1275 First Street NE, Suite 1200
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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

By Iris Hinh[1]

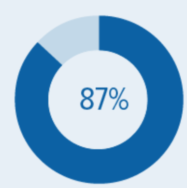
Every state, the District of Columbia, and Puerto Rico are using the $198 billion in Fiscal Recovery Funds (FRF) created under the federal American Rescue Plan to address the COVID-19 pandemic's harmful economic and health effects. Our review of these spending decisions shows that many states are using these funds constructively: to offset declines in their revenue collections; to address the health, economic, and fiscal impacts of the pandemic and contribute to the economic recovery; and to start new long-term investments to address racial and economic inequities. Decisions in some states are not constructive. All offer important lessons for how states should use the more than $25 billion in remaining funds, which will be critical to addressing the pandemic's ongoing damage and useful for stabilizing state budgets in the event of a recession in 2023.

FIGURE 1

States Have Made Substantial Progress in Using Fiscal Recovery Funds

American Rescue Plan gave all 50 states, D.C and Puerto Rico **$198 billion** for COVID-19 relief.

So far, **$173 billion**, or **87%** of total has been appropriated by states.



Source: CBPP analysis

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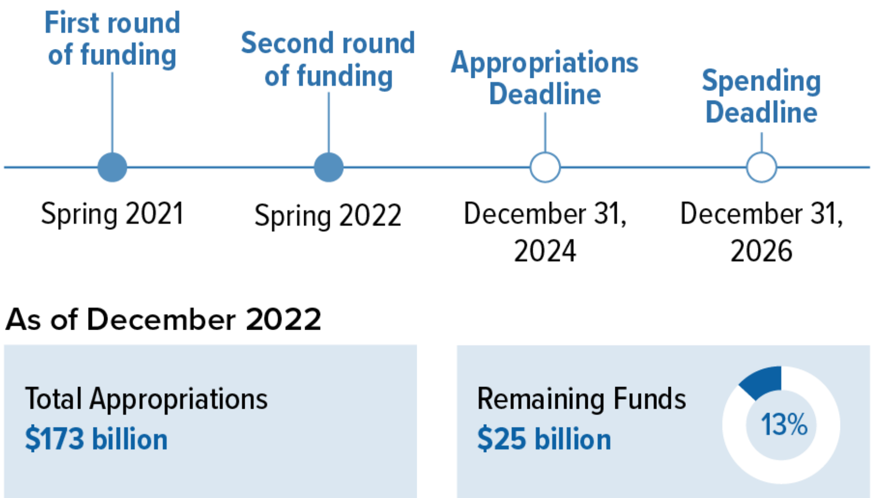
States are making substantial progress in using FRF, our review shows. As of December 1, 2022, all states, the District of Columbia, and Puerto Rico have appropriated almost $173 billion. (See Figure 1.) That is 87 percent of the full $198 billion set aside for them. Among states that have allocated funds, the median state has committed 87 percent of its full allocation. States have until the end of 2024 to fully "obligate" their FRF (decide how they will be used), and until 2026 to complete their spending. (See Figure 2.)

[1] Ed Lazere, Julian Legendre, and Maria Perez gathered and organized much of the data on state allocation of Fiscal Recovery Funds highlighted in this report.

FIGURE 2

States Should Use Rest of Federal Aid to Support Equitable Recovery



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

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

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

States have appropriated a substantial share of their Fiscal Recovery Funds, but about $25 billion remains. That means some states still face important decisions over how to use these flexible funds. They should prioritize investments that will help residents who continue to struggle, support a robust recovery, and reduce long-standing racial and economic inequities in education, employment, housing, and health care that the pandemic has exacerbated. Spending funds in ways that fail to serve these purposes would be a lost opportunity to create more equitable state services.

