States* report, in 43 states, at least some (if not all) federal funds are subject to the legislative appropriations process.[1] However, 40 states grant some degree of authority to the executive branch to spend unanticipated federal funds without legislative approval – though there are usually some restrictions on this authority.[2]

A Lookback at Coronavirus Relief Funds

Usually, unanticipated federal funds are directed to states for specific, narrowly defined purposes, such as a competitive grant award for a particular program. This was not the case last year, when under the *CARES Act* passed in March 2020, states were given considerable discretion on how to use Coronavirus Relief Funds (CRF). At that time, many state legislatures were not in session, whether due to their normal budget calendars or in response to public health conditions. This led to a series of questions and some conflicts around which branch of government had the primary authority to decide how to spend those unanticipated dollars. The urgency of the COVID-19 crisis and a fast-approaching deadline to expend the funds put pressure on states to resolve these conflicts quickly.

What's Different This Time Around?

The situation facing states in 2021 regarding the Fiscal Recovery Funds under ARPA is different for several reasons. States have a much longer time horizon to spend these funds, for example, considerably reducing the need to quickly make decisions on how to use the money. Additionally, more legislatures were in session when ARPA was passed compared to when the CARES Act became law. Moreover, following the experience with CRF, some state legislatures took steps to curb executive power to spend federal funds without legislative approval or oversight to ensure that they would have more say in how to spend additional federal stimulus. Unlike CRF, Fiscal Recovery Funds are allowed to be used to replace revenue loss, per a calculation specified by the U.S. Treasury, meaning in some states these funds will be used to pay for government services supported by the general fund and will be considered as part of the state's regular budget process.

A More Deliberative, Collaborative Process

For the majority of states, the process for allocating ARPA Fiscal Recovery funds has been and will be a collaborative one between branches. In a number of states, this will look similar to a state's regular budget process, whereby the governor proposes fund uses, the legislature makes appropriations to authorize spending from those funds for specific programs and/or projects, and the governor signs those appropriations into law. In other states, the governor and legislative leaders may work together to develop and approve a high-level spending framework or set of criteria, while leaving project level funding and details up to the governor to approve. In a few states, particularly those that do not generally appropriate federal funds, the executive branch may hold primary decision-making authority on all allocations. Some states have established special committees to examine and make recommendations for how to use the funds; these committees may include representatives from both the executive and legislative branches, as well as other key stakeholders. States are also undertaking efforts to engage the public and obtain their input on the usage of funds.

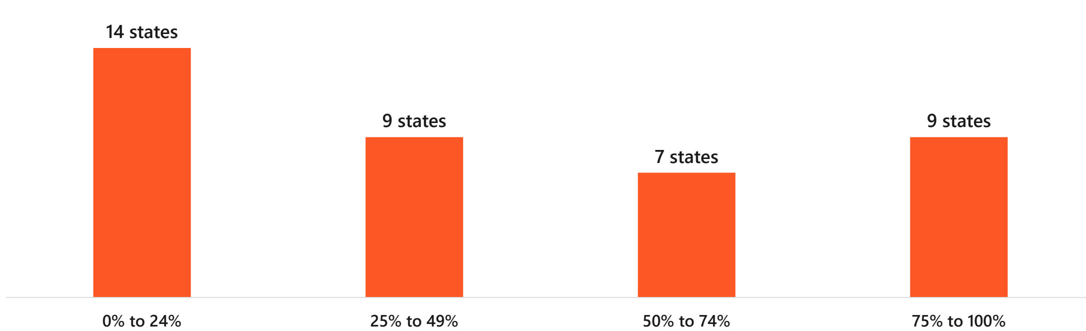
Timeline for Fund Allocation Decisions

States are operating on varying schedules for allocating ARPA Fiscal Recovery Funds. On average, among the states with recovery plans available, about half of state fiscal recovery funds have been allocated so far. The following chart shows the breakdown of states' progress in allocating their Fiscal Recovery Funds, based on recovery plans from 39 states.

Among the states that did not report on specific planned uses of funds in their recovery plans, most indicated that they would be making some fund allocations this fall and/or during 2022 legislative sessions. Furthermore, some states that have already allocated some portion of their Fiscal Recovery Funds noted that they intend to consider additional uses as part of their state's fiscal 2023 budget development process.

