Pandemic Aid: How States Safeguarded Against Future Budget Challenges

Different approaches offer insights for allocating one-time funds
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The Pew Charitable Trusts

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Celebrating its 75th anniversary, The Pew Charitable Trusts uses data to make a difference. Pew addresses the challenges of a changing world by illuminating issues, creating common ground, and advancing ambitious projects that lead to tangible progress.
Overview

The American Rescue Plan Act (ARPA) passed by Congress in 2021 provided a historic influx of federal funding to help the nation respond to the dual economic and public health crises that accompanied the COVID-19 pandemic. The massive measure included $350 billion for states, territories, localities, and Tribes in the flexible Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program—money eligible for use through 2026 and intended to build on earlier pandemic aid to help states and localities navigate the fiscal uncertainties they faced at the time. However, because of stronger-than-anticipated economic conditions and the flexible nature of much of the aid, state and local policymakers found themselves awash in one-time cash that created an unusual mix of budgetary opportunities and challenges.1

As the COVID-19 public emergency eased and policymakers found themselves with relatively healthy tax revenues along with the infusion of flexible federal aid, how did they balance plans to provide services, fulfill state priorities, meet continued pandemic demands, and ensure future fiscal stability once the federal funds are exhausted?

Experts and policymakers generally agree on the importance of limiting the use of one-time, nonrecurring funds to pay for ongoing commitments.2 Following this principle can help ensure fiscal stability and balanced budgets over the long term. On the other hand, spending that needs to be repeated going forward can lead to fiscal cliffs—essentially the threat of reduced funding for ongoing programs in essential state services—when the one-time money is exhausted and alternative sources are not in place. Policymakers then can find themselves forced to make painful decisions, choosing among budget cuts, tax increases, or some combination of the two to fill a shortfall.

With the historic size of ARPA’s fiscal recovery fund and the broad discretion Congress provided for its use, some state policymakers and fiscal officers have been vocal about the importance of spending these one-time funds for one-time purposes.3 But despite widespread agreement on this principle, there is no agreed-upon definition of what constitutes one-time spending.4 This lack of clear standards or definitions makes it hard to assess how much of these resources a particular state has devoted to ongoing commitments that will continue to come due when the funding is expended.

Researchers from The Pew Charitable Trusts filled this gap by developing definitions of one-time and ongoing investments, and then applied these criteria to assess how five states and one territory used their flexible ARPA funds. When categorizing the data from the six jurisdictions’ recovery plan performance reports, researchers determined how the spending choices in each could contribute to—or reduce the risk of—future fiscal imbalances by assigning each reported expenditure to one of three categories:

• Direct pandemic responses that support acute needs tied to the public health crisis and are not likely to continue past the pandemic.
• One-time expenditures that provide ongoing value with a low likelihood of requiring continuing funding.
• Expenditures that help sustain program operations and will likely require recurring funding to maintain programmatic function.

The in-depth look at the SLFRF funding based on these definitions highlights that policymakers in these six governments tended to plan sufficiently to reduce the risk of future fiscal cliffs. Pew found that:
• The jurisdictions prioritized pandemic response and one-time investments. Each of the six chose to use the funding for a mix of one-time investments, direct pandemic response, and operational expenses. Still, four of the six allocated more than 90% of the money to projects or programs either in direct response to an acute pandemic-driven need—or one-time investments, such as meeting infrastructure needs, that were likely to provide ongoing value to the public without recurring operational expenses. In all six cases, over two-thirds of the allocations were for pandemic needs or one-time investments.

• Jurisdictions often employed planning strategies when investing in operational expenses. In instances where they used one-time funding to pay for operational expenses—that is, those that sustain a program and regularly recur to maintain its operation—policymakers often utilized planning principles that demonstrated an awareness of the fiscal risks that could accompany doing so to meet an ongoing need. Though five of the six jurisdictions allocated up to 13% of their SLFRF funding to operational expenses, they used a mix of strategies to help avoid long-term fiscal stresses. For example, they funded existing programs as opposed to launching new ones, created plans for future funding or eventual wind-down of projects, and avoided permanent long-term government hires.

• Jurisdictions’ use of revenue replacement varied widely. Expenditures under SLFRF’s revenue replacement option—a provision that granted broad flexibility in using federal funds to replace lost state tax revenue—were varied. Although some used the funding to replace state dollars to operate agencies, which can create uncertainty about the source of future funding for those operations, others used the same category to identify specific one-time projects.

Although the analysis found that the jurisdictions studied overwhelmingly used the one-time funding to pay for expenses deemed to be nonrecurring, all funding recipients—beyond those studied here—have until December 2024 to decide how to use their SLFRF aid. Given these funding parameters, and the reality that states will likely face future challenges with allocating one-time federal funding streams, this report includes recommendations for policymakers in all states seeking to maintain structural balance and avoid fiscal cliffs when that support winds down. Policymakers should:

• Prioritize addressing immediate, acute needs. One-time federal funds are often a reaction to a shock that has created urgent needs. During the pandemic, for example, states spent much of their federal aid on direct pandemic response, such as setting up public testing and vaccine distribution capabilities, providing additional staffing to elder care facilities, and giving economic support to small businesses that otherwise would have closed as a result of pandemic response measures. By tying spending to specific and time-limited needs, states can leverage federal aid to provide needed services without risking long-term budget imbalances.

• Use funds for one-time investments. If a one-time influx of dollars is likely to exceed immediate crisis response needs, policymakers would be wise to use such funds to prepare for unexpected shocks, pay down future liabilities, or invest in projects that do not require ongoing financial commitments. Additionally, they should ensure that this happens by adopting explicit standards or definitions by which to address the risk associated with specific spending sources.

Congress did put some limits on states’ ability to use the SLFRF money to plan for future needs, including prohibitions on rainy day fund deposits, paying down debt, or contributing to pension funds. Still, when they can, policymakers should generally look for opportunities to use one-time funds to strengthen their budgets over the long term. For example, deposits into rainy day funds or disaster reserve accounts can help prepare states for unknowns. When allowed, policymakers also can identify and pay down unfunded liabilities, such as underfunded pension obligations or deferred maintenance on infrastructure.
Finally, states can focus on expenses that provide ongoing value without a long-term commitment to future investment. This study examined various ways states used one-time funds to strengthen their long-term fiscal positions, including implementing tax deferral programs and investing in impact evaluation. Such an approach can help legislators and executives address needs without risking long-term stability.

- **Limit risks when spending on operational expenses.** Spending one-time funding on operational expenses risks putting a state’s long-term fiscal outlook out of balance. However, policymakers can reduce that risk. For example, they can work to identify ongoing future funding for permanent new spending, prioritize existing programs over starting new ones, clearly identify and communicate when operational spending is temporary, invest in program evaluation to learn which new ideas are most effective in practice, and minimize the hiring of new permanent staff.

- **Assess the indirect impact of federal aid.** Funding from Washington can create indirect fiscal cliffs. In addition to direct grants to states, the federal government provided trillions of dollars in direct financial support to individuals and businesses during the pandemic. Many states then experienced unexpectedly large revenue surpluses tied to this one-time stimulus spending. As a result, policymakers should be vigilant about identifying how much of that revenue growth can be relied on in the future and how much was dependent on the one-time federal spending. Future federal funds should be allocated with such considerations in mind.

