

Pennsylvania's Use of ARPA Funds

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KEY POINTS

- Pennsylvania's current budget shows more restraint than most state budgets in its use of discretionary ARPA, or SLFR, funds for fiscal year 2021-22.
- More than \$6 billion—of the \$7.29 billion appropriated to Pennsylvania—remain on the table. The Legislature can use SLFR funds to pay off unemployment debt, fund kids, and provide working or hiring bonuses.
- The state continues to face long-term fiscal challenges due to structural overspending. The Legislature should begin to address these challenges to prevent tax increases.

PENNSYLVANIA'S SLFR GRANT

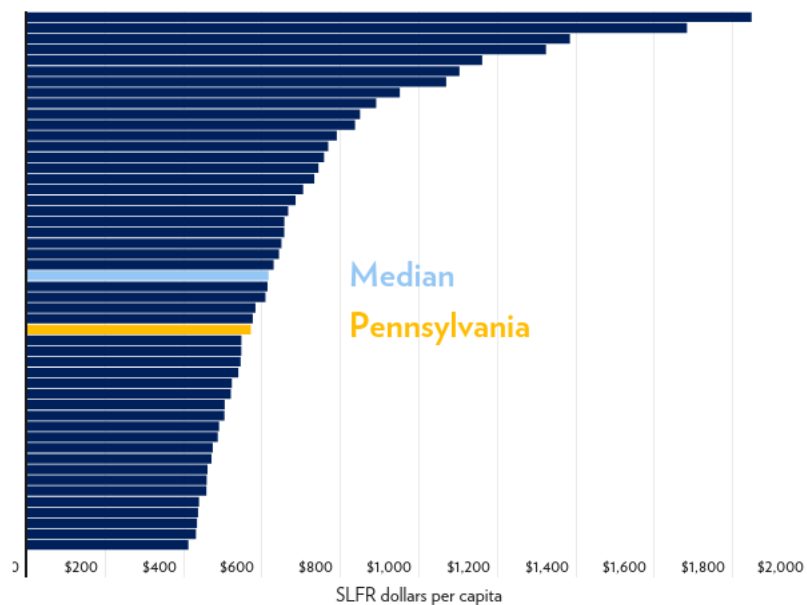
Pennsylvania's state budget for fiscal year 2021–22 includes \$39.78 billion in ongoing state general fund spending (the “enacted budget”) plus \$1.04 billion in one-time discretionary spending from the federal American Rescue Plan Act (ARPA). This analysis focuses on the use of discretionary ARPA funds, also called SLFR (State and Local Fiscal Recovery) funds.

ARPA is a \$1.9 trillion federal bill passed in March 2021. Supporters of the legislation argued that our country needed the added spending to stimulate a nationwide recovery from the COVID-19 pandemic. The bill includes \$350 billion in SLFR funds, which are funds allotted to state and local governments for discretionary use, within [certain parameters](#).¹

The Pennsylvania state government received \$7.3 billion, or 7.9 percent of its total spending in fiscal year 2020, placing it slightly below the national median in grant size.

SLFR Grants in the Fifty States

In dollars per capita, Pennsylvania's SLFR grant was slightly smaller than the national median



Sources: Barb Rosewicz et. al., "How Far American Rescue Plan Dollars Will Stretch Varies by State," PEW, June 28 2021, LINK; "State Population Totals and Components of Change: 2010-2019," United States Census Bureau <https://www.census.gov/data/tables/time-series/demo/popest/2010s-state-total.html>.

HOW PENNSYLVANIA SPENT SLFR FUNDS IN FY 2021–22

The Pennsylvania General Assembly appropriated \$1.04 billion in SLFR funds for fiscal year 2021–22 .

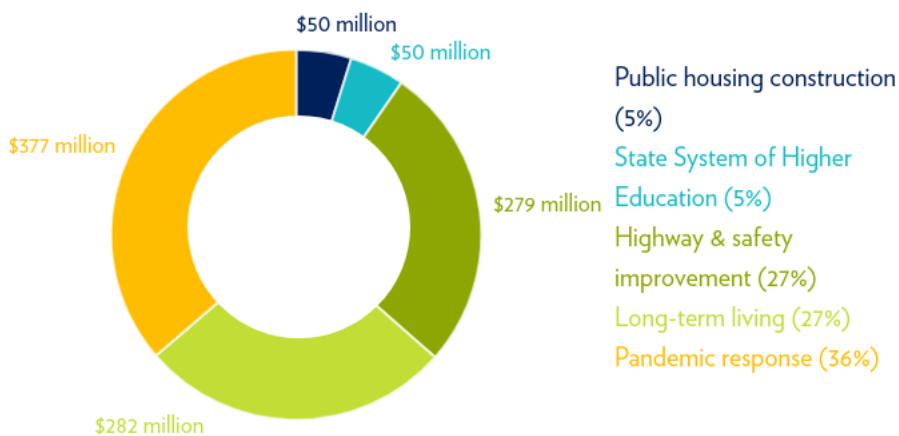
Of this \$1.04 billion, the single largest appropriation was \$372 million to the governor's executive offices to fund "pandemic response." Neither ARPA nor the fiscal or administrative codes specify how to use the money or who is eligible to receive funds. Recently, Governor Wolf made \$20 million of it available to assist [barbers and salons](#).² He and lawmakers should clarify who is eligible for such assistance so that struggling businesses across the state have equal opportunity to aid.

