FISCAL ROAD TO RECOVERY BRIEF SERIES
A Look at How States are Spending Stimulus Funds

# Funds Keep Governments Afloat

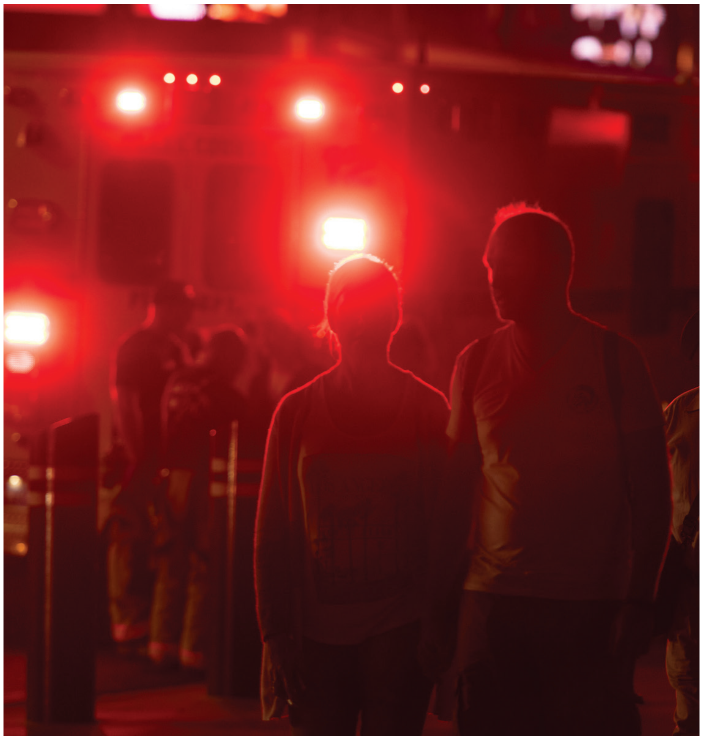
BY LEO GARCIA AND EMILY MAHER

## Flexible Funds Under the American Rescue Plan Act

The $1.9 trillion American Rescue Plan Act (ARPA)was enacted to help mitigate challenges associated with the COVID-19 pandemic. A cornerstone within ARPA, the Coronavirus State Fiscal Recovery Funds (CSFRF) program provides $199.8 billion for states, the District of Columbia, and the territories to respond to the public health emergency and its economic impacts, and for the provision of government services and infrastructure.

The COVID-19 pandemic drove state and territorial governments into a prolonged state of emergency, putting a halt to business as usual. States had to modify routine operations to limit public health exposure and economic disruptions, while maintaining the normal business of government. According to the Pew Charitable Trusts, state tax revenue from April to June 2020 was down 25% compared to the same period in 2019, limiting state resources and resulting in layoffs at a time when demand for government services was surging. Since then, state revenues have recovered (with help of federal stimulus). However, public sector employment is recovering at a slower rate than the private sector. The Coronavirus State Fiscal Recovery Funds (CSFRF) provides temporary funding for states and territories to mitigate health risks in the public sector workplace, and address other deficiencies highlighted by the pandemic, like aging information technology systems.

To address the need for efficient and effective state operations at a time of crisis, at least 40 states and territories have invested nearly $28 billion, or 22% of all allocated CSFRF to state operations and administration. This brief outlines the most common uses of the funds for government services.



## Broad Latitude in the Use of Recovery Funds for States' Operations

The U.S. Department of Treasury's final rule emphasizes the use of fiscal recovery funds to increase staffing capacity and improve the efficacy of pandemic-related programs. To sustain and rehire workers, funds may be used for payroll and covered benefits for eligible government employees, such as those in public safety, health, and human services. The funds may also be used to support program implementation, evaluation, and reporting.

Broad flexibility is afforded under the program to replace lost pub-

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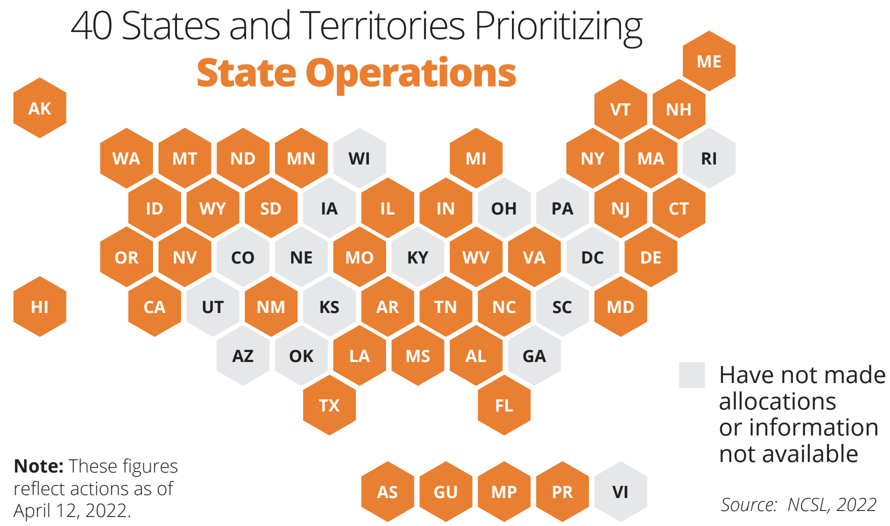
**22 percent** of all CSFRF devoted to **state operations**