**Scope and impact of the State and Local Fiscal Recovery Funds program**

The COVID-19 pandemic led to an unprecedented influx of one-time federal spending included in six pieces of legislation and spanning two administrations. Indeed, SLFRF—which provided flexible aid to states, localities, Tribes, and territories within the American Rescue Plan Act—was just one of a number of programs that funneled one-time support to governments. States experienced a windfall: Across the various pieces of COVID-19 legislation enacted, the federal government allotted more than $800 billion in grants to states.

**Great Recession provided lessons for use of emergency aid**

The experience states had with federal support during the Great Recession, which started in 2007, highlights the importance of maintaining long-term fiscal balance even after receiving a significant influx of money. Critically, policymakers must consider the eventual wind-down of that extra support. During the Great Recession, Congress provided $275 billion through the American Recovery and Reinvestment Act (ARRA) to support state and local governments that were facing significant revenue reductions.

Economic recovery from this recession proved slower than many policymakers anticipated, and states used this funding to help fill budget gaps driven by reduced tax collections. That helped policymakers balance budgets and address shortfalls in the near term while limiting service cuts and tax increases. When this federal support began to expire—in most cases, before state tax revenue levels had rebounded—many states faced fiscal cliffs. Policymakers responded by cutting hundreds of thousands of jobs and reducing services to close $169 billion in budget gaps in 2012.

To avoid such cliffs and maintain structurally balanced budgets, policymakers should take steps to ensure that the recurring, ongoing revenue they expect to receive in future years matches the spending required to maintain current or expected levels of service.
Federal pandemic-related aid dwarfed Great Recession support

To understand the potential impact of the recovery funds on states’ long-term fiscal stability, it is important to consider the full context of emergency federal spending surrounding COVID-19. In addition to the $350 billion that SLFRF provided to state and local governments, pandemic aid to the states included $150 billion for broadly defined pandemic needs from the Coronavirus Relief Fund, $189.5 billion in support for K-12 schools through the Elementary and Secondary School Emergency Relief Fund program, and $117 billion in increased direct payments to states as a result of an increased federal Medicaid match rate.\(^{11}\)

Other federal emergency aid, such as $931 billion in direct payments to individuals, $653 billion in enhanced unemployment benefits, an estimated $195 billion from paused student loan payments as of April 2023, and $814 billion in forgivable loans to businesses, provided additional and significant economic stimulus, contributing to record surpluses in state tax revenue that may not persist when the stimulus ends.\(^{12}\)

The circumstances states face today are different from the post-ARRA budget deficits in an important way. Unlike the Great Recession, strong revenue collections and flexible guidance are allowing states to use recovery funds on new initiatives, rather than primarily trying to maintain the pre-crisis status quo. But the risk is similar. If states fail to identify which of their new funding sources are nonrecurring or rely on nonrecurring funds for program expansions or permanent tax cuts, they risk facing a fiscal cliff again.\(^{13}\)

Aid structure influenced SLFRF decision making

As part of the response to COVID-19, Congress made the $195 billion in aid to states through SLFRF flexible but also specified allowable uses of spending and the timeline. States could spend SLFRF funds on seven broad categories: public health; negating economic impacts; public sector capacity; premium pay for essential workers; water, sewer, and broadband infrastructure; revenue replacement; and administrative costs. (See Appendix 1 for more detail on allowable uses.) The Consolidated Appropriations Act of 2023 expanded the allowable uses to include emergency relief from natural disasters, as well as surface transportation and community development projects.\(^{14}\)

According to a National Association of State Budget Officers (NASBO) analysis of allocation information submitted to the U.S. Department of the Treasury, states used 16.6% of their SLFRF funding on water, sewer, and broadband infrastructure, as of June 30, 2022.\(^{15}\) And because expenses related to infrastructure projects are more likely to be one time in nature (with possible exceptions for operations and maintenance), this provided an opportunity for states to spend SLFRF dollars on one-time expenses. By expanding the possible one-time uses of funds, Congress enabled states to avoid placing themselves in fiscally vulnerable situations.

The pandemic aid provided additional flexibility by permitting states to use funds to replace lost revenue collections. If states were able to demonstrate that their revenue fell below expectations, they could spend an equivalent amount of their SLFRF allocation to provide nearly any government service.\(^{16}\) Generous rules for calculating revenue loss and the broad nature of this category allowed a wide range of expenses to be eligible, whether one time or ongoing in nature. Many states did use revenue replacement to support one-time investments, including for public safety and corrections initiatives, transportation and technology infrastructure, emergency preparedness, and government services, including health and human services and education.\(^{17}\) According to NASBO, about 35% of funds that states allocated for specific uses were categorized as revenue replacement. Many of the projects categorized this way were also allowable in other categories but, based on guidance from Treasury, many states used the revenue replacement category to reduce reporting requirements.\(^{18}\)
The spending timeline for SLFRF funds—four years to obligate funds and six years to spend them—took some pressure off state policymakers, in contrast to the challenges many had in spending their Coronavirus Relief Funds (CRF), which had to be used over a short period of time. The CRF provided $150 billion to states through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed early in the pandemic. This longer time frame provided states with more opportunity to consider potential uses of the funds and ensure they were properly following Treasury guidance. Policymakers could examine the long-term fiscal implications of alternative spending plans, and funds recipients could spread spending over multiple years, in theory reducing the likelihood that a jurisdiction would face an eventual fiscal cliff.

Relief funding relative to state budgets

The size and scale of SLFRF relief relative to a state’s own, nonfederal sources of revenue highlight the importance of making fiscally sound decisions. On average across all states, SLFRF allocations were equivalent to 13.7% of their own sources of revenue in fiscal year 2021. And in some, the funding was equivalent to more than 30% of their own-source revenue. (See Figure 1). The scale of this funding also illuminates what future funding gaps could look like without careful planning, particularly when considering that SLFRF is just one of multiple federal funding streams.
Figure 1
Federal Pandemic Relief Money Proved Substantial for Many States
SLFRF allocations relative to states’ own-source revenue, fiscal 2021

Note: Allocations from the federal Coronavirus State and Local Fiscal Recovery Funds can be spent over multiple years and are shown as a share of total own-source state funds for comparison purposes. The American Rescue Plan Act also includes Local Fiscal Recovery Funds that are not reflected here. Own-source funds include all state general revenue except federal and local funds.

Sources: Pew calculations based on data reported by the U.S. Department of the Treasury and the U.S. Census Bureau’s 2021 Annual Survey of State Government Finances, https://www.census.gov/programs-surveys/state.html
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Case study findings: Planning resulted in limited risk

Pew analyzed whether states were exposing themselves to fiscal risks in the decisions they made on how to use their sizable recovery funds. Researchers studied six jurisdictions—American Samoa, Florida, Idaho, Illinois, New Hampshire, and Tennessee—to more deeply examine the pandemic response, using information each had submitted to Treasury in its 2022 recovery plan performance report. The geographically diverse jurisdictions were chosen for a number of reasons, including the detail provided in their recovery plan reports and the percentage of their SLFRF funding they had already allocated. (See Appendix 2 for more information on case study selection). Our takeaways are specific to these states, and trends do not necessarily apply to recovery fund recipients as a whole. Each jurisdiction must do its own evaluation of the choices made—and to
be made—by policymakers regarding the flexible pandemic funding. Although this report assesses SLFRF aid allocations, it does not analyze states’ capacities to shift to alternative funding sources after federal aid expires. Still, jurisdictions can put in place general practices to help maintain structural budget balance when receiving significant one-time funds in the future.22

Using the recovery plan performance reports, Pew analyzed SLFRF allocation in each jurisdiction, determining whether the nature and function of these expenditures leave these funding recipients open to future fiscal challenges by committing them to ongoing expenses. Determining what constitutes an ongoing expense is challenging: There is no generally agreed-upon definition, and determinations often turn on whether policymakers intend for a program to continue into the future. To address these challenges, Pew created definitions for this project and used metrics based on the nature of the needs being addressed to categorize spending decisions.

