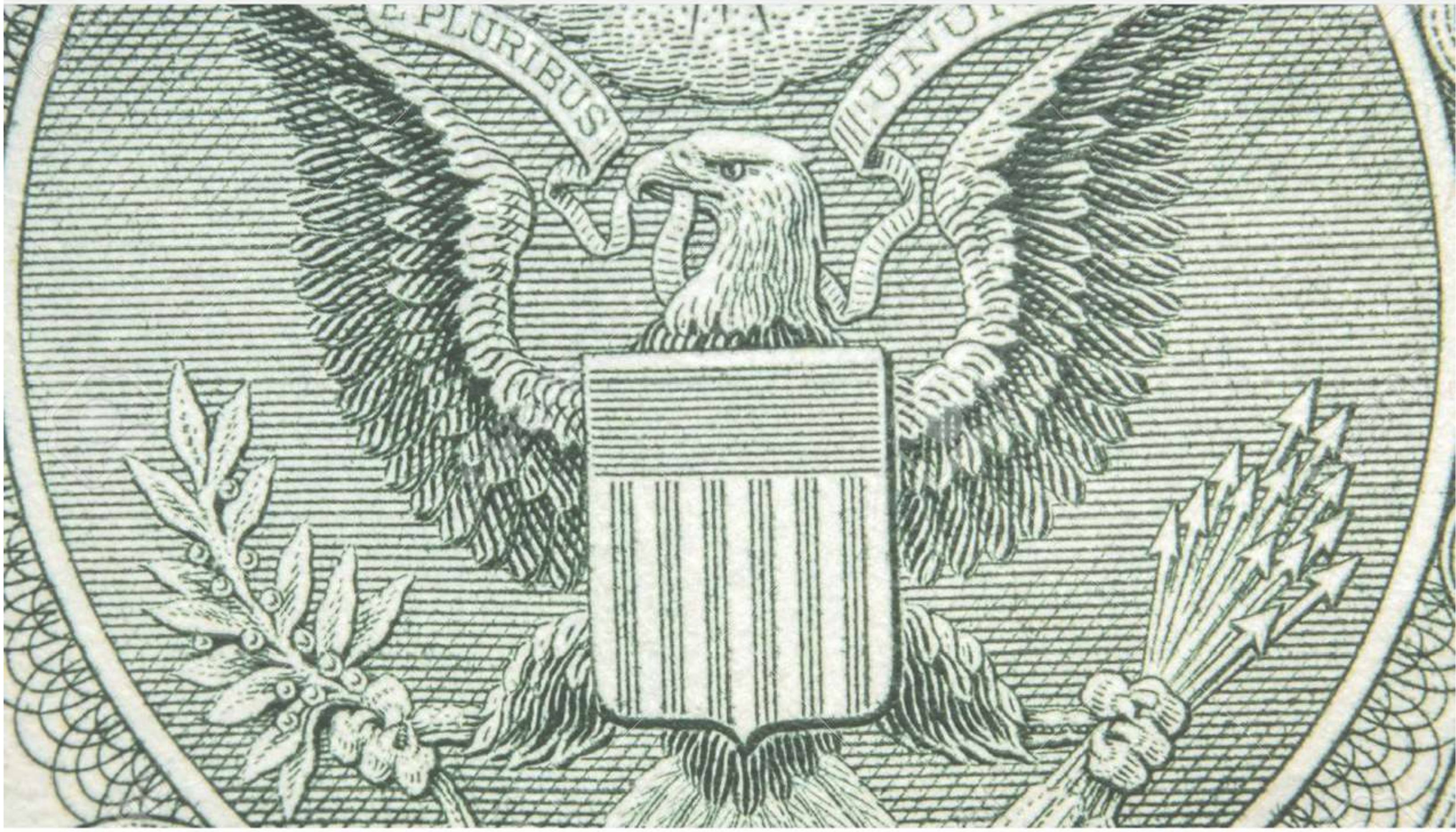
FISCAL BRIEF

Fiscal Recovery Funds Out the Door



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Earlier this year, President Joe Biden signed the latest federal relief package, the $1.9 trillion [American Rescue Plan Act of 2021] (ARPA). Like earlier relief packages, ARPA was designed to provide immediate and direct relief to address the economic and health fallout caused by the pandemic, but it also included the Coronavirus State Fiscal Recovery Funds (CSFRF), which provide flexible funds to states that can be used to assist with longer term economic recovery. The CSFRF provided $195.3 billion to states and the District of Columbia. The distribution formula is based on population and unemployment rates, broken down as follows:

- $25.5 billion to each state, minimum of $500 million.
- $169 billion allocated based on the states' share of unemployed workers over a three-month period, from October-December 2020.

Nearly eight months after its passage the first tranche of ARPA's direct flexible aid is in the hands of state lawmakers and allocations are moving through the budgetary pipeline. To date, at least 36 states have [allocated] a portion of the CSFRF.

Rescue vs. Recovery

The first round of direct state and local aid, the Coronavirus Relief Funds under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was designed to assist with the immediate public health emergency facing states, and there were restrictions on allowable uses. While the CSFRF also has some restrictions, it provides states considerable flexibility. Allowable uses include using the funds to address public health, replacement of lost public-sector revenue, economic stabilization to families and businesses, and "premium pay" for essential workers. There is also enhanced, but limited spending flexibility for infrastructure needs related to water, sewer and broadband.