Note: The information in this issue brief is based only on those states and territories with recovery plans available and reflects one point in time. Some states included in this analysis have acted to allocate or appropriate funds since submitting these plans, and those more recent actions are not reflected in this analysis. Also, this analysis is based solely on what was presented in a state's recovery plan report. If a state appropriated Fiscal Recovery Funds but did not identify the specific uses of these funds in their recovery plan, these appropriations are not reflected in this data. Moreover, all information in this brief refers to "planned" or "allocated" fund uses; in most cases, these funds have already been appropriated (or authorized through executive action), but in some cases, these represent funds that have been "set aside" for specific uses that may still need to be formally appropriated or otherwise approved before they can be spent. Finally, some of these allocations, even those that have been formally appropriated, are subject to change. This is particularly true for those states that made allocations before the interim final rule was issued by Treasury in May.

Figure 1.
Share of States Total Payment Allocated*



Based on information in 39 state recovery plans submitted to Treasury, which were due August 31, 2021.

Planned Fund Uses

NASBO has examined planned fund uses, as presented in states' recovery plan reports, organized by the following categories defined by Treasury:

1. Public Health
2. Negative Economic Impacts
3. Services to Disproportionately Impacted Communities
4. Premium Pay
5. Infrastructure
6. Revenue Replacement
7. Administrative and Other

The median percentage of funds allocated so far for those states with publicly available recovery plan reports is 41 percent. Among the fund uses identified so far, here is the breakdown by category.

Revenue Replacement has so far claimed the largest share of total funds allocated, at 32 percent, followed by Negative Economic Impacts at 27 percent. Infrastructure (broadband, water and sewer projects) follows at about 16 percent, with Services to Disproportionately Impacted Communities making up roughly 15 percent of total funds allocated. Public Health comprises most of the remaining funds allocated (about 9 percent). Only a few states so far have indicated plans to use ARPA Fiscal Recovery Funds for Premium Pay, and a few states have specifically allocated funds for Administrative and Other purposes, with each of those categories making up about 0.5 percent.

Below are descriptions of some of the common planned fund uses within each of these broader categories. In large part, states are allocating these funds to continue responding to the COVID-19 public health crisis; meet the specific needs of residents and businesses, especially those most impacted by the pandemic; foster a strong, equitable economic recovery; and improve resiliency, especially through one-time investments that have ongoing benefits.

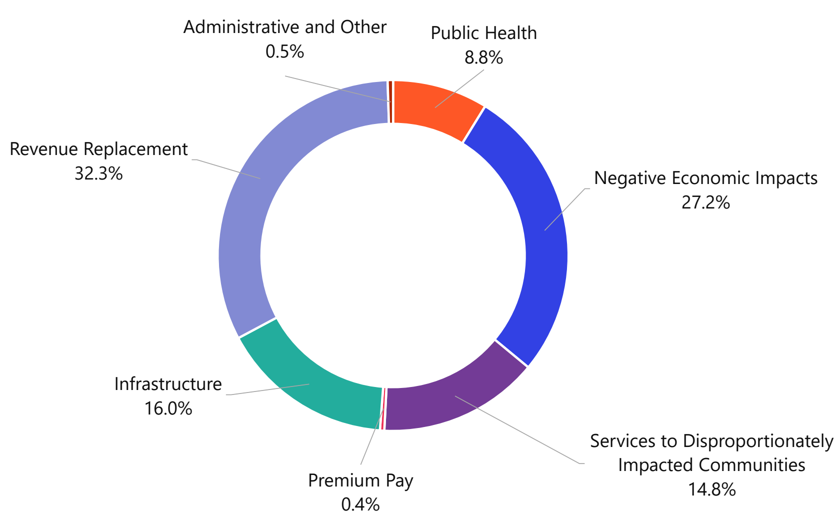
Public Health

Among the 39 states with recovery plans available, 24 states[3] reported already allocating some Fiscal Recovery Funds towards public health expenditures.

