

# How states can successfully manage ARPA funds

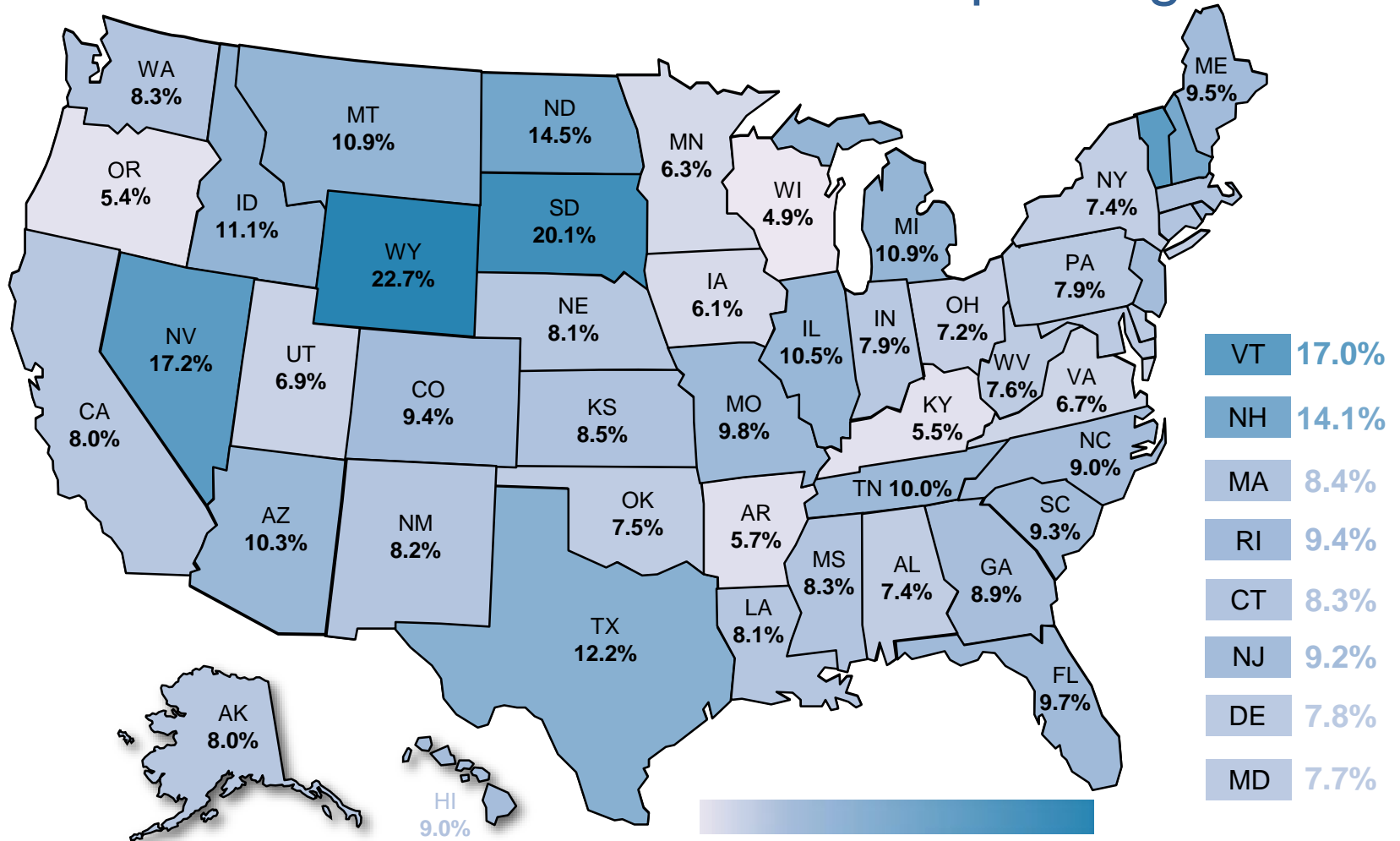
Sheanna Gomes

Senior associate, state fiscal health

---

# A significant opportunity for states

## ARPA funds as a share of FY20 state spending



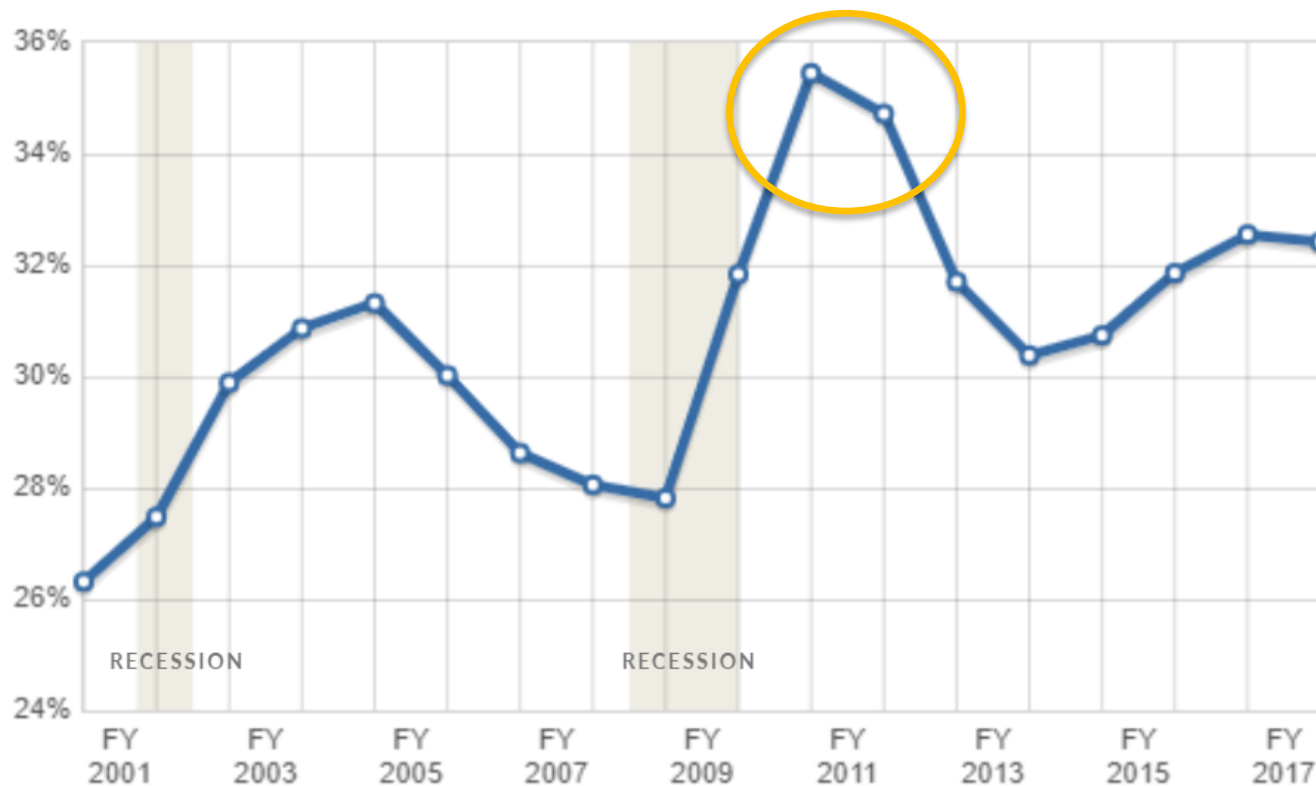
Sources: U.S. Department of the Treasury, NASBO

# Beware the risk of the “fiscal cliff”

## Lessons learned from the last recession

Percentage of State Revenue From Federal Funds, FY 2000-17

■ 50-state share



# 3 key principles for allocating funds

Prioritize one-time use, think long term, mitigate risk,

- **Prioritize one-time use:** Infrastructure projects, bonuses to essential workers
- **Think long-term:** Analyze revenue and expenditures over the long-term, and plan for a range of post-ARPA scenarios
- **Mitigate risk:** Be cautious about using one-time stimulus funds for ongoing programs, risking structural budget gaps

# ARPA aid and ongoing expenses

Determine what's appropriate

- **Multiyear forecasts** can be used to gauge when to use nonrecurring dollars for recurring expenses
- If ongoing revenue is depressed but likely to recover enough to ultimately **sustain recurring costs**, using ARPA money for ongoing spending in the interim is reasonable
- This approach can help governments **restore** program and workforce cuts, for example