Purposes of FRF Include Responding to Pandemic, Preventing Service Cuts

The pandemic continues to impact public health and the financial security of many U.S. residents, key sectors of the economy, and the education system. Racial inequities widened in the pandemic, as Black, Latino, and Native American residents bore the brunt of the job losses and illness and death.[2] While unemployment fell sharply as the economy emerged from the initial stages of the pandemic, Black and Latino workers continue to face higher unemployment than before the pandemic.[3] High food and energy prices, stemming largely from disruptions to the global supply chain, have also hit people with low incomes hard. These outcomes reflect wealth and income disparities, inadequate access to health care, and racial discrimination built into the health system and labor market.

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

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

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

[3] CBPP, "Chart Book: Tracking the Recovery From the Pandemic Recession," updated December 22, 2022, https://www.cbpp.org/research/economy/tracking-the-recovery-from-the-pandemic-recession.

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

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

States may *not* use the funds to offset tax cuts above a certain size (although this has been challenged in court), to support public employee pensions, or to pay off existing debts.

Fiscal Recovery Funds for Localities and Tribal Nations

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

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

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

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

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

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

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

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

Treasury's final rule on Fiscal Recovery Funds clarifies that investments to support people or communities with low incomes are allowable and simplifies the process for making these kinds of investments. The final rule creates new definitions of individuals and communities that the pandemic has "impacted" or "disproportionately impacted" and lists the kinds of services that states and localities can provide for each group using State and Local FRF. "Impacted" people include those with incomes below 300 percent of the federal poverty line (about $66,000) for a family of three, and "disproportionately impacted" people include those with incomes below 185 percent of the poverty line ($40,600 for a family of three).[4]

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

All States Have Started Allocating Fiscal Recovery Funds

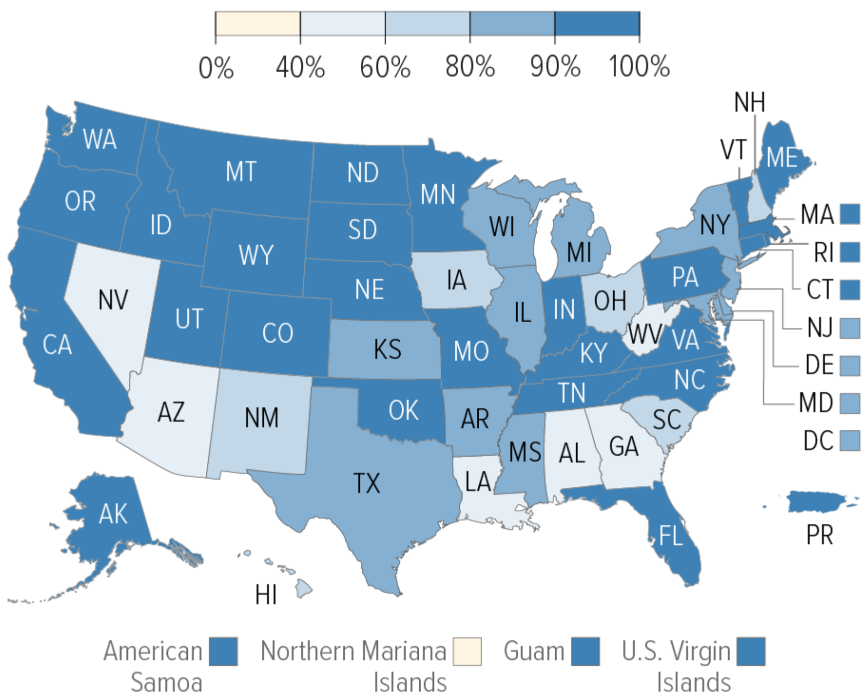
As of December 1, 2022, 50 states, D.C., and Puerto Rico have appropriated $173 billion of these funds. This is 87 percent of the $198 billion FRF provided to them (the remainder were distributed in 2022). In addition, American Samoa, Guam, the Northern Mariana Islands, and the U.S. Virgin Islands have appropriated $1.7 billion of FRF collectively. (See Figure 3.)