Jurisdictions’ decisions on spending the recovery funding fell into one of three categories:

- **Direct pandemic response expenses.** Expenditures were considered to be direct pandemic response if they were in support of an acute need tied to the COVID-19 pandemic and analysts determined there was a low likelihood that the need would continue past the availability of the one-time funds. Examples include purchasing personal protective equipment, running vaccination clinics, and addressing COVID-19-related economic harm.

- **One-time investments.** Expenditures were considered to be one-time investments if analysts determined they were likely to provide ongoing value but with a low likelihood of recurring on a regular basis. Such decisions would not commit the state to regular future funding obligations. Examples include construction of new infrastructure, major maintenance of existing infrastructure, and the purchase of durable goods such as motor vehicles or heating and ventilation systems.23

- **Operational expenses.** Expenditures were considered to be operational if they helped to sustain the operation of a program but required recurring funding to maintain programmatic function. Examples include paying employee salaries, paying rent or utility bills, purchasing nondurable goods, or contracting for services.

After categorizing each state’s spending allocation line item, Pew surveyed officials for additional information about the expenditures categorized as operational expenses to better understand the steps taken to reduce the risk of unfunded future obligations. The officials were then asked about steps to plan for this spending, specifically whether there was a clearly communicated end date for temporary programs, or if a source of continued funding had been identified if they were intended to continue. The survey also asked about factors that could make a program more difficult to wind down when funding ends, such as whether the money went to establishing a new program instead of expanding an existing one, and whether permanent staff had been hired.24

**Jurisdictions by the numbers**

Each of the governments studied had allocated at least 74% of their available funds by the time they submitted their fiscal 2022 reports to Treasury, with two-thirds of the jurisdictions having allocated more than 87%.25 States used this influx of fiscal support in a variety of ways—to address ongoing pandemic needs, help fund state operations, fulfill policymaker priorities, and support new and expanded initiatives. Overall, the six governments prioritized using SLFRF funds to pay for one-time investments.

The analysis shows that the jurisdictions studied overwhelmingly used one-time SLFRF funding to pay for expenses deemed to be nonrecurring; five of the six spent at least 72% of their already allocated SLFRF funds on one-time investments. (See Table 1.) For example, Tennessee provided funding for new health department
facilities to replace those that were not meeting the needs of staff and patients, and New Hampshire undertook efforts to replace aging ventilation and filtration systems in various facilities.

When Pew looked at the percentages of funds spent on either one-time expenses or on direct pandemic response, each of the six jurisdictions used at least two-thirds of their already allocated SLFRF funds in one of those two areas, while four used at least 90%. The analysis assumed that the need to fund these expenditures would end with the pandemic and thus not leave the jurisdictions with recurring costs.

Table 1
State Use of Allocated SLFRF Funds by Category

<table>
<thead>
<tr>
<th></th>
<th>One-time expenses</th>
<th>Direct pandemic response expenses</th>
<th>Operational expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Samoa</td>
<td>85.6%</td>
<td>9.4%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Florida</td>
<td>87.9%</td>
<td>5.7%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Idaho</td>
<td>75.3%</td>
<td>11.8%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Illinois</td>
<td>4.6%</td>
<td>63.5%</td>
<td>31.9%</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>72.4%</td>
<td>19.4%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Tennessee</td>
<td>84.8%</td>
<td>6.5%</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

Source: Pew analysis of data from project inventory in each state's 2022 Recovery Plan to Treasury
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In five of the jurisdictions studied, less than 13% of the already allocated SLFRF funds went to programs or activities the analysis deemed to be operational in nature. Illinois was the lone example where a significant portion of the allocations went to operational expenses; the state had allocated more than 26% of its funds to revenue replacement that the state report indicated was for “public safety agencies and educational agencies for operational expenses.” In two-thirds of the jurisdictions, lawmakers allocated less than 10% of their SLFRF dollars to operational expenses.

Though some of the federal funding did go to potentially ongoing operational expenses, in many instances the jurisdictions utilized established planning principles to mitigate long-term fiscal risks. These included funding existing—as opposed to new—programs, creating plans for future funding or eventual project wind-down, and avoiding permanent long-term government hires. Pew analyzed how decisions were made in each of the jurisdictions to spend some of their SLFRF funding on operational expenses, and the steps they took to mitigate risk. Among the findings:

- **A focus on existing programs.** Each of the governments allocated less than 7% of their SLFRF dollars to new programs that fell under the operational expenses category; in half of the jurisdictions, it was 1% or less.
• **Planned program wind-down or continuation.** When asking whether jurisdictions had determined end dates for operational programs they considered temporary or whether they had a future funding plan in place for program spending they considered to be ongoing, Pew found that each had either planned end dates or future funding for more than 95% of the total SLFRF funding (that total includes one-time investments and direct pandemic response). In half of the jurisdictions, the total was more than 98%.

• **Limited hiring of permanent employees.** Pew’s follow-up survey indicated that governments had largely avoided using SLFRF dollars to fund the hiring of new permanent government employees. Each of the jurisdictions had added new permanent workers for two or fewer programs. Half of the governments reported no new permanent hires.

Finally, states’ use of the federal money to replace lost revenue varied widely, affecting future structural budget balances differently. While some, such as Tennessee and Idaho, did not invest any of their SLFRF funding in revenue replacement in 2022, others did. Florida used revenue replacement to fund specific infrastructure activities, including work on deferred infrastructure maintenance and new National Guard armories. New Hampshire used revenue replacement on 22 programs, according to the state’s 2022 Recovery Plan. Those uses included the purchase of high-quality weatherproof, portable, wireless internet connectivity devices and school physical security assessments. In these states, less than 5% of funds in the revenue replacement expenditure category were for operational expenses.

Although some used the revenue replacement category to reduce federal reporting requirements while still identifying specific, one-time projects to fund, others, such as Illinois, used revenue replacement to supplant state dollars funding the operation of state agencies. Illinois’ Recovery Plan indicates $1.5 billion in revenue replacement activity for fiscal 2022. This approach limits the effectiveness of external risk analysis because of the difficulty in tracking the use of the newly freed state dollars that would otherwise have funded the operation of these agencies. Using the funds for new operational expenditures would increase the states’ risk of a fiscal cliff, but this approach also allows policymakers to use the displaced funds for activities that might not have been permitted by the federal rules and that would strengthen long-term fiscal health, such as making pension contributions or depositing into a rainy day fund.