COVID-19 Vaccination, Testing and Other Response Costs

While many states are relying on other federal fund sources to support COVID-19 vaccine distribution, multiple states have also allocated Fiscal Recovery funds towards efforts to increase vaccine access and participation. Several states reported

Figure 2.
Allocated Funds by Category



allocating funds towards various vaccine incentive programs, both for the general public through a lottery or targeted incentives for state employees or teachers. At least a couple states and territories identified plans to use recovery funds to help support COVID-19 testing efforts as well.

Prevention in Congregate Settings

Several states reported plans to use funds specifically aimed at preventing the spread of COVID-19 in congregate settings, such as long-term care facilities, schools, and prisons. Planned investments include HVAC upgrades for public school buildings in Maryland and air handler/ductwork replacement in New Hampshire.

Capital Investments to Respond to COVID-19

Some states have appropriated funds towards capital investments or physical plant changes to public facilities to address the challenges presented by COVID-19. Florida's Deferred Building Maintenance Program, New Jersey's School and Small Business Energy Efficiency Stimulus Program, and Virginia's appropriation to support ventilation improvements in public schools are among some of the larger planned investments in this category.

Other COVID-19 Response Costs

States have allocated or appropriated some funds to support ongoing COVID-19 response costs more generally, as well as for other specific purposes. For example, Arkansas allocated funds for personal protective equipment (PPE) and Massachusetts plans to use funds for its Temporary Emergency Paid Sick Leave Program.

Mental Health Services

Behavioral and mental health services are an especially common use of fiscal recovery funds, as reported by states in their recovery plans. California, Colorado, Connecticut, Indiana, Massachusetts, New Hampshire, Ohio, Oregon, Utah, Virginia, American Samoa and the District of Columbia are among the states and territories reporting plans to use funds in this area. In some cases, these investments target services for children and youth, expanding the behavioral health workforce, and improving facilities.

Other Public Health Services

States have allocated funds for numerous other purposes within the public health category, such as for programs to improve health equity and to support provider rate increases.

Negative Economic Impacts

Among the 39 states with recovery plans available, 26 states reported allocating some ARPA funds towards addressing various negative economic impacts of COVID-19, ranging from food insecurity and homelessness to unemployment and a need for more job training to challenges for small business.

Household Assistance

A number of states have specifically allocated funds for various forms of household assistance. At least six states and the District of Columbia plan to use fiscal recovery funds to aid food banks and other food assistance programs. A number of states have allocated funds for preventing evictions, such as Hawaii and Washington State, on top of the funding provided under the separate federal Emergency Rental Assistance (ERA) program. Some states also plan to use funds for general rental and mortgage assistance or to provide utility relief.

Unemployment Benefits & Contributions to UI Trust Funds

Numerous states reported in their recovery plans about allocating – and in many cases already expending – a portion of their fiscal recovery funds to make contributions to replenish their unemployment insurance (UI) trust funds. Additionally, some states reported allocations for additional benefits or cash assistance to the unemployed, including several states that have established "return to work" or "back to work" bonus incentive programs, such as Arizona, Montana, and New Hampshire. Several states also indicated plans to use funds to improve the capacity and operations of state unemployment offices.

Job Training Assistance

Another popular area of investment of funds to address the negative economic impacts of COVID-19 is workforce development programs. Examples of specific projects in this category receiving funding include upskilling and reskilling initiatives, training grants or tuition assistance for displaced workers and the unemployed, community college scholarships, and work-based learning.

Small Business Economic Assistance

Multiple states are planning to use a portion of fiscal recovery funds to provide further assistance to small businesses, mostly through various loan and grant programs. Some programs receiving funding are a continuation of efforts that were started using previous federal relief funding streams earlier in the pandemic, such as business support grants in Washington State. Meanwhile, some states are establishing new assistance programs using recovery funds, like the Wisconsin Tomorrow Small Business Recovery Grant and Illinois's Back to Business (B2B) grant programs.

Aid to Tourism, Travel or Hospitality

The tourism industry was one of the hardest hit by the pandemic. Therefore, it is not surprising that many states are choosing to allocate fiscal recovery funds to specifically offer assistance to this sector. States reported planned investments in tourism marketing, targeted relief for hotels and other venues, state parks and other tourism recovery projects.