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

FIGURE 3

Most States Have Decided How to Spend Their Fiscal Recovery Funds

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



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As noted above, states, localities, territories, and tribal governments have until December 31, 2024, to obligate these funds, or as many as three more budget cycles. The actions to date show that states are actively using this money as a vital source of funding in the pandemic. Some states allocated funds for the end of fiscal year 2021 (which ended June 30, 2021, in most states) while most allocated for 2022 and a few (especially those with biennial budgets) also allocated for 2023. In nearly every state, the legislature is involved in allocating FRF resources, either by including them as part of an annual or supplemental budget, or through legislative fiscal committees authorized to spend the money. In a handful of states, the governor has control over the allocation decisions.[5]

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

Of the states that have started appropriating FRF:

- Sixteen states[6] — Alaska, California, Connecticut, Florida, Indiana, Maine, Massachusetts, Missouri, Montana, Nebraska, North Carolina, Oregon, Rhode Island, Utah, Vermont, and Virginia — and Puerto Rico have appropriated all or nearly all of their FRF resources;
- Thirty-eight states, D.C., and Puerto Rico have appropriated more than 80 percent or more (including those that have allocated 100 percent);
- Six states have appropriated 60 to 80 percent; and
- Six states have appropriated 40 to 60 percent. (See Figure 2 and Appendix Table 2 for details.[7])

Tracking States' Spending Choices With Fiscal Recovery Funds

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

- **Replacing lost revenue (13 percent of funds nationally).** Most states used FRF as a general revenue source to replace revenue losses caused by the pandemic. In general, those states allocated the funds to a specific purpose, but 12 used FRF as a general revenue source without identifying a purpose.[8]
- **Human services (13 percent).** Human services programs receiving funds include cash aid, housing, food assistance, and social services. Forty-three states, D.C., and all territories have devoted funds to this purpose.
- **Unemployment insurance (13 percent).** Twenty-nine states have used FRF to shore up their UI trust fund or in some cases, to improve their UI system.
- **Economic development (12 percent).** This includes aid to businesses, support for targeted industries, and job training and other workforce development services. Forty-six states, D.C., and all territories have used FRF funds for economic development.
- **Health care (10 percent).** Forty-eight states, D.C., and all territories have spent FRF on public health interventions, mental health services, supports for health care organizations, and other health care.
- **Water and sewer infrastructure (9 percent).** Thirty-six states, D.C., and all territories have devoted FRF to this.

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

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

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

- **Broadband (7 percent).** Thirty-five states and two territories have allocated FRF to expanding access to high-speed internet.
- **Education (6 percent).** This excludes targeted education relief funds in the Rescue Plan. It includes K-12 funding supports and higher education investments in colleges and universities, as well as direct aid to students. Forty states, D.C., and three territories have devoted FRF to education.
- **Other infrastructure (4 percent)**. Transportation especially has received FRF in this area. Thirty-one states, D.C., and four territories have allocated FRF for this purpose.
- **Criminal justice (3 percent).** This includes premium pay for public safety workers, education and training programs for people who are incarcerated, and investments in policing alternatives such as violence interrupters: community-based groups that mediate disputes that could otherwise lead to violence. Alabama is the only state to use FRF to date for prison construction. It has devoted $400 million (18 percent of its total FRF resources) to build two new prisons.

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

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

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

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

One of the top uses of FRF by states to date has been to address the loss of state revenue in the pandemic.[9] States must balance their budgets every year, and they face challenges in economic downturns when tax and other revenue collections tend to fall and the demand for social services increases. Federal aid to states thus helps avoid painful cuts in state-funded services in an economic downturn, which otherwise would add to its hardships. During and after the Great Recession, federal aid to states was much less than was required to make up for state revenue losses, and ended

[9] To date, the largest proportion of state fiscal recovery funds have been spent on capital construction, which combines water/sewer, broadband, and general infrastructure subcategories, making up 21 percent of total allocations.

too soon.[10] As a result, states and localities continued laying off workers and cutting back spending, slowing the nation's economic recovery.[11]

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

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

States using a substantial share of FRF in this way include Alaska, California, Connecticut, Florida, Kentucky, Maryland, New York, Pennsylvania, South Carolina, Utah, Washington, and Wyoming. These uses add up to over $22 billion, or 13 percent of state uses of FRF money to date.