### Different Approaches to Prioritizing Equity

Besides providing support to state and local governments to drive economic recovery and address pandemic needs, the Coronavirus State and Local Fiscal Recovery Funds differed from other pandemic legislation in the way it put a spotlight on equity in the recovery and delivery of funds. The U.S. Department of the Treasury encouraged state and local recipients to use funds to support an equitable recovery and address long-standing health and economic disparities worsened by the pandemic. The law allowed for a broad use of funds to encourage recipients to address underlying disparities, expanded the populations eligible to receive a broad range of services, and created reporting guidance that encouraged recipients to highlight how their programs and investments were promoting equitable outcomes.

Recipients have differing approaches and strategies for using the funds in ways that promote equitable outcomes. According to a Treasury study, these approaches have included setting goals and using frameworks in project development and design, taking steps to identify high-needs populations, making
efforts to engage underserved communities, and convening task forces and community members, and using evidence and tracking outcomes to ensure progress toward achieving equitable outcomes.28 Various state recovery performance reports reflect these efforts. For instance:

- On community outreach and engagement, Alaska reported that the state partnered with several local and regional groups to help identify communities that were not meeting subsistence goals and inform Indigenous groups about services available to them for a food security project.29 The state also partnered with a nonprofit to help coordinate technical assistance to local governments to combat the spread of COVID-19 in historically underserved areas.

- On intentionally investing in programs designed to elevate equity goals, Vermont supported several programs with SLFRF funding that have prioritized under-resourced communities as well as racial disparities across the state.30 The performance report identifies optional metrics focused on promoting racial equity, such as the percentage of households served that are part of a marginalized group and the number of organizations receiving funds to expand mental health services for such populations.

- On taking steps to identify high-needs populations, Florida developed criteria for considering what constitutes equitable outcomes, describing its efforts in three areas: the procurement process, demographic characteristics, and geographic distribution of the funding.31 The state used pre-existing systems and data, such as programs that mandate supplier diversity and poverty levels, to determine if a project fell into these categories.

Using one-time flexible funds to strengthen states’ long-term fiscal positions

The structure of SLFRF provided some flexibility in how the funds could be used, but some state decision-makers still expressed having difficulty spending large amounts of one-time funds in such a limited period.32 In the face of a spending deadline that precluded deposits into rainy day funds, tax reductions, and certain other uses for one-time funds, some jurisdictions came up with creative ways to derive long-term benefits from the funding. For example, some:

- **Strengthened unemployment systems.** Although final SLFRF rules did not permit depositing funds into state stabilization or rainy day accounts, a number of the states studied found ways to brace for future fiscal challenges by making significant deposits in their unemployment insurance trust funds or paying back unemployment-related federal loans.33 The amount that states contributed to refilling their trust funds varied. Minnesota allocated just over $2.3 billion of its $2.8 billion in SLFRF funds to its Unemployment Insurance Trust Fund.34 Arizona allocated $759 million of its $4.2 billion total, 18% of its total funds.35 Colorado put $600 million of its $3.8 billion into its Unemployment Insurance Trust Fund with a plan to use this influx to lower unemployment insurance premiums paid by small businesses.36 Other governments made one-time investments to advance unemployment insurance system technology to improve future benefits delivery.

- **Implemented tax deferral programs.** One state used its funds creatively to provide a recurring benefit for elderly residents that did not require ongoing investment. Maine allocated over $3.2 million to initiate a State Property Tax Deferral Program, which allows individuals at least 65 or who meet disability requirements to defer property tax payments until they sell their residence or die. The estate pays back the property taxes
plus interest upon death or sale. Because the money is ultimately paid back into the system, the upfront investment allows the program to be sustained beyond the initial allocation with no negative long-term fiscal impact.

- **Met revolving fund match requirements.** Louisiana allocated $23.7 million to meet the 20% match requirements for the Clean Water State Revolving Fund and Drinking Water State Revolving Fund, programs operated by the U.S. Environmental Protection Agency. Although SLFRF rules generally do not permit investments to establish revolving funds, they do permit states to use funds for their share of federal match requirements. Louisiana used SLFRF funds to match other federal funds to increase the amount available for low- or no-interest loans for water infrastructure projects across the state. As the loans and interest are paid back into the system, the investment will continue, allowing the state to make additional loans.

- **Invested in impact evaluation.** States were authorized and encouraged to use SLFRF funds for efforts to boost evidence and data capacity, prioritize evidence-based solutions, and invest in rigorous evaluations, including what are known as impact evaluations. These are rigorous assessments of program effectiveness that can inform decisions about which interventions to support, revise, or eliminate. Some states took steps to invest in impact evaluation with their SLFRF funds. For example, Maine allocated $3 million of those funds to an apprenticeship program that will undergo an impact evaluation to assess its effectiveness. Connecticut, meanwhile, invested in evaluation capacity on a statewide basis to conduct impact evaluations for multiple programs.

**Detailed findings show states planning to avoid future budget challenges**

The jurisdictions Pew studied showed a mix of types of SLFRF investments. And while most of the states limited the percentage of SLFRF funds spent on operational expenses, they often went even further in planning for long-term fiscal stability by focusing these investments on existing, as opposed to new, programs, as well as often having a plan in place to either wind down operational programs or continue them with alternative sources of funding.
Figure 2

**American Samoa**

100% of American Samoa’s $479 million in federal recovery funding was allocated as of July 2022

<table>
<thead>
<tr>
<th>Percent of Funds by Treasury Category</th>
<th>Breakdown of Allocated Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Health</td>
<td>Direct pandemic response expenses 9.4%</td>
</tr>
<tr>
<td>Negative Economic Impact</td>
<td>Operational expenses 5.0%</td>
</tr>
<tr>
<td>Public Sector Capacity</td>
<td>88% One-time investments</td>
</tr>
<tr>
<td>Premium Pay</td>
<td>5% Funding or expansion of existing programs</td>
</tr>
<tr>
<td>Water, Sewer, and Broadband Infrastructure</td>
<td>0% New programs</td>
</tr>
<tr>
<td>Revenue Replacement</td>
<td>5% Funding or wind-down plan in place</td>
</tr>
<tr>
<td>Administrative and Other</td>
<td>0% No funding or wind-down plan in place</td>
</tr>
</tbody>
</table>

Note: “Funding or wind-down plan in place” refers to funds for temporary programs with an end date or for ongoing programs with funding plans in place once Coronavirus State and Local Fiscal Recovery Funds are exhausted. “No funding or wind-down plan in place” refers to funds for temporary programs without an end date or for ongoing programs without funding plans in place once SLFRF funding is exhausted.

Sources: Pew analysis of data from project inventory in American Samoa’s “2022 Recovery Plan Performance Report” to the U.S. Department of the Treasury, https://www.americansamoa.gov/_files/ugd/4bfff9_4c2f4a377117413ebff1b93fe28ecc7b.pdf; and Pew outreach to territory officials

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American Samoa invested 88% of its SLFRF allocation in public health. Its largest allocation was to a $300 million project expanding the island’s sole hospital and establishing a new medical facility after the pandemic had highlighted issues with the territory’s health care capacity. Other significant investments in public health included activities preventing the spread of COVID-19 while repatriating its residents and providing new behavioral health services. The territory did not use any of its funds for revenue replacement.