# Define recurring and non-recurring

## Clear parameters can guide ARPA allocations

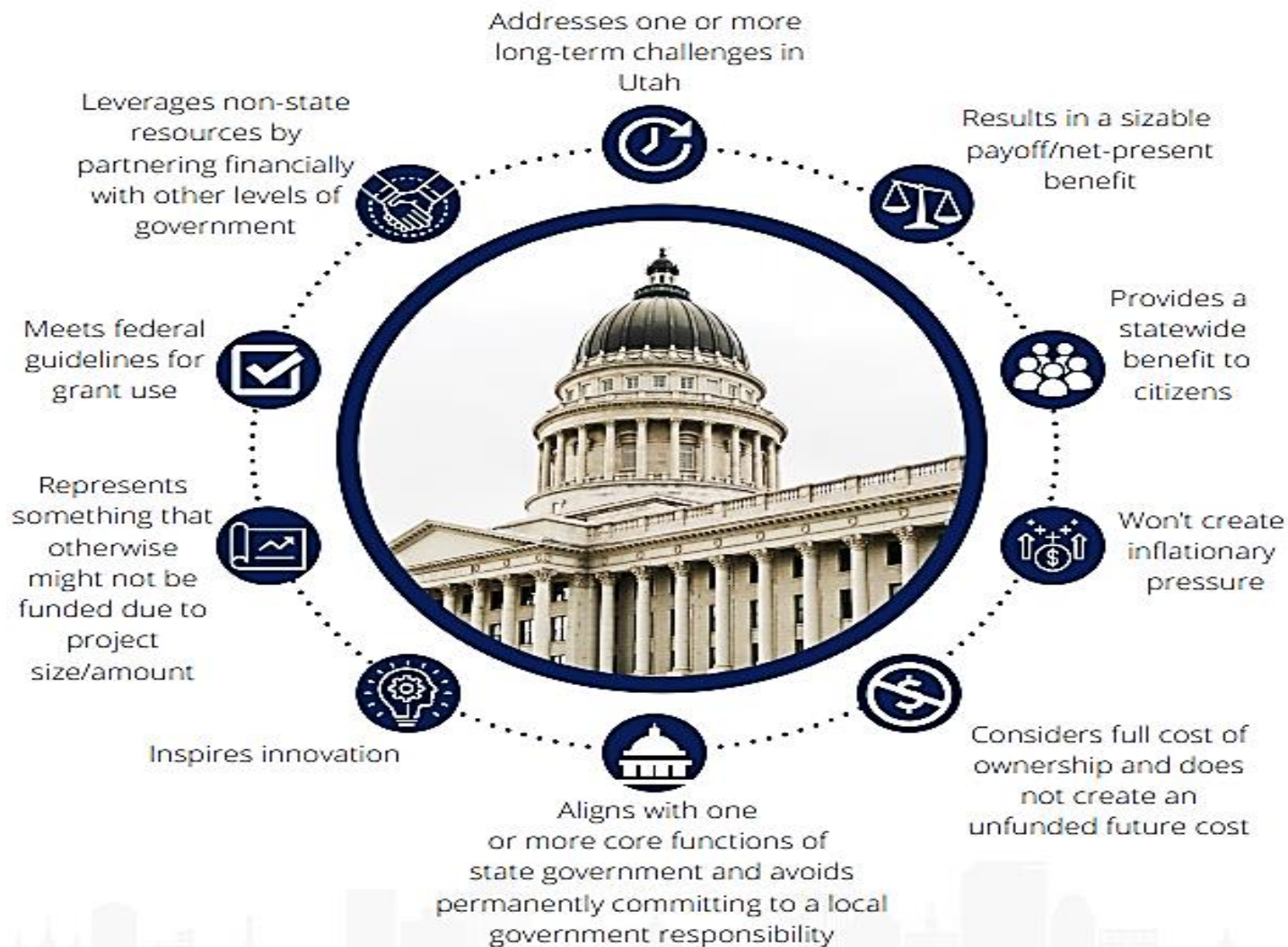
- **Alabama:** Makes distinction between recurring and nonrecurring revenue in state statute. Based on these definitions, legislative fiscal staff identify nonrecurring revenue removes them when calculating long-term revenue trends.
- **Tennessee:** Law requires the Department of Revenue to separate revenue from corporate franchise and excise taxes (which are highly volatile revenue sources) into recurring and nonrecurring portions.
- **Louisiana:** Requires lawmakers to direct one-time money to specific nonrecurring uses, such as capital projects, rainy day fund deposits, or to pay off bonds early

# ARPA funds present an opportunity

Some uses of aid could bolster long-term fiscal health

- Recovery funds can help states get a handle on **big liabilities**
- Tackling **deferred maintenance** can be good for budgets and the economy
- Infrastructure investments in areas such as **broadband and water** align with key principles