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

Using FRF to replace lost revenue appears to have allowed states to avoid further layoffs and spending cuts and to begin restoring jobs and services lost after the pandemic hit. At the start of the pandemic, states and localities cut public employment sharply, by nearly 1.5 million in April and May 2021. Beyond the job losses themselves, this had a serious impact on access to key services for residents. Federal funds have helped states and localities undo some of those cuts.

At the same time, using FRF to replace lost revenue typically means that funds are being used for services that existed prior to the pandemic, up to the level of need projected before the pandemic hit. This use, therefore, may not help much to address the unexpected economic and health impacts of the pandemic or to reduce the racial and economic inequities that have made the pandemic's impacts particularly harsh in certain communities. As states head into their 2023 legislative sessions and write their budgets for the upcoming fiscal year with more stable finances and more time to

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

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

consider how to use FRF, they should target investments that respond to the pandemic, address current issues such as rising food and energy costs, and reduce long-standing structural inequities.

States Are Using FRF to Promote Economic and Racial Equity

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

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

- **Housing assistance and eviction protection.** Connecticut is devoting $20 million of its FRF to legal assistance for residents facing eviction, and Washington State provided $222 million to cover past rent due for residents who face eviction.
- **Food assistance.** Utah allocated $17 million to establish two food banks, including one in the Navajo Nation, and Oregon devoted $14 million to support emergency food supplies.
- **Immigrant assistance**. Washington State allocated $340 million to provide financial support to immigrants affected by the pandemic, many of whom were ineligible to receive other public benefits. Illinois made a number of appropriations to assist immigrants, including direct cash assistance and support for immigration welcome services.
- **Education**. New Jersey provided $600 million between 2022 and 2024 to offer an additional year of schooling to special education students who otherwise would age out.[12] Connecticut allocated $30 million to strengthen early literacy efforts across the state, with special assistance for students reading below grade level and to school districts with the lowest early literacy outcomes.

Beyond these short-term investments, several states are using FRF to address long-standing gaps in some services, such as mental health, which people of color have faced barriers in accessing.[13] Other states are trying new approaches to addressing long-standing inequities in the criminal legal system, such as by investing in alternatives to policing. Shifting to policing alternatives can reduce unnecessary police stops that too often escalate and result in arrests and incarceration that disproportionately target people of color and communities that have been marginalized.[14] All of these states are reforming systems to deliver services, expanding staff to provide services, and adding funds to existing programs.

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

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

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

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

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

- **California** is investing $530 million to expand access to mental health and substance use services and $100 million to revamp its approach to youth mental health services. The state also committed $1.8 billion to create new child savings accounts, which will set aside funds for every child from birth through age 18 that can then be invested in education, homeownership, and other economic opportunities.
- **Colorado** committed over $138 million to affordable housing, mostly by distributing funds to localities to build affordable housing.
- **Illinois** is investing $53 million to support alternatives to policing, particularly by supporting expansion of violence interruption services.
- **Utah** devoted $90 million to support a new mental health facility at the University of Utah.
- **New Jersey** provided $100 million to its Child Care Revitalization Fund to fund facility improvements, employee supports, and workforce development programming.
- **Virginia** devoted $103 million to raise salaries for direct care staff at state behavioral health facilities and intellectual disability training centers. Direct care staff typically are low-paid workers and are disproportionately women of color.

Public Engagement and Reporting on Use of FRF

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

Recovery Plan Performance Report

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

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

Expenditure Reports

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

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

States Not Making the Most of Their FRF

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

- **Rebuilding UI trust funds without expanding benefits or improving systems.** Twenty-nine states used FRF to put almost $23 billion into their unemployment insurance trust funds.[15] Filling up the trust funds does not address UI's programmatic shortcomings, including low benefits and outdated IT. Of the $23 billion states devoted to UI, only $929 million (in Colorado, Delaware, Nevada, New Jersey, South Dakota, Tennessee, Virginia, and Washington) was for modernizing unemployment insurance IT and other systemic changes to improve program operations.