The analysis of American Samoa’s SLFRF allocations shows that 86% of the spending went to seven projects that Pew found to be one-time expenditures. The territory also invested a little more than 9% of its funds in seven projects for direct pandemic response, including a vaccination program and a project providing revolving loans and grants to small business.

American Samoa invested 5% of its funds in one project deemed to be an operational expense (the smallest share of the jurisdictions studied)—funding for behavioral health services to address mental health and substance misuse. However, the territory did indicate a funding plan for after SLFRF funds are exhausted. This program is expected to authorize 61 new non-temporary positions. The hiring of new employees with one-time money can create an ongoing liability, but policymakers say they have identified a funding plan.

Looking ahead, Gov. Lemanu P.S. Mauga has submitted a $664 million budget proposal for fiscal 2024, a 4% decrease from the year prior. 43
Figure 3

Florida

96% of Florida’s $8.8 billion in federal recovery funding was allocated as of July 2022

Percent of Funds by Treasury Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Health</td>
<td>0%</td>
</tr>
<tr>
<td>Negative Economic Impact</td>
<td>10%</td>
</tr>
<tr>
<td>Public Sector Capacity</td>
<td>0%</td>
</tr>
<tr>
<td>Premium Pay</td>
<td>0%</td>
</tr>
<tr>
<td>Water, Sewer, and Broadband Infrastructure</td>
<td>27%</td>
</tr>
<tr>
<td>Revenue Replacement</td>
<td>63%</td>
</tr>
<tr>
<td>Administrative and Other</td>
<td>0%</td>
</tr>
</tbody>
</table>

Breakdown of Allocated Funds

- **Direct pandemic response expenses**: 5.7%
- **Operational expenses**: 6.3%
- **One-time investments**: 87.9%
- **New programs**: 4.4%
- **Funding or expansion of existing programs**: 1.9%
- **No funding or wind-down plan in place**: 1.8%
- **Funding or wind-down plan in place**: 4.6%

Note: “Funding or wind-down plan in place” refers to funds for temporary programs with an end date or for ongoing programs with funding plans in place once federal Coronavirus State and Local Fiscal Relief Funds are exhausted. “No funding or wind-down plan in place” refers to funds for temporary programs without an end date or for ongoing programs without funding plans in place once SLFRF funding is exhausted.


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Florida policymakers designated more than 60% of their state and local relief allocations to revenue replacement for various uses, including a payment for pandemic first responders, local support grants, and deferred building maintenance for the state university system. Less than 5% of funds in Florida’s revenue replacement expenditure category were allocated to fund operational expenses. Another quarter of the state’s funding was directed to water, sewer, and broadband infrastructure projects, which were almost exclusively one-time investments.

According to the Pew analysis, 88% of Florida SLFRF allocations went to 35 programs or activities that were found to be one-time expenses. This included funding for programs that addressed various state needs but focused mainly on infrastructure and capital improvements, such as highway and water infrastructure programs and other environmental investments to respond to rising sea levels. Of the six jurisdictions Pew studied, Florida allocated the most to one-time expenses and the least to direct pandemic response expenses.

Some 6% of Florida’s total state allocation went to fund operational expenses. Of that, 70% of funds were allocated for new programs or activities, which can be harder policy decisions to reverse once funding is exhausted. Florida took steps to ensure that more than 72% of operational spending went to programs with a funding or wind-down plan in place. The state also indicated that it did not hire new non-temporary government employees using SLFRF funds.

Looking ahead, Florida enacted the largest budget in its history, $117 billion, for fiscal 2024. It also enacted a series of temporary and permanent tax cuts in fiscal 2023.
Idaho

90% of Idaho’s $1.1 billion in federal recovery funding was allocated as of July 2022

### Percent of Funds by Treasury Category

<table>
<thead>
<tr>
<th>Treasury Category</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Health</td>
<td>7%</td>
</tr>
<tr>
<td>Negative Economic Impact</td>
<td>19%</td>
</tr>
<tr>
<td>Public Sector Capacity</td>
<td>7%</td>
</tr>
<tr>
<td>Premium Pay</td>
<td>7%</td>
</tr>
<tr>
<td>Water, Sewer, and Broadband</td>
<td>60%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
</tr>
<tr>
<td>Revenue Replacement</td>
<td>0%</td>
</tr>
<tr>
<td>Administrative and Other</td>
<td>0%</td>
</tr>
</tbody>
</table>

### Breakdown of Allocated Funds

- **75.3%** One-time investments
- **11.8%** Direct pandemic response expenses
- **12.9%** Operational expenses

- **6.5%** New programs
- **6.4%** Funding or expansion of existing programs
- **11.3%** Funding or wind-down plan in place
- **1.6%** No funding or wind-down plan in place

Note: "Funding or wind-down plan in place" refers to funds for temporary programs with an end date or for ongoing programs with funding plans in place once Coronavirus State and Local Fiscal Recovery Funds are exhausted. "No funding or wind-down plan in place" refers to funds for temporary programs without an end date or for ongoing programs without funding plans in place once SLFRF funding is exhausted.


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Idaho invested almost 60% of its SLFRF allocation in water, sewer, and broadband infrastructure projects, all one-time investments. Projects in this category were focused mostly on improving water infrastructure, including a $300 million program providing grants for community investment in drinking and wastewater. The next three largest programs were also one-time expenditures focused on water infrastructure. In addition, 19% of the money went to projects aimed at addressing negative economic consequences of the pandemic, including workforce training programs and child care expansion grants. The state did not use any of its funds for revenue replacement.

According to the analysis of Idaho's SLFRF allocations, more than 75% of funds went to 17 programs that Pew found to be one-time investments, including workforce housing support and outdoor recreation maintenance. Almost 12% was allocated to direct pandemic response expenses, including premium pay for teachers and medical system support.

Almost 13% of the state’s SLFRF allocation went to programs or projects that Pew found to be for operational expenses, including courses to retrain rural employees to work remotely and increase social services. About half of the programs were new, which can represent harder policy decisions to reverse once funding is exhausted. When it came to planning for the end of ARPA support, Idaho indicated it had already determined an end date for more than 87% of those funds, meaning less chance of ongoing liabilities. The state indicated that it would use some of its SLFRF funding to hire eight permanent employees for one program.

At the end of June 2023, Idaho enacted its $5.2 billion fiscal 2024 budget, which was up 12% from fiscal 2023. The budget includes a $62 million deposit in the rainy day fund, bringing it to its maximum balance of $1.2 billion under state law.
Figure 5
Illinois
70% of Illinois’ $8.1 billion in federal recovery funding was allocated as of July 2022

<table>
<thead>
<tr>
<th>Percent of Funds by Treasury Category</th>
<th>Breakdown of Allocated Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Health</td>
<td>Direct pandemic response expenses 63.5%</td>
</tr>
<tr>
<td>Negative Economic Impact</td>
<td>Operational expenses 31.9%</td>
</tr>
<tr>
<td>Public Sector Capacity</td>
<td></td>
</tr>
<tr>
<td>Premium Pay</td>
<td></td>
</tr>
<tr>
<td>Water, Sewer, and Broadband Infrastructure</td>
<td></td>
</tr>
<tr>
<td>Revenue Replacement</td>
<td></td>
</tr>
<tr>
<td>Administrative and Other</td>
<td></td>
</tr>
</tbody>
</table>

Note: “Funding or wind-down plan in place” refers to funds for temporary programs with an end date or for ongoing programs with funding plans in place once Coronavirus State and Local Fiscal Recovery Funds are exhausted. “No funding or wind-down plan in place” refers to funds for temporary programs without an end date or for ongoing programs without funding plans in place once SLFRF funding is exhausted. Revenue replacement refers to Illinois’ entire revenue replacement allocation of $1.5 billion for fiscal year 2022.