# Utah: Guiding principles for ARPA funds



Source: Utah Legislature's Guiding Principles for ARPA Funds, May 19, 2021

[pewtrusts.org](http://pewtrusts.org)

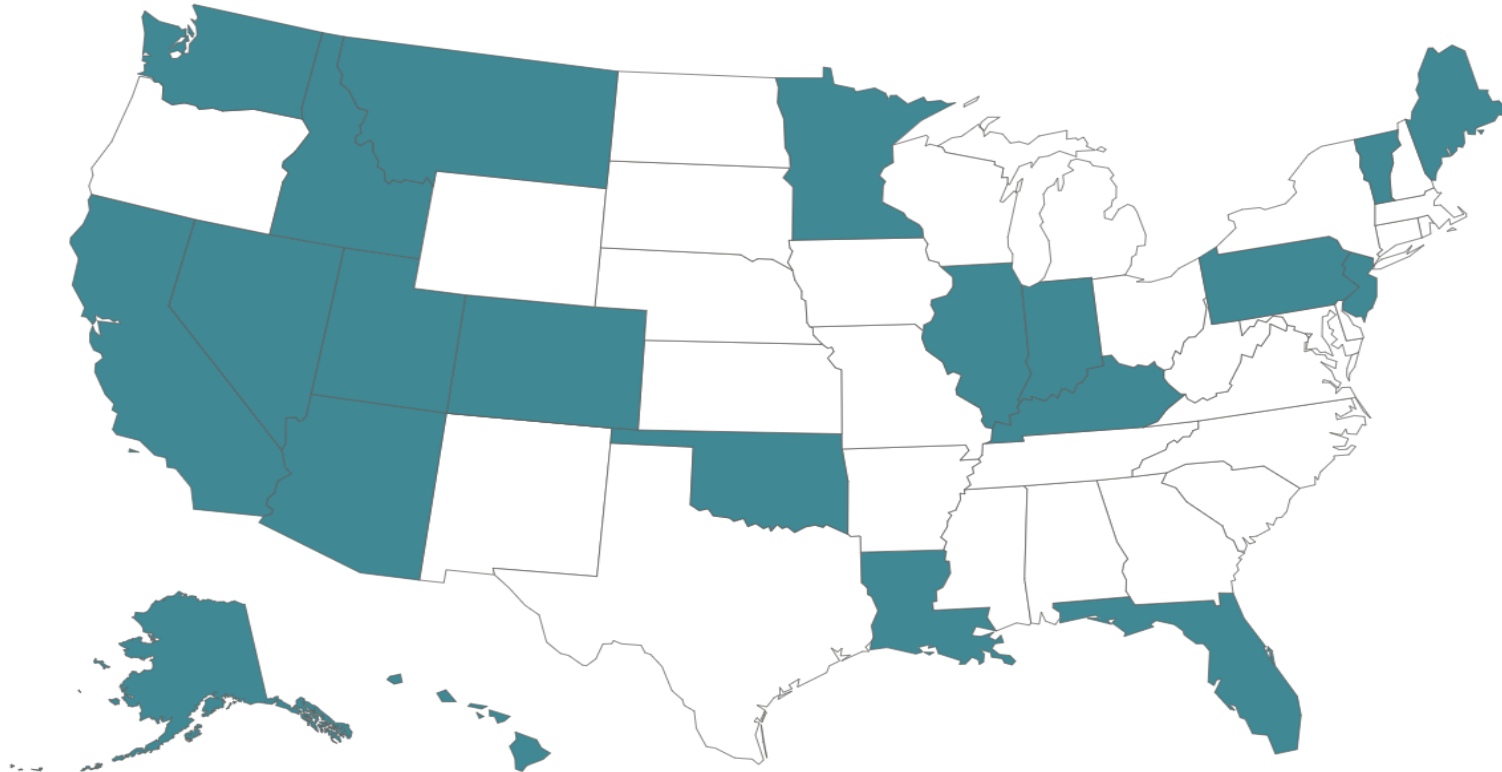


# Maine: Expert committee informs aid use

- **Convene experts:** Established an Economic Recovery Committee to develop policy recommendations
- **Apply recommendations:** Drew from the committee's report to build proposal for allocating recovery funds
- **Communicate goals:** The governor's plan aims to strengthen the state's economy in the near- and long term and maximize federal aid