  Because replenishing trust funds largely serves to provide a tax cut for businesses, largely in future years, using FRF to replenish UI trust funds should be a low priority.

  UI taxes are very modest in many states. For example, in Florida, businesses are charged between $7 and $378 per year for each employee.[16] (UI tax levels on employers are generally experience-rated, meaning that businesses laying off more workers pay higher rates.) By comparison, employers pay up to a maximum of $9,114 in annual Social Security taxes for each worker.

  Lawmakers worried about rebuilding depleted UI trust funds before another recession should focus first on raising UI taxes to more adequate levels, a key step to restoring the long-term health of UI systems. States that fail to do so could use federal recovery funds provided by the American Rescue Plan to shore up their trust funds rather than cut benefits.

  Such investments of federal recovery dollars effectively reduce future taxes on employers and should therefore only be made when paired with reforms that make a state's UI program more accessible and more equitable for workers.

- **Capital construction unrelated to pandemic relief.** Alabama devoted $400 million of its FRF allocation — nearly 20 percent — to building two new prisons, despite the pandemic's harmful impacts in Black and low-income communities long neglected by state policy. Florida devoted $2 billion of its FRF funds — 23 percent — to highway construction. Other states, including Colorado, Louisiana, and North Dakota, also devoted a large share of their FRF allocations to transportation projects. While spending on highways may help produce a stronger recovery, it is often poorly targeted to the communities that need help the most, making it a relatively low priority in states with substantial unmet pandemic-related needs and deep, long-standing structural inequities.

[15] The states are Alabama, Arizona, Colorado, Connecticut, Delaware, Hawai'i, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Nevada, New Mexico, Ohio, Pennsylvania, Rhode Island, Texas, Utah, Virginia, and Washington.

[16] Florida Department of Revenue, Reemployment Tax Rate Information, 2022, https://floridarevenue.com/taxes/taxesfees/Pages/rt_rate.aspx.

State Tax Cuts Weaken Impact of Fiscal Recovery Funds

The Rescue Plan included provisions designed to prevent states from using federal relief to states to cut taxes deeply, although the rule has been challenged in court and subsequent Treasury Guidance provided states with significant flexibility. Plus, state revenues surged in 2021, creating more room for states to enact tax cuts using state funds alone, and policymakers in some states have sought tax cuts for wealthy interests for several years regardless of the fiscal environment. So despite Congress's effort to discourage a wave of post-Rescue Plan tax cuts, policymakers in several states enacted cuts to their personal (and in some cases corporate) income tax systems in 2021 and 2022, with especially dramatic cuts in states including Arizona, Georgia, Iowa, Kentucky, Mississippi, North Carolina, and South Carolina.

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

How States Can Make the Most of Remaining Fiscal Recovery Funds

State budget choices over the next several years will be critical to addressing the suffering caused by the pandemic and to putting states' economies on a path toward the strongest possible recovery. A substantial share of the Fiscal Recovery Funds has been allocated, but more than $25 billion remains, meaning important decisions remain over the use of these funds in most states. As states consider their decisions, the experiences of the past two years offer the following lessons on how to use FRF to support residents and businesses still struggling, and to build a strong recovery that benefits everyone:

- **There's less need for states to use FRF to replace revenue.** Most states were in much stronger fiscal shape in the 2022 budget season (ahead of fiscal year 2023) than they were last season (for fiscal year 2022), and all of them have had time to consider the best ways to spend relief funds. The improving fiscal situation should mean that states can use smaller shares of their remaining allocations for revenue replacement. That would make more room for addressing COVID-19-induced hardships and reducing racial and economic inequities.
- **Using FRF to replenish state UI trust funds should be a low priority and done only when paired with benefit improvements.** Replenishing UI trust funds can reduce future unemployment taxes for businesses, even though those taxes already are inadequate to sustain healthy UI systems in many states. States worried about depleted trust funds should raise taxes to adequate levels and reject further benefit cuts. States that do deposit FRF into UI trust funds should also improve UI benefits and access for workers.
- **States should prioritize investments that will help residents who continue to struggle and that will support a robust and equitable recovery.** Many states are using FRF to support pandemic relief and a number are addressing long-standing challenges such as lack of affordable housing and inadequate access to mental health services. These investments hold

the most promise for creating a strong recovery and addressing systemic economic and racial inequities. By contrast, using FRF for services unrelated to pandemic recovery — such as highway or prison construction — ignores the needs of people facing immediate hardships and neglects the opportunity the funds provide to address structural inequalities.

- **States should sharply limit tax cutting.** Tax cuts that benefit wealthy people and profitable corporations undercut the FRFs' opportunity. Even if targeted elsewhere, tax cuts that hinder a state's ability to provide strong schools, high-quality health care, and other needed services are also harmful. States may wish to adopt or expand tax credits targeted to low-income people, such as earned income tax credits, to supplement their investments in people and communities hardest hit by the pandemic. But they should generally avoid tax cuts at this time of great need and historic opportunity for new, transformative investments.

TABLE 1

Fiscal Recovery Funds by State

State	Total FRF Allocated (millions)	State Population	Amount Per Capita
Alabama	$2,120	4,921,532	$431
Alaska	$1,012	731,158	$1,384
Arizona	$4,183	7,421,401	$564
Arkansas	$1,573	3,030,522	$519
California	$27,017	39,368,078	$686
Colorado	$3,829	5,807,719	$659
Connecticut	$2,812	3,557,006	$791
Delaware	$925	986,809	$937
District of Columbia	$1,802	712,816	$2,529
Florida	$8,817	21,733,312	$406
Georgia	$4,854	10,710,017	$453
Hawai'i	$1,642	1,407,006	$1,167
Idaho	$1,094	1,826,913	$599
Illinois	$8,128	12,587,530	$646
Indiana	$3,072	6,754,953	$455
Iowa	$1,481	3,163,561	$468
Kansas	$1,584	2,913,805	$544
Kentucky	$2,183	4,477,251	$488
Louisiana	$3,011	4,645,318	$648
Maine	$997	1,350,141	$739
Maryland	$3,717	6,055,802	$614
Massachusetts	$5,286	6,893,574	$767
Michigan	$6,540	9,966,555	$656
Minnesota	$2,833	5,657,342	$501
Mississippi	$1,806	2,966,786	$609
Missouri	$2,685	6,151,548	$437
Montana	$906	1,080,577	$839

TABLE 1

Fiscal Recovery Funds by State

State	Total FRF Allocated (millions)	State Population	Amount Per Capita
Nebraska	$1,040	1,937,552	$537
Nevada	$2,739	3,138,259	$873
New Hampshire	$995	1,366,275	$728
New Jersey	$6,245	8,882,371	$703
New Mexico	$1,752	2,106,319	$832
New York	$12,745	19,336,776	$659
North Carolina	$5,439	10,600,823	$513
North Dakota	$1,008	765,309	$1,316
Ohio	$5,368	11,693,217	$459
Oklahoma	$1,870	3,980,783	$470
Oregon	$2,648	4,241,507	$624
Pennsylvania	$7,291	12,783,254	$570
Puerto Rico	$2,470	3,159,343	$782
Rhode Island	$1,131	1,057,125	$1,070
South Carolina	$2,499	5,218,040	$479
South Dakota	$974	892,717	$1,092
Tennessee	$3,726	6,886,834	$541
Texas	$15,814	29,360,759	$539
Utah	$1,378	3,249,879	$424
Vermont	$1,049	623,347	$1,683
Virginia	$4,294	8,590,563	$500
Washington	$4,428	7,693,612	$576
West Virginia	$1,356	1,784,787	$759
Wisconsin	$2,533	5,832,655	$434
Wyoming	$1,068	582,328	$1,835
Total	$197,770		