Aid to Other Impacted Industries

In addition to tourism, travel and hospitality aid, states also reported planned assistance for other impacted industries. California and Florida allocated support funds for ports. Michigan and Montana allocated funds for long-term care facilities. Other industries receiving targeted support include agriculture and arts and cultural organizations.

Other Economic Support

Some states have also allocated funds for other economic support, in some cases for specific geographic regions. Massachusetts has allocated funds for downtown development projects, for example, while Oregon has approved funding for geographical priorities, whereby each legislative representative was allocated funding for investments within their jurisdiction. Alaska reported several fund allocations in this category to support communities impacted by revenue losses from cruise ship taxes and fisheries business taxes.

Services to Disproportionately Impacted Communities

Seventeen out of 39 states reported some allocations in this expenditure category, which encompasses a broad range of fund uses aimed at addressing the inequities that have been exacerbated by COVID-19. States using fiscal recovery funds for services in this category are required to demonstrate in their reports to Treasury how they are targeted to those communities, populations and households that have been hardest hit by the pandemic.

Education Assistance

States received significant pandemic-related assistance for K-12 education under the latest round of Elementary and Secondary School Emergency Relief (ESSER) Funds included in ARPA, and higher education institutions received direct aid under the Higher Education Emergency Relief (HEERF III). In addition to these funding streams, some states have elected to spend some fiscal recovery funds on targeted assistance to address educational disparities. For example, Maryland has allocated funds to help address learning loss for K-12 students and students in juvenile services, while Minnesota and the District of Columbia are using some funds to expand tutoring access. Connecticut, Florida and Virginia reported using funds to provide aid to high-poverty districts, while Michigan and Minnesota allocated some funds to early learning programs. Several states plan to use funds for need-based scholarships and other financial aid. California, for example, allocated fiscal recovery funds for emergency financial aid for community college students as well as for child savings accounts to address equity gaps and increase higher education access. A few states also directed funds towards programs that support social, emotional and mental health services in schools.

Healthy Childhood Environments

Several states reported allocating funds to promote healthy childhood environments for those families disproportionately affected by the pandemic. Connecticut reported some funding in this area to cover certain parent childcare fees and provide access to universal home visiting, while New Jersey directed funds to its Child Care Revitalization Fund and to Home Lead Paint Remediation.

Housing Support

Multiple states reported allocating fiscal recovery funds for various investments in housing and neighborhoods. To support the homeless, Vermont plans to use funds for its Housing Recovery Program and California directed funds to its Homekey program. Some states have allocated funds to accelerate affordable housing production. Colorado appropriated funding for grants or loans to local governments and nonprofits for converting underutilized properties (such as hotels) for use as noncongregated sheltering or affordable housing. Massachusetts allocated funding for a first-time homebuyer assistance program and for senior and veteran housing assistance.

Social Determinants of Health

Connecticut, Virginia and the District of Columbia reported allocating funding amounts to address social determinants of health, including for community workers or benefits navigators and community violence interventions.

Premium Pay

Only a few states so far indicated plans to use fiscal recovery funds to provide premium pay for essential workers. Connecticut, Indiana, Maryland, Virginia and the Virgin Islands reported fund allocations to increase pay for certain public sector employees, such as state police and the National Guard.

Infrastructure

Another key area of allowable uses of state fiscal recovery funds is for water, sewer and broadband infrastructure projects. Twenty-one out of 39 states reported planned fiscal recovery fund expenditures in this category. Treasury's guidance aligns eligible water and sewer projects with the broad range of projects that may be supported by the Clean Water and Drinking Water State Revolving Funds. Investments in broadband using fiscal recovery funds are expected to be made in unserved or underserved areas.

Water and Sewer

At least 15 states reported fund allocations for water and sewer projects in varying levels of detail. In some cases, states reported setting aside or appropriating a top-line funding amount for this purpose, with specific projects still to be determined, often through distributions to local governments or a competitive grant process. Examples here include Florida's Resilient Florida Grant Program and Water Protection & Sustainability Program, Kentucky's Cleaner Water Program, and Montana's ARPA Water and Sewer Infrastructure Grant program. Meanwhile, states such as Washington provided a detailed list of projects to be supported with the funding, and Oregon cited 58 individual projects to improve water and sewer infrastructure in local governments across the state. The range of eligible projects is broad. "Clean water" projects can include those related to centralized wastewater treatment, collection and conveyance; decentralized wastewater; combined sewer overflows and other sewer infrastructure; stormwater; energy and water conservation; and nonpoint source. "Drinking water" projects relate to treatment, transmission and distribution (including specifically lead remediation), source, storage and other water infrastructure.