# NCSL ARPA allocations database

At least 21 states have allocated recovery funds



Source: National Conference of State Legislatures ARPA State Fiscal Recovery Fund Allocations

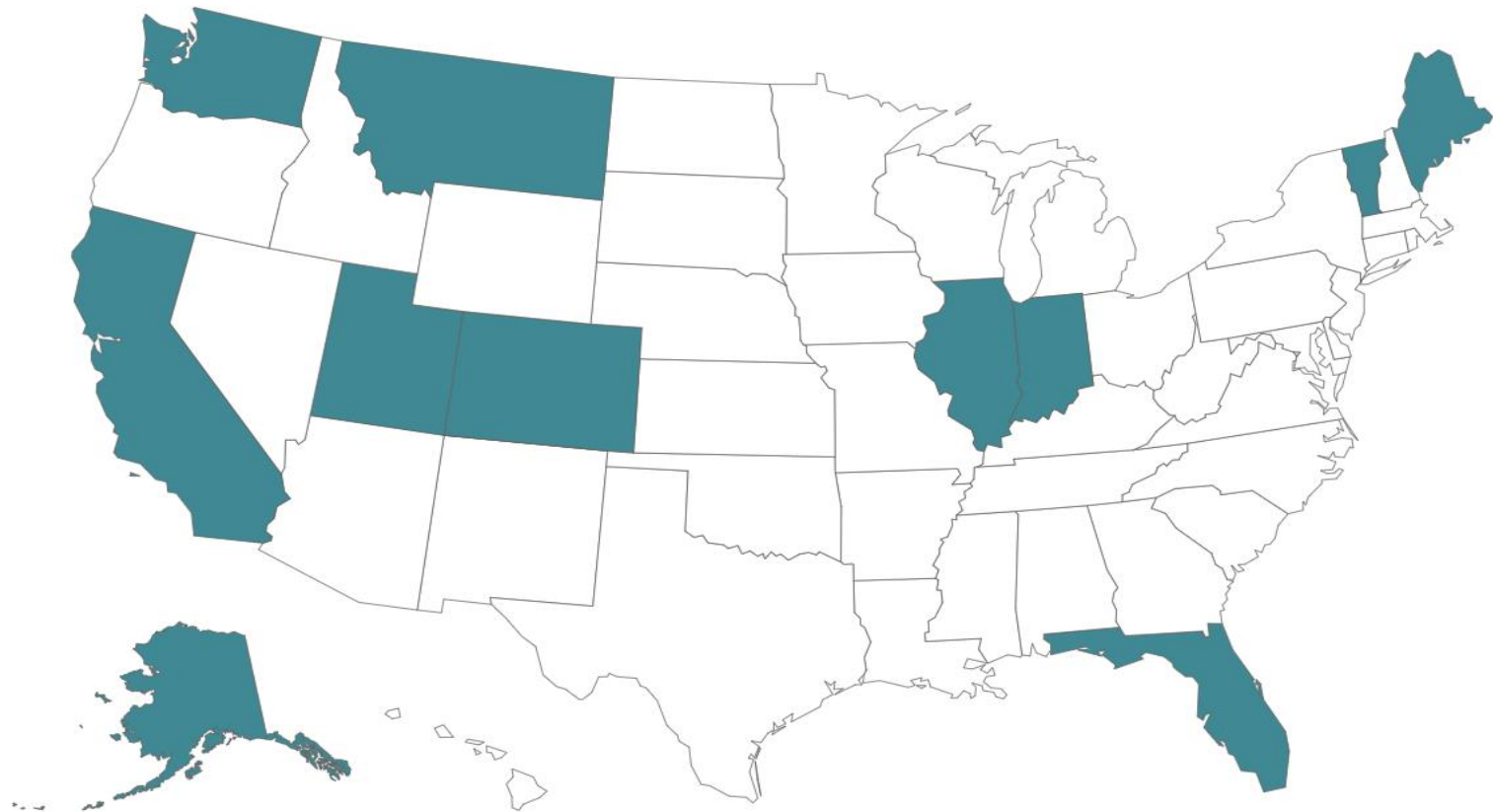
# Investing in economic development

## Prioritize a cost-effective approach

- Several states have proposed or enacted plans to use recovery relief for **economic revitalization**
- Research shows that officials can make **lasting economic improvements** by providing businesses more information and services
- However states pursue economic development, they should **avoid long-term commitments**