TABLE 2

State Appropriation of Fiscal Recovery Funds as of December 2022

State/Territory	Total FRF Allotted to State (millions)	Total Appropriations as of Dec. 1, 2022 (millions)	Appropriations as % of total FRF received
Alabama	$2,120	$1,060	50%
Alaska	$1,012	$1,012	100%
Arizona	$4,183	$2,467	59%
Arkansas	$1,573	$1,300	83%
California	$27,017	$27,017	100%
Colorado	$3,829	$3,680	96%
Connecticut	$2,812	$2,854	101%*
Delaware	$925	$793	86%
District of Columbia	$1,802	$1,506	84%
Florida	$8,817	$8,779	100%
Georgia	$4,854	$2,772	57%
Hawai'i	$1,642	$1,263	77%
Idaho	$1,094	$1,030	94%
Illinois	$8,128	$6,761	83%
Indiana	$3,072	$3,176	103%*
Iowa	$1,481	$1,041	70%
Kansas	$1,584	$1,306	82%
Kentucky	$2,183	$2,150	98%
Louisiana	$3,011	$1,600	53%
Maine	$997	$997	100%
Maryland	$3,717	$2,976	80%
Massachusetts	$5,286	$5,298	100%
Michigan	$6,540	$5,848	89%
Minnesota	$2,833	$2,785	98%
Mississippi	$1,806	$1,566	87%
Missouri	$2,685	$2,694	100%
Montana	$906	$907	100%
Nebraska	$1,040	$1,030	99%
Nevada	$2,739	$1,258	46%
New Hampshire	$995	$775	78%
New Jersey	$6,245	$5,211	83%
New Mexico	$1,752	$1,145	65%
New York	$12,745	$10,495	82%
North Carolina	$5,439	$5,409	99%
North Dakota	$1,008	$945	94%
Ohio	$5,368	$3,482	65%
Oklahoma	$1,870	$1,775	95%

TABLE 2

State Appropriation of Fiscal Recovery Funds as of December 2022

State/Territory	Total FRF Allotted to State (millions)	Total Appropriations as of Dec. 1, 2022 (millions)	Appropriations as % of total FRF received
Oregon	$2,648	$2,647	100%
Pennsylvania	$7,291	$6,762	93%
Puerto Rico	$2,470	$2,470	100%
Rhode Island	$1,131	$1,131	100%
South Carolina	$2,499	$1,966	79%
South Dakota	$974	$898	92%
Tennessee	$3,726	$3,543	95%
Texas	$15,814	$12,814	81%
Utah	$1,378	$1,415	103%*
Vermont	$1,049	$1,048	100%
Virginia	$4,294	$4,278	100%
Washington	$4,428	$4,259	96%
West Virginia	$1,355	$582	43%
Wisconsin	$2,533	$2,033	80%
Wyoming	$1,068	$994	93%

* The total amount of appropriations states report does not always match their total FRF allocation.

Appendix II: A Deeper Dive Into State Spending Choices

This section highlights spending categories that some states have prioritized. The Appendix provides notable examples of state allocations for each listed category. The percentages listed in this Appendix represent the share of a given state's FRF allocated to date for that specific purpose.

Human Services

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

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

The **District of Columbia** has allocated more than $456 million for programs addressing housing needs, including permanent supportive housing for more than 1,000 people experiencing homelessness and funding that supports construction of affordable housing. It also allocated $51 million to bring grocery stores to food deserts, and cash assistance for immigrants excluded from other federal pandemic aid.

Georgia's human services spending was largely on funds for one-time cash payments of up to $350 for SNAP, Medicaid, PeachCare (the state Children's Health Insurance Program), and/or Temporary Assistance for Needy Families participants. This allocation makes up about 25 percent of the state's total FRF allotment.

Washington State devoted over $1 billion to housing assistance, with a mix of short-term pandemic relief and new, long-term affordable housing programs. The state also used $340 million to create a fund for immigrant residents excluded from public benefit programs, and roughly $157 million for food assistance.