Sources: Pew analysis of data from project inventory in Illinois’ 2022 “Recovery Plan” report to the U.S. Department of the Treasury, https://budget.illinois.gov/content/dam/soi/en/web/budget/documents/arpa/IL%20Recovery%20Plan%20Performance%20Report%202022.pdf; and Pew outreach to state officials. Pew was unable to conduct additional analysis on the revenue replacement portion of the operational expenses because it was allocated in one large sum (as allowed by Treasury).

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Illinois allocated 59% of its State and Local Fiscal Recovery Funds to projects addressing the negative economic consequences of the pandemic—for example, grants providing financial assistance to businesses as well as job training. That included a $2.7 billion repayment to the federal government of money borrowed from the Unemployment Insurance Trust Fund. Paying back that loan to the federal government accounted for 36% of the state’s entire SLFRF allocation. Additionally, Illinois allocated 26% of its funds to revenue replacement, which was designated as a single activity in the state’s project inventory. Because Illinois’ “Recovery Plan” indicated that $1.5 billion in revenue replacement funds were for operational expenses for public safety and educational agencies, Pew’s analysis deemed that use could lead to future uncertainty about how to fund those agency operations on an ongoing basis.

Of the six jurisdictions studied, Illinois spent the largest share of its funds on direct pandemic response, with 63% of the money going to this effort. This was due in part to the state’s repayment to the Unemployment Insurance Trust Fund. Additionally, Illinois funded a $300 million state program to provide Back to Business grants to help reopen businesses that suffered major income losses during the pandemic. Other activities included supporting convention facilities, bolstering the payroll of state-hired health care workers, and creating a vaccine lottery program. The state spent less than 5% of the money on programs found to be one-time investments not directly related to the pandemic.

Looking forward, Illinois enacted a budget for fiscal 2024 with total expenditures at $119 billion, a 2% decrease from the prior year. The budget includes $700 million in pension stabilization investments and projects the rainy day fund to exceed $2 billion by the end of that fiscal year. Such a focus on ensuring fiscal resiliency serves as an example of how a state that is using SLFRF funds for operational expenses has been able to use its own general funds for one-time targeted investments to strengthen its fiscal position.
Figure 6

New Hampshire

72% of New Hampshire’s $995 million in federal recovery funding was allocated as of July 2022

<table>
<thead>
<tr>
<th>Percent of Funds by Treasury Category</th>
<th>Breakdown of Allocated Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Health</td>
<td>Direct pandemic response expenses 19.5%</td>
</tr>
<tr>
<td>Negative Economic Impact</td>
<td>Operational expenses 8.1%</td>
</tr>
<tr>
<td>Public Sector Capacity</td>
<td>Breakdown of operational expenses</td>
</tr>
<tr>
<td>Premium Pay</td>
<td>1.4% New programs</td>
</tr>
<tr>
<td>Water, Sewer, and Broadband Infrastructure</td>
<td>6.7% Funding or expansion of existing programs</td>
</tr>
<tr>
<td>Revenue Replacement</td>
<td>4.4% No funding or wind-down plan in place</td>
</tr>
<tr>
<td>Administrative and Other</td>
<td>3.7% Funding or wind-down plan in place</td>
</tr>
<tr>
<td></td>
<td>72.5% One-time investments</td>
</tr>
</tbody>
</table>

Note: "Funding or wind-down plan in place" refers to funds for temporary programs with an end date or for ongoing programs with funding plans in place once Coronavirus State and Local Fiscal Recovery Funds are exhausted. "No funding or wind-down plan in place" refers to funds for temporary programs without an end date or for ongoing programs without funding plans in place once SLFRF funding is exhausted.


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With its state and local relief funds, New Hampshire allocated 38% to revenue replacement, including large investments in housing development, water infrastructure, and information technology infrastructure projects. Less than 1% of the revenue replacement funds were for operational expenses. Policymakers made their largest SLFRF allocation of revenue replacement dollars to the state’s InvestNH program fund, which was set up to encourage housing development; 10% of the state’s total SLFRF expenditures supported this one-time expense.

The state invested almost 30% of its funds in public health projects, including COVID-19 response support, operational expenses for health care facilities, and the purchase of a hospital. On top of that, policymakers allocated 20% of funds to water, sewer, and broadband infrastructure, all as one-time investments.

According to Pew’s analysis, only 8% of New Hampshire’s SLFRF allocation went to programs or projects for operational expenses. This included funding programs addressing workforce training and recruitment and support for social services. When it came to planning for the end of ARPA support, Pew found that 73% of funding for operational expenses was for existing programs. Those are typically easier investments to wind down than those in new programs, but the analysis did find that 55% of funding for operational expenses did not have a funding or wind-down plan in place. Additionally, two programs funded the authorization of new non-temporary employees.

Looking ahead, New Hampshire recently enacted a two-year, $15 billion budget for fiscal 2024 and 2025. The budget phases out the interest and dividend tax by the end of 2024 while adding no additional taxes. The budget also includes a 10% pay increase for all state employees in fiscal 2024.
**Tennessee**

95% of Tennessee's $3.7 billion in federal recovery funding was allocated as of July 2022

### Percent of Funds by Treasury Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Health</td>
<td>33%</td>
</tr>
<tr>
<td>Negative Economic Impact</td>
<td>10%</td>
</tr>
<tr>
<td>Public Sector Capacity</td>
<td>4%</td>
</tr>
<tr>
<td>Premium Pay</td>
<td>0%</td>
</tr>
<tr>
<td>Water, Sewer, and Broadband Infrastructure</td>
<td>52%</td>
</tr>
<tr>
<td>Revenue Replacement</td>
<td>0%</td>
</tr>
<tr>
<td>Administrative and Other</td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

### Breakdown of Allocated Funds

- **Direct pandemic response expenses**: 6.5%
- **Operational expenses**: 8.7%
- **One-time investments**: 84.8%
- **Funding or wind-down plan in place**: 4.8%
- **New programs**: 4.8%
- **Funding or expansion of existing programs**: 4.0%
- **No funding or wind-down plan in place**: 4.0%
- **Funding or wind-down plan in place**: 4.8%

Note: *Funding or wind-down plan in place* refers to funds for temporary programs with an end date or for ongoing programs with funding plans in place once Coronavirus State and Local Fiscal Recovery Funds are exhausted. *No funding or wind-down plan in place* refers to funds for temporary programs without an end date or for ongoing programs without funding plans in place once SLFRF funding is exhausted.


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In Tennessee, policymakers identified infrastructure as an urgent need. They allocated more than 50% of funds to two infrastructure projects, one focused on water and sewer enhancements and the other on expanding broadband. In total, Tennessee allocated more than 33% of the funds to public health, and exclusively one-time investments. The state did not use any of its funds for revenue replacement.

