# How States Allocated Pandemic Aid

Key takeaways on how lawmakers safeguarded against future budget challenges

## Overview

The historic influx of federal aid to states, Tribes, territories, and localities during the COVID-19 pandemic provided recipients with crucial support while they navigated a period of fiscal uncertainty. But the size and flexibility of the aid also meant that recipients could face fiscal risks—if they, for instance, created ongoing financial commitments with the one-time aid. And although there is widespread agreement on the importance of limiting—when possible—the use of one-time funds to support ongoing commitments, there is no agreed-upon definition of what constitutes one-time spending.

In a report titled "Pandemic Aid: How States Safeguarded Against Future Budget Challenges," researchers from The Pew Charitable Trusts examined this fiscal challenge. The key findings of that report, which was published in December 2023, are summarized below.

As a first step, Pew defined three different types of spending decisions:

| | |
|---|---|
| **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. |
| **Direct pandemic response expenses** | Includes expenses that are operational in nature but address a need that is directly tied to the COVID-19 pandemic, meaning that the expenditure is therefore not expected to continue past the availability of the one-time funds. |
| **Operational expenses** | Includes expenses that sustain a program's operation and would likely recur to maintain programmatic function. |

With these definitions, policymakers can keep the following practices in mind to better protect their jurisdictions against fiscal risks:

- **Prioritize addressing immediate, acute needs.** One-time federal funds are often a reaction to a shock that has created needs. 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 surplus funds to prepare for unexpected shocks, pay down future liabilities, or invest in projects that do not require ongoing financial commitments.
- **Limit risks when spending on operational expenses.** Spending one-time funding on operational expenses can risk 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, 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.** Federal aid can create indirect fiscal cliffs. Many states experienced unexpectedly large revenue surpluses tied to the one-time stimulus spending directed to individuals and businesses during the pandemic. As a result, policymakers should be vigilant about identifying how much of that revenue growth can be relied on in the future.

Pew then applied this framework to six jurisdictions to assess how they spent State and Local Fiscal Recovery Funds (SLFRF) provided by the American Rescue Plan Act.

## Use of Allocated SLFRF Funds by Category

| | One-time expenses | Direct pandemic response expenses | Operational expenses |
|---|---|---|---|
| **American Samoa** | 85.6% | 9.4% | 5.0% |
| **Florida** | 87.9% | 5.7% | 6.3% |
| **Idaho** | 75.3% | 11.8% | 12.9% |
| **Illinois** | 4.6% | 63.5% | 31.9% |
| **New Hampshire** | 72.4% | 19.4% | 8.1% |
| **Tennessee** | 84.8% | 6.5% | 8.7% |

Source: Pew analysis of data from project inventory in each jurisdiction's 2022 Recovery Plan to Treasury

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The six jurisdictions overwhelmingly used one-time SLFRF funding to pay for expenses deemed to be nonrecurring; five of the six spent at least 72% on one-time investments. When Pew looked at the percentages of funds spent on either one-time expenses or direct pandemic response expenses—the two categories least likely to result in recurring obligations—each of the six jurisdictions used at least two-thirds of their already allocated SLFRF funds in one of those two areas; four jurisdictions used at least 90% of their funds in those two spending categories.

This analysis of five states and one territory showed policymaker awareness of the planning principles and priorities that can help them avoid vulnerable future fiscal positions. Additionally, the six jurisdictions frequently took steps, when supporting operational expenses, to plan for SLFRF 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.

## For more information, please visit: pewtrusts.org

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