# Economic relief and development

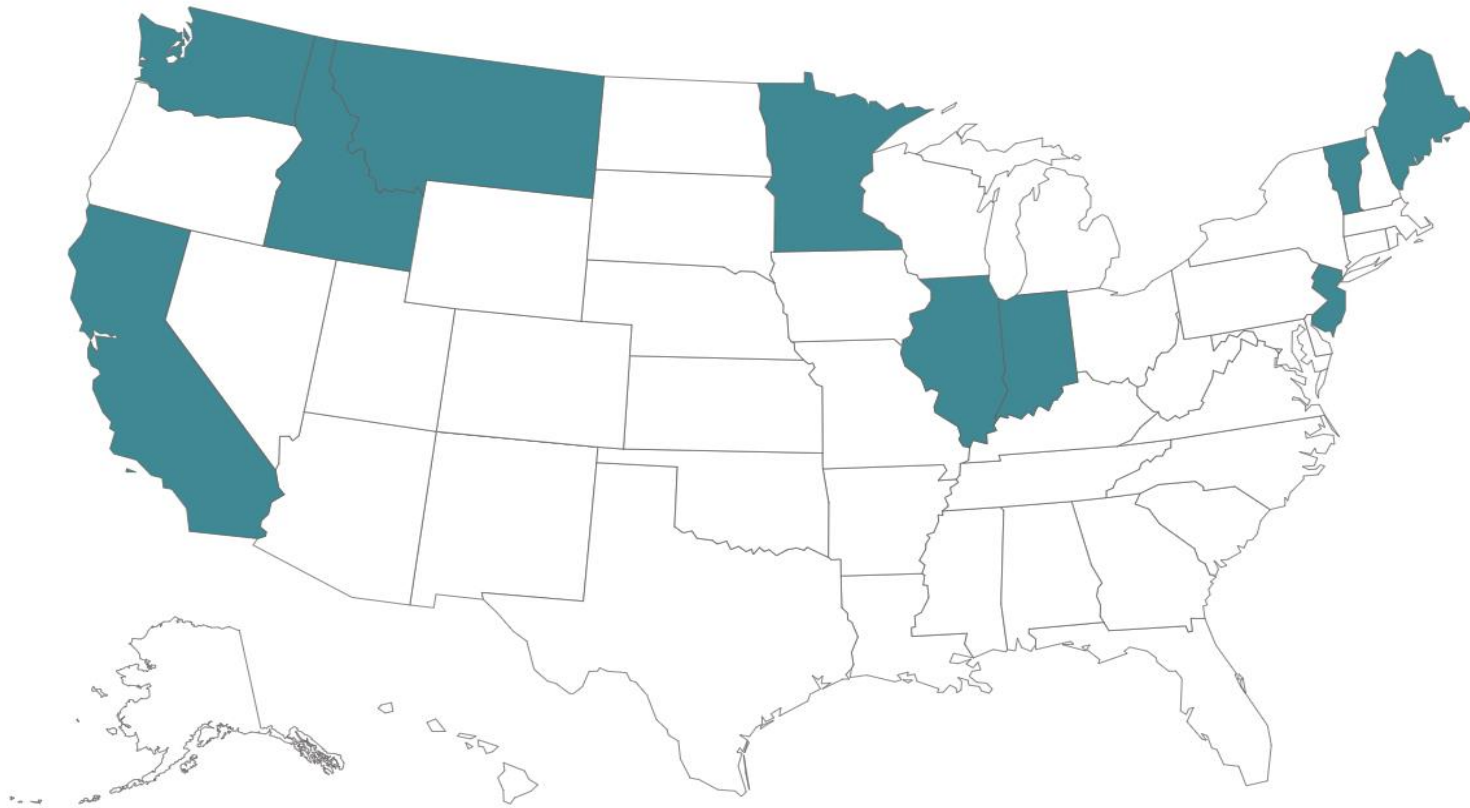
Allocations approved by at least 11 states



Source: National Conference of State Legislatures ARPA State Fiscal Recovery Fund Allocations

# State operation and administration

Allocations approved by at least 10 states



Source: National Conference of State Legislatures ARPA State Fiscal Recovery Fund Allocations

# State revenue replacement

Allocations approved by at least 7 states



Source: National Conference of State Legislatures ARPA State Fiscal Recovery Fund Allocations

Sheanna Gomes

Senior associate, state fiscal health

[sgomes@pewtrusts.org](mailto:sgomes@pewtrusts.org)