According to analysis of Tennessee SLFRF allocations, around 85% went to 27 programs or activities that Pew found to be for one-time expenses, including funding the bulk of the infrastructure programs as well as capital investments in health care facilities.

Around 9% of the total state allocations went to operational expenses, including programs addressing the state’s cybersecurity risks and promoting tourism. When it came to planning for the end of ARPA aid, Tennessee said it had a plan in place for around 54% of those funds—either by indicating preplanning for the programs to continue after ARPA funding is exhausted or by determining an end date for the programs. The state additionally indicated that none of its SLFRF dollars went to funding permanent new hires.

Looking forward, Tennessee enacted a $56 billion budget for fiscal 2024. The budget includes a $250 million deposit in the rainy day fund, bringing the total up to $2 billion at the end of fiscal 2024.
Recommendations

Given the challenges associated with large, one-time funding influxes such as SLFRF, Pew has developed recommendations for policymakers. As much as possible, they should:

- **Address immediate, acute needs.** One-time federal funds are often a reaction to a major event—such as a pandemic or significant recession—that can create urgent needs for states or localities. States should consider using one-time funds to address acute or emergency needs and expenses not expected to continue past the availability of the funds. During the COVID-19 pandemic, states spent significant amounts of federal aid on direct pandemic response, such as setting up public testing and vaccine distribution capabilities, providing personal protective equipment to responders, supporting additional staffing at elder care facilities, and providing economic support to small businesses. As long as increased spending is clearly tied to specific needs and is time-limited, state policymakers can leverage federal aid to maintain fiscal stability and meet the real needs of their constituents—without creating significant risk of long-term budget imbalances.

- **Use funds for one-time investments.** When the aid exceeds the immediate needs of a crisis, as it did during the COVID-19 response, states should use those one-time funds to prepare for unexpected shocks, pay down future liabilities, or invest in new projects that do not require ongoing financial commitments. When federal rules allow, the one-time funds can provide an opportunity to strengthen state budgets against future challenges. Deposits into rainy days funds or disaster reserve accounts can provide financial security to address future emergencies. Identifying and paying down unfunded liabilities, such as underfunded pension obligations or deferred maintenance on infrastructure, can allow states to take advantage of federal support to begin paying bills that will eventually come due. When there aren’t opportunities to strengthen budgets against future challenges, states should still look to make one-time investments. Identifying projects or expenses that provide ongoing value without committing the state to regular future investment can help address needs without risking long-term stability.

Policymakers should go beyond using one-time funds for one-time investments, however, and work to create standards or definitions by which to address risk associated with specific spending sources.

- **Limit risk of fiscal imbalance when spending on operational expenses.** Spending one-time funding on operational expenses—expenses that sustain the operation of a program and would need to recur regularly—risks putting a state’s long-term fiscal outlook out of balance. However, policymakers can take steps to reduce that risk when such spending is unavoidable. These include:
  - **Identify ongoing future funding for permanent new spending.** If new spending is intended to be permanent, identifying the eventual funding source from the start can help limit the risk of disruption when federal funding ends. States that employ long-term budgeting, meaning they project growth of revenue and expenses multiple years into the future, will be better positioned to identify future funds to maintain fiscal balance. For example, as Tennessee used $32.5 million in federal funds from the one-time increase in the Medicaid match rate to expand the number of people served under the state’s Employment and Community First CHOICES program, policymakers also identified recurring future state funds to continue the expansion in services. Other states, such as Minnesota and Maine, used state funds to continue pandemic-era child care-related funding supports as the federal funding for those programs began to expire in September 2023.
- Clearly communicate when operational spending is temporary. Some new spending is never intended to be permanent. A program can operate for a short time and then end without affecting long-term fiscal balance. However, there are instances where stakeholders can begin to rely on these temporary programs and the end can cause disruption. Clear communication about the end date can help ease these transitions.

- Fund evidence-based policymaking reforms and invest in evaluating programs. In its SLFRF guidance, Treasury indicated that the funding can be used in various ways to address data, evidence, and program administration needs of recipients. States could tap into the full potential of their investments by also investing in evaluations so they can scale up projects that are known to be effective, improve projects with promising results, and work to replace or wind down those that do not achieve intended outcomes. For pilot programs being funded with one-time money, incorporating program evaluation allows states to learn which new ideas are most effective in practice. And when the federal funding is exhausted, this knowledge can help policymakers decide which programs are worth continuing with state funds and which to let end.

- Minimize hiring of new permanent staff and prioritize existing programs over starting new ones. When new spending is intended to be temporary, new personnel and new programs make it more difficult to end expenditures when the funding is gone.

- Assess the indirect impact of federal aid. Federal spending in times of economic crises is often intended, in part, to provide macroeconomic stimulus. This stimulus can benefit state budgets indirectly by increasing state tax revenue, even when the state is not the direct recipient of the federal funds. Whether this stimulus results in reduced state revenue losses during a recession or in record state surpluses, as happened following COVID-19, states need to plan for how the end of this stimulus will affect their tax collections. States should work to identify the impact that one-time federal stimulus spending has on revenue and treat that revenue as a one-time source of funds.

**Conclusion**

States faced unprecedented fiscal challenges because of COVID-19, but the federal pandemic aid, including through SLFRF, helped them through the difficult times. Rebounding revenue in many states after the initial year or two has contributed to relative budget stability as well as states’ abilities to continue to respond to COVID-19, provide essential services, and invest in other priorities.

The analysis of five states and one territory showed policymaker awareness of the planning principles and priorities that can help them avoid putting themselves in vulnerable future fiscal positions. Additionally, the jurisdictions frequently took steps when they funded operational expenses to plan for that funding to wind down. Prudent fiscal stewardship is always important, but conscientious use of one-time funds during an emergency is critical for an effective crisis response.
### Appendix 1: Allowable Uses of State and Local Fiscal Recovery Funds

<table>
<thead>
<tr>
<th>Allowable use</th>
<th>Description</th>
<th>Key information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public health</td>
<td>Projects to respond to COVID-19 and its broader health impacts, COVID-19-related capital investments, behavioral health services, and more</td>
<td>Enumerated uses for these funds include COVID-19 mitigation and prevention, medical expenses, behavioral health care, and preventing and responding to violence*</td>
</tr>
<tr>
<td>Negative economic impacts</td>
<td>Funding may be distributed to projects to combat a negative economic impact as a result of the pandemic</td>
<td>Assistance may be granted to households, small businesses, nonprofits, impacted industries, or to aid public sector capacity; Treasury provides “a non-exhaustive list of enumerated uses that respond to pandemic impacts”†</td>
</tr>
<tr>
<td>Public sector capacity</td>
<td>Funds may be spent to restore and bolster public sector capacity impacted by COVID-19</td>
<td>The main categories of eligible uses to bolster public sector capacity include public safety, public health, and human services staff; government employment and rehiring public sector staff; and effective service delivery</td>
</tr>
<tr>
<td>Premium pay</td>
<td>Premium pay up to an additional $13 per hour to people performing essential work during the pandemic</td>
<td>Eligible workers include those in health care, public health, emergency response, sanitation, grocery, and restaurant fields, among others‡</td>
</tr>
<tr>
<td>Water, sewer, and broadband infrastructure</td>
<td>Funds may be used to make necessary investments in water, sewer, and broadband infrastructure</td>
<td>Treasury has provided a list of allowable projects that states may undertake under this funding category</td>
</tr>
<tr>
<td>Revenue replacement</td>
<td>SLFRF funding may be used to pay for “government services” in an amount equal to the revenue loss experienced due to the COVID-19 public health emergency§</td>
<td>Recipients may elect a standard allowance of $10 million or calculate actual revenue loss pursuant to Treasury’s formula</td>
</tr>
<tr>
<td>Administrative</td>
<td>SLFRF funds may be used to cover costs resulting from administrative expenses</td>
<td>Administrative expenses may include costs related to evaluation and data analysis, as well as transfers to nongovernmental entities</td>
</tr>
</tbody>
</table>

‡ A full list of fields can be found in U.S. Department of the Treasury, “Coronavirus State & Local Fiscal Recovery Funds.”
§ Definition from U.S. Department of the Treasury, “Coronavirus State & Local Fiscal Recovery Funds.”