**Note:** These figures reflect actions as of April 12, 2022.

lic sector revenue and refill depleted state coffers. States can utilize the CSFRF to replace lost revenue for "government services," like government administration, staff and administrative facilities, or health and public safety services. Arguably the most flexible eligible use category, states can calculate revenue loss through a standard allowance or formula under the final rule. Anecdotally, many allocations for state operations and administration are being used as revenue replacement expenditures.

# Priorities in State Operations

## MAINTAINING GOVERNMENT OPERATIONS

Governments are at the frontline of crisis management and recovery. Legislative, executive and judicial offices and staff played essential roles in continuing operations during the pandemic. Legislatures in particular, were forced to alter legislative procedures for the continuity of government and to protect the health of employees. Court operations also had to adapt while facing increased caseloads and new demands. Many states have used recovery funds to "keep the lights on" in state government, including:

- **Massachusetts**: $75 million to the COVID-19 Massachusetts Emergency Paid Sick Leave Fund.
- **Montana**: Nearly, $950,000 for court operations impact by the pandemic by streamlining family law cases in judicial districts with heavy caseloads or in remote areas
- **Northern Mariana Islands**: $3.2 million for the operations and activities of the judicial and legislative branches.
- **South Dakota**: $100 million for the ordinary expenses of the legislative, judicial, and executive branches, state institutions, and schools.

## MODERNIZING INFORMATION TECHNOLOGY

The pandemic accelerated the need for digital resources, remote work capacity, and efficiency in information dissemination. Upgrades that may otherwise have taken years to complete, took just a few weeks or months. Responding to NCSL's 2021 survey of legislative IT staff, 87% said their workload increased during the pandemic. States are investing fiscal recovery funds in IT improvements, such as:

- **Delaware**: $2 million to the Delaware Emergency Management Agency for Emergency Operations Center upgrades.

- **Maine**: $4 million to provide funding to increase the effectiveness of remote work capability.

## More Federal Funds in the Pipeline

In March 2020, the Coronavirus Aid, Relief and Economic Security Act, created the first round of flexible stimulus funds for states, territories, and tribal governments, the $150 billion Coronavirus Relief Fund (CRF). The funds were primarily intended for short-term immediate response to the public health effects of the pandemic. Compared with its successor, the CSFRF, the CRF was less flexible with a shorter period to expend. The deadline for the use of funds was extended from Dec. 30, 2020, to Dec. 31, 2021. According to the Pandemic Response Accountability Committee, nearly all CRF was spent.

- **Nevada**: $54 million to upgrade the state's unemployment compensation information system.

- **Virginia**: $40 million for the modernization of administrative systems and software to create response capacity during future emergencies. Plus, $17.6 million for IT improvements for the Virginia Employment Commission to better serve Unemployment Insurance clients.

- **Tennessee**: $11.9 million for enterprise data analytics to provide accurate data models and present an accurate picture of the risk to our citizens' health, safety and economic well-being.

### ARPA REPORTING AND IMPLEMENTATION

Fiscal recovery fund guidelines require states to comply with federal reporting and compliance measures. During the award period, there are several quarterly expenditure reporting deadlines, plus an annual recovery plan performance report detailing large projects and impact. Additionally, states and territories have their own accountability and oversight processes. Several states are using recovery funds to increase staffing capacity and resources to ensure spending meets federal and state conditions, including:

- **California**: $3.4 million to the Department of Finance for the state budget, audits, evaluations accounting policies, consulting, and training.

- **Minnesota**: $2 million to the Minnesota Management and Budget Office to continue operations of the COVID-19 Accountability Office.

- **North Carolina**: $30 million to Pandemic Recovery Office, to allocate funding to the North Carolina League of Municipalities, the North Carolina Association of County Commissioners, and the North Carolina Association of Regional Councils of Government to provide guidance and technical assistance to units of local government in the administration of funds.

- **Puerto Rico**: $225 million for compliance, transparency and accountability.

This brief lists only some of the ways recipients have used the CSFRF program to support state and territory operations, administration and service related to COVID-19. Additional examples and program details can be found in NCSL's allocation database.

States, territories and the District of Columbia must obligate federal recovery funds by December 2024 and spend them by December 2026. Until then, NCSL will continue tracking how these funds are prioritized and allocated.

**About the Fiscal Road to Recovery Brief Series**

*This six-part brief series examines state CSFRF spending priorities a year after the program launched and showcases examples to help inform policymakers as they combat the ongoing impacts of the COVID-19 pandemic.*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