The rollout of the CRF was fast and furious to support rescue efforts during a time of grave uncertainty, and there was a significant learning curve for lawmakers to understand The Department of U.S. Treasury's allowable uses before the Dec. 30, 2020, deadline to spend the CRF. It was no easy feat to allocate, administer, and expend appropriately and effectively these funds within eight months. (The CRF deadline was extended to the Dec. 31, 2021, under the [Consolidated Appropriations Act]).

The CSFRF is generally more focused on recovery and revitalization. Uncertainties such as the Delta variant still loom, but largely states have moved into another phase of recovery, one where legislatures can tackle, and bolster recovery efforts and it is less reactionary. The deadline to obligate funds is Dec.

31, 2024, and to expend funds is Dec. 31, 2026. The longer clock to obligate and expend the funds affords time for methodical and conscientious decision-making. It may also lend itself to long-term projects.

More on Tranches

Some states received half of their money beginning in May 2021 and the second half will be received in 2022. States that experienced a net increase in unemployment rates of more than 2 percentage points since February 2020 were eligible to receive their full disbursement in their first tranche, according to Treasury's Interim Rule.

Nineteen states and D.C. received their full disbursement, while 31 states received half of their eligible funds, and in 2022, will receive the remaining amount. The first tranche of disbursements to states accounted for approximately $154.4 billion initially out the door from Treasury. The remaining approximately $40.9 billion will go to states in 2022.

Managing the Influx

The funds are a jolt to state budgets. The Pew Charitable Trusts examined the CSFRF impact on the size of state budgets, and a quarter of states are managing upwards of 10% of their spending from fiscal year 2020 with infusion of CSFRF revenue. Federal funds as a percentage of general fund revenue for states ranges from 22.7% in Wyoming to 4.9% in Wisconsin. Wyoming, South Dakota and Nevada are experiencing the largest influx of funds relative to their budgets.

At first glance, it looks like a pretty good problem to have, but the magnitude of these funds means lawmakers are under the microscope to improve their communities. Treasury encourages recipients to help those households, businesses and nonprofits in communities disproportionately impacted by the pandemic. They are also requiring recipients to provide diligent oversight to ensure the funding, especially for large projects, is managed accordingly.

Avoiding a "fiscal cliff" is also at the forefront of lawmakers minds. The one-time nature of the funds restricts the CSFRF from obligations beyond 2024. Focusing on expenditures that are non-recurring may safeguard states fiscal health and mitigate risk in the long-term.

Local Governments Gain More Autonomy

The threshold for local government direct recipients was substantially expanded under ARPA, compared to the CRF. According to the National League of Cities about 30% of local governments did not receive CRF funds under the CARES Act. ARPA also includes separate funding to non-entitlement units (NEU's) of government, with populations of 50,000 or less. For states this substantial expansion is twofold in significance. local governments are set to receive $130.2 billion of their own Coronavirus Local Fiscal Recovery Funds, and states do not have discretion over local governments' spending decisions. As a result, there is less pressure for states to set aside their portion of funds to local government relief, and states do not have to ensure local governments comply with Treasury guidance. In contrast, it may present collaboration and oversight challenges. For example, ensuring local governments have the infrastructure and technical capacity to receive and allocate funds.

Allocation Trends

States have allocated funding to various relief efforts. NCSL created a database tracking state allocations on CSFRF.

New spending trends have emerged because of enhanced spending flexibility in the latest stimulus plan. These categories include:

- Broadband expansion and access, many of which target rural underserved and unserved communities.
- Premium pay and hazard pay stipends to essential workers.
- Revenue replacement.
- Water, stormwater and sewer infrastructure.

State lawmakers also continue to prioritize spending that was supported with CRF dollars, signaling a persistent need for financial assistance to communities, businesses and individuals. These categories include:

- State operations and administration, including funding to pandemic related positions related to review and audit functions or administering a program supported by the funds.
- Replenishing Unemployment Insurance Trust Funds or repaying federal loans.
- Workforce development for programs to bolster to fund skills, connect workers to jobs and fund apprenticeships.
- Efforts to address food banks and insecurity.
- Housing security for renters, landlords and homeowners, including access to justice for defense assistance.
- Supporting arts, culture, and tourism.
- Economic recovery grants and programs to small businesses and nonprofits.
- Mental and behavioral health services.

Timelines Vary

Allocations timelines fall into four major phases based on legislative procedures, spending authority deliberations, timing of Treasury's guidance and the amount of disbursement each state received:

Uncertainties On Guidance Still Linger

Lessons learned from CRF, left most states hesitant to act on the funds before Treasury issued an Interim Final Rule in May 2021. The comment period for the rule closed in July, and the Final Rule has not yet been issued.

States that have not begun allocating funds, or have a large portion remaining to allocate, point to apprehension that the guidance may change significantly from the Interim Final Rule. If acted on outside the parameters set by Treasury, states may have funds clawed back or be subject to audit ramifications.

Summary

Ultimately, it is an unprecedented amount of relief with an opportunity for strategic investment. States are rising to the occasion to make thoughtful decisions so their communities can have a strong recovery past the pandemic's public health and economic shocks.