Economic Development

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

Alaska devoted $216 million of its FRF (21 percent of allocations to date) to support the tourist and seafood industries, to help nonprofits that struggled in the pandemic, and to support cities that were especially hard hit by the pandemic.

Indiana allocated 26 percent of its funds to economic development, a total of $817 million, including $731 million in regional economic development grants and $76 million for workforce development.

Maine provided $340 million of its FRF (34 percent of its allotment) to economic development.

Massachusetts has used its Fiscal Recovery Funds to strengthen its health care and human services workforce, with almost $360 million to support workers in a variety of health care and human services settings. The state also appropriate $241 million for vocational training and other general workforce development programs.

North Carolina used its Fiscal Recovery Funds to provide bonuses to all state employees and to local education employees ($545 million), funds to assist business hit hardest by the pandemic ($630 million), and a range of smaller investments to support businesses in a given sector or general economic development.

Wisconsin devoted more than half of its FRF allocated to date to economic development, a total of more than $1 billion, including $642 million in grants to businesses and $130 million for workforce development.

Health

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

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

Arkansas has allocated $482 million to health initiatives, roughly 37 percent of its FRF appropriations to date, primarily for health expenses directly related to addressing the pandemic.

Delaware devoted $226 million to health, 29 percent of its FRF allocations to date, primarily to support hospitals and other health care facilities.

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

New Jersey invested $450 million (8 percent of its FRF allocations) in three regional health centers to improve their emergency preparedness.

Tennessee devoted $720 million to health projects, or 20 percent of its FRF funds, including health facility construction, a state health lab, and hospital staffing

Utah devoted $90 million (7 percent) to support a mental health facility at the University of Utah and invested other funds to address the pandemic, such as vaccine outreach.

Water and Sewer

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

Georgia devoted $422 million to water infrastructure, or 15 percent of its FRF allocations to date.

Michigan allocated $1.3 billion — or 22 percent of its FRF — to drinking water and wastewater management projects

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

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

South Dakota has used most its FRF allocations to date — $663 million — for water infrastructure.

Tennessee devoted $1.35 billion (38 percent of FRF allocations to date) to water and sewer maintenance and improvement.

Broadband

Thirty-five states and two territories have invested in improving access to high-speed internet, with a handful of states devoting a large share of their current FRF allocations to this purpose.

Arkansas allocated $424 million to broadband initiatives, 33 percent of its FRF allocations to date.

Georgia allocated 57 percent of its Fiscal Recovery Funds. Of that, 15 percent, or $408 million, has been devoted to broadband projects.

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

Iowa provided $411 million for broadband, 40 percent of its FRF allocations to date.

South Carolina devoted $400 million to broadband initiatives, 20 percent of its FRF allocations to date.

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

Tennessee devoted $500 million (14 percent of its FRF appropriations so far) to broadband initiatives.

Vermont has devoted $152 million to support its universal broadband program.

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

Education

Forty states, the District of Columbia, and three territories have devoted FRF to various education initiatives, including both K-12 and higher education. The investments include funds to help K-12 students recover lost ground in the pandemic, financial aid to help students attend college, and funds for higher education institutions.

Delaware used $154 million to strengthen its community colleges and state universities.

Maryland is using FRF to improve HVAC in schools and support a healthy return to classrooms. $212 million of Maryland's FRF allocation to date has gone to education.

Missouri invested $502 million (19 percent) of its total FRF toward education, including $6 million for child care and sizeable funds to improve college facilities.

Nevada devoted $200 million to schools to assist students whose literacy skill development was affected by the pandemic. Overall education funding reflected 31 percent of Nevada's FRF appropriations through December 2022.

New Jersey funded an extra year of special education for anyone who aged out of special education services due to the pandemic[17] and created a $180 million fund for schools and businesses to upgrade HVAC and water systems. New Jersey committed 29 percent of its FRF to education initiatives.[18]

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

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