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

Most states have started using their share of the $195 billion Fiscal Recovery Funds (FRF), created under the federal American Rescue Plan to help states and localities address the pandemic's harmful 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 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 remaining $90 billion of these funds, which will be critical both to addressing the pandemic's ongoing damage and to putting states' economies on a path toward a strong recovery.

States are making substantial progress in using FRF, our review shows. As of early November 2021, some 39 states, the District of Columbia, and Puerto Rico have appropriated $105 billion. (See Figure 1.) That is 53 percent of the full $198 billion set aside for them, and 68 percent of the $155 billion distributed to them in 2021 (the rest will be in 2022). Among states that have allocated funds, the median state has committed 53 percent of its full allocation. Of the 11 states that have not — often because funds became available after (or very late in) their legislative session — most are expected to begin making spending decisions next year, as part of their budget process. States have until the end of 2024 to fully obligate their FRF, and until 2026 to complete their spending.

States have tremendous flexibility over how they use FRF. The most substantial use 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.

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