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Appendix 2: Methodology

To better understand how states and territories spent their allotted SLFRF funds, Pew selected a subset of these jurisdictions—American Samoa, Florida, Idaho, Illinois, New Hampshire, and Tennessee—for more in-depth research and outreach. These jurisdictions were selected based on factors such as the detail available in their recovery plan performance reports, geographic location, and the percentage of funds that had been allocated by July 2022. Each of the jurisdictions selected submitted a substantive 2022 recovery plan performance report to Treasury with the majority of its SLFRF funds allocated. (Other states had not allocated much of their funding or lacked the required level of detail required for analysis.) In consideration of geographic diversity, researchers chose a state from the West, Southeast, Midwest, and Northeast, as well as one territory.

Pew compiled a dataset of each state’s spending of SLFRF funds. Each recipient was required to submit annual recovery plans to Treasury detailing intentions for spending SLFRF funds. Pew analyzed 2022 reports and compiled an original dataset including information on select characteristics such as dollar amount, agency (when applicable), program description, and expenditure category. Spending items were coded into the dataset as they appeared in the states’ Treasury reports, unless there was evidence that the funds for a spending item were allocated to separate activities. Pew then analyzed and coded the data to determine the nature of each jurisdiction’s spending decisions. Spending items were categorized primarily based on the description in the report. When the description was not sufficient, Pew consulted legislative language, government agency reports, brochures, news releases, and media articles. Items were classified as one of three types of spending, described in the accompanying box.

### Three Types of Spending

**One-time investments:** Includes expenses that are not likely to commit the state to future investment and are not expected to recur on a regular basis but are intended to provide ongoing value. Examples include construction of new infrastructure, major maintenance of existing infrastructure, and purchase of durable goods such as motor vehicles or heating and ventilation systems.

**Operational expenses:** Includes expenses that sustain the operation of a program and would likely recur to maintain programmatic function. Examples include paying employee salaries, paying rent or utility bills, and the purchase of nondurable goods or contracting for services.

**Direct pandemic response expenses:** Includes expenses that are operational in nature but address a need that is directly tied to the COVID-19 pandemic and therefore the expenditure is not expected to continue past the availability of the one-time funds. Examples include purchasing personal protective equipment, running vaccination clinics, and addressing COVID-19-related economic harm.

For activities and programs coded as operational expenses, Pew contacted state officials to further understand planning around these decisions. Pew asked whether the programs or activities considered operational were new, as opposed to an expansion of an existing program; whether the funded activity was expected to be temporary (with or without an established end date) or ongoing—and if the state had a plan in place once funding was exhausted; and if the funding for the activity would support any non-temporary new government employees and if so, how many employees the state plans to authorize.

Pew received responses from each jurisdiction except New Hampshire, but researchers were able to answer questions on operational expenses with information from the “Fiscal Item Tracker” on the Governor’s Office for Emergency Relief and Recovery website. The remaining five jurisdictions sent their responses by email.
Endnotes


6. Though deposits into rainy day funds and pension funds are recommended as a general best practice for fiscal sustainability, the American Rescue Plan Act does not allow states to deposit SLFRF funds into these accounts: “No State or territory may use funds made available under this section for deposit into any pension fund. … A State or territory shall not use the funds provided under this section or transferred pursuant to section 603(c)(4) to either directly or indirectly offset a reduction in the net tax revenue.” American Rescue Plan Act of 2021, H.R. 1319, 117th Cong. (2021), https://www.congress.gov/bill/117th-congress/house-bill/1319/text.


States generally determined lost revenue by calculating the difference between their actual collections and hypothetical 5.2% growth from their 2019 baseline. Alternatively, they could claim $10 million in lost revenue with no calculation.


U.S. Department of the Treasury, “Coronavirus Relief Fund.”


There are multiple sources with data on how states spent their federal recovery funds, including dashboards from the Pandemic Response Accountability Committee, quarterly reports from Treasury, and states’ 2021 and 2023 recovery plan performance reports. For the purposes of this report, Pew focused its data collection on the 2022 Treasury recovery plan performance reports.

Pew’s analysis examined state-level decision making with respect to SLFRF and did not include decisions made by local or Tribal government recipients.

Expenditures categorized as one-time investments could have the potential for future funding in the form of maintenance or long-term replacement. The classification indicates that the spending items are one time in “nature.”

New programs funded by one-time money are difficult to reverse once funding is exhausted because there may be expectations that the program will be supported beyond the existence of the one-time funds. Once one-time funding is gone, jurisdictions can either end the program or identify another form of funding. Either option is acceptable, but identifying and communicating the plan to employees, constituents, and program beneficiaries is crucial to avoid inaccurate expectations or stress on separate revenue streams. D. Schleicher, “The Era of Flush State Budgets Is Over,” The Atlantic, June 4, 2023, https://www.theatlantic.com/ideas/archive/2023/06/state-budgets-federal-funding-california-new-york/674264; T. Breen, “New Haven’s School Challenge: How to Spend All That Federal Money,” CT Mirror, April 17, 2021, https://ctmirror.org/2021/04/17/new-havens-school-challenge-how-to-spend-all-that-federal-money.


Ibid.; Illinois’ 2022 project inventory cited over $3.2 billion in total potential revenue replacement allocation. In the executive summary of its “Recovery Plan,” the state indicated $1.5 billion for its revenue replacement allocation. To properly represent Illinois’ spending of federal recovery funding, Pew’s analysis accounted $1.5 billion for the state’s revenue replacement allocation.


National Conference of State Legislatures, “ARPA State Fiscal Recovery Fund Allocations Dashboard,” accessed Aug. 29, 2023, https://app.powerbi.com/w2/?eyJrIjoiMjRlotaMzj2MTNkNWZkZC0zMTFlLWNhMDEtOTVhNjQ0YzQ2LTA5IiwidCI6IjlhMzQ0M2EwNDYwNmY1NjA2M2JlNWYxMjI5MGIyOTkifX0.
42 Goodwin and Bernardy, “Making the Most of American Rescue Plan Dollars.”
47 Ibid.
48 Pew’s analysis drew from states’ 2022 recovery plan performance reports. In Illinois’ 2023 report, the state said it allocated an additional $300 million for revenue replacement and an additional $1.5 billion for activities related to the Unemployment Insurance Trust Fund.
52 Ibid.
53 Ibid.