Broadband

At least 17 states and 2 territories with plans available are planning to use some fiscal recovery funds to support broadband infrastructure projects. A few states, such as California, Maryland and Virginia, specifically defined allocations for projects that achieve "last-mile" connections to households and businesses. In many cases, funded broadband projects will be determined through a grant application process run by the state. For example, Georgia's governor appointed a Broadband Infrastructure Committee to review grant applications and award funding on a competitive basis.

Revenue Replacement

Fiscal recovery funds are also able to be used by states to replace lost revenue due to COVID-19 – a key provision of the program as authorized by ARPA. Funds allocated to cover revenue loss may be used at the state's discretion to provide any government services, excluding specific ineligible uses spelled out in the law and further detailed in guidance. Specifically, states may neither use fiscal recovery funds to offset a reduction in net tax revenue due to state tax cuts nor to make pension fund deposits. Treasury's Interim Final Rule establishes a methodology for states (and local governments) to follow to calculate revenue loss during a specified period. These calculations determine the extent to which states may use fiscal recovery funds for revenue replacement. Treasury's guidance permits states to use an annual growth factor of 4.1 percent (the national average state and local revenue growth rate from 2015-18) in making their calculations. Treasury allows for any reduction in state revenue compared to that growth trajectory to be presumed as due to COVID-19.

Precise revenue loss calculations will occur at several points throughout the program based on actual revenue collection data. In the meantime, states are relying in part on their revenue projections to estimate future revenue loss, as measured by Treasury's formula, and allocating a portion of their fiscal recovery fund payment for this purpose. As reported in state recovery plans, 17 out of 39 states indicated specific funding amounts allocated for revenue replacement. Of the total funds allocated as of this analysis ($79.0 billion), $25.5 billion (32 percent) has been allocated for revenue replacement. In their recovery plans, some states provided an additional breakdown of how revenue replacement funds will be used, such as Florida, New Hampshire, and the District of Columbia. Some states identified specific program area uses or recipients of revenue replacement funds in addition to a broader allocation to support general fund expenses. For example, in addition to a general fund transfer, Pennsylvania allocated varying revenue replacement fund amounts to several specific areas, such as for pandemic response efforts, the state system of higher education and long-term care facilities. Colorado plans to use a portion of its revenue replacement dollars for allocations to several special revenue funds for transportation, while Indiana plans to use these fund allocations for various one-time expenditures including transit and other infrastructure and conservation projects.

Administrative and Other

Nine out of 39 states broke out in their recovery plans specific fund allocations for administrative and other expenses. In most cases, these entailed modest amounts of money for additional staffing capacity to implement, manage and oversee ARPA funds. A few states also reported allocations for transfers to other units of government, such as through Maryland's disparity grants for low-wealth jurisdictions, Utah's COVID-19 Local Assistance Matching Grant Program, and Massachusetts's Aid to Disproportionately Impacted Communities. States' required transfers to non-entitlement units (NEUs) of local government are also reported in this category, though these amounts are excluded from the figures in this data analysis, as they are pass-through funds and not considered part of the state's fiscal recovery fund payment.

Next Steps

States will continue the challenging but important budgeting work of allocating fiscal recovery funds to best meet the needs of their residents and foster a robust recovery from the pandemic. These allocations will be informed by Treasury's Interim Final Rule (and the Final Rule, once issued), along with specific criteria established by state leaders. NASBO will continue to monitor and report on state budget actions to allocate this funding in the months (and years) ahead.

If you would like additional information, please contact Kathryn Vesey White at kwhite@nasbo.org or 202-624-5949.

Endnotes

[1] NASBO, *Budget Processes in the States* (2021), Table 12.

[2] Ibid., Table 7.

[3] All counts provided in this brief only refer to the 39 states with recovery plans available, but NASBO's analysis also included the plans submitted by the District of Columbia, American Samoa and Virgin Islands as well, and several cited examples from these recipients are included throughout the report.