Another significant portion, \$282 million, went to the Department of Human Services to fund long-term living care. Pennsylvania is one of roughly a dozen states where approximately half of the [COVID-related deaths have occurred in nursing homes](#).³ In June of 2021, workers at various Pennsylvania homes [voted to authorize strikes](#) in protest of low pay and staff shortages.⁴ The federal relief is meant to help [address these challenges](#).⁵

A third major portion, \$279 million, went to the Department of Transportation to fund highway and safety improvements. Because gas tax revenue [fell](#) during the pandemic—from fewer miles driven (which also reduces normal wear and tear)—the commonwealth took out short-term loans to finance ongoing road and bridge projects.⁶ Federal relief will help the state pay off the loans and cover short-term needs.

Two additional appropriations (\$50 million apiece) went to the State System of Higher Education to support its [consolidation plan](#) and the Housing Finance Authority for [rising construction costs](#).⁷

How Pennsylvania Spent SLFR Funds in FY 2021-22

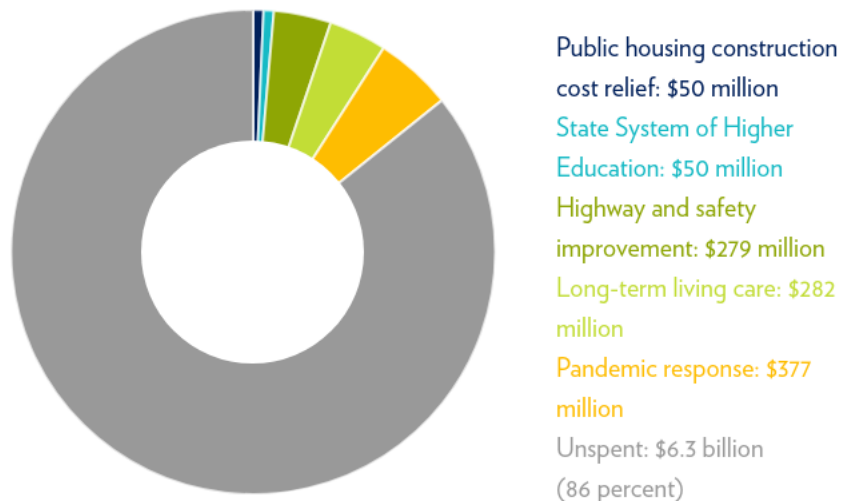


Source: "American Rescue Plan Act Appropriations - SB 255." House Appropriations Committee, (June 2021), <https://www.houseappropriations.com/Topic/BudgetYears/634>.

FISCAL RESTRAINT HELPS PENNSYLVANIA PREPARE FOR FISCAL CHALLENGES

The Legislature showed more restraint in its use of SLFR funds than most state governments. It saved 86 percent of its grant for future use (i.e., \$6.25 billion out of \$7.29 billion) and has until the end of 2024 to spend it.

Percentage of SLFR Grant that Pennsylvania Spent in FY 2021-22

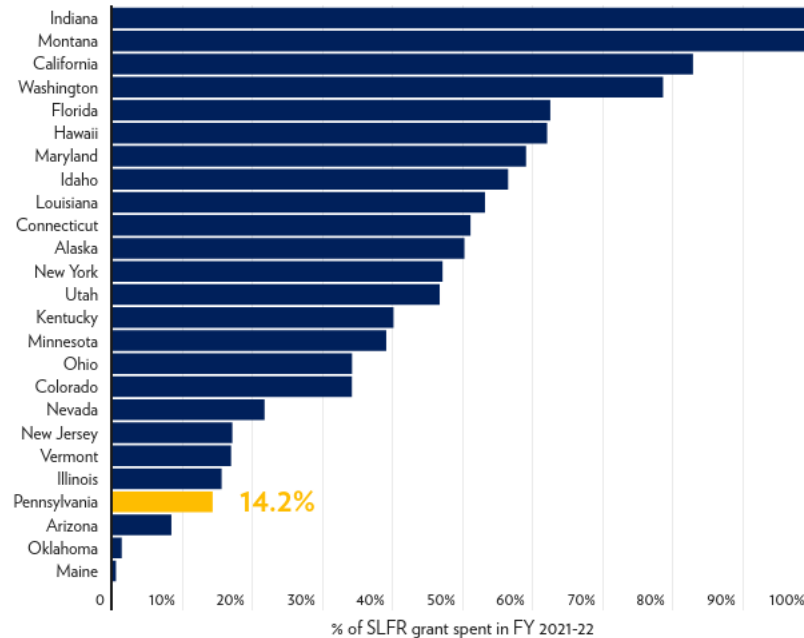


Source: "American Rescue Plan Act Appropriations - SB 255," House Appropriations Committee, (June 2021), <https://www.houseappropriations.com/Topic/BudgetYears/634>.

Of twenty-five states analyzed by the National Conference of State Legislatures, only three (Maine, Oklahoma, and Arizona) spent a lower percentage of their grant than Pennsylvania. Some states spent all (Indiana, Montana) or the vast majority (California, Washington) of their grants immediately.

SLFR Spending in the Fifty States

Pennsylvania exhibited more restraint than most state governments in FY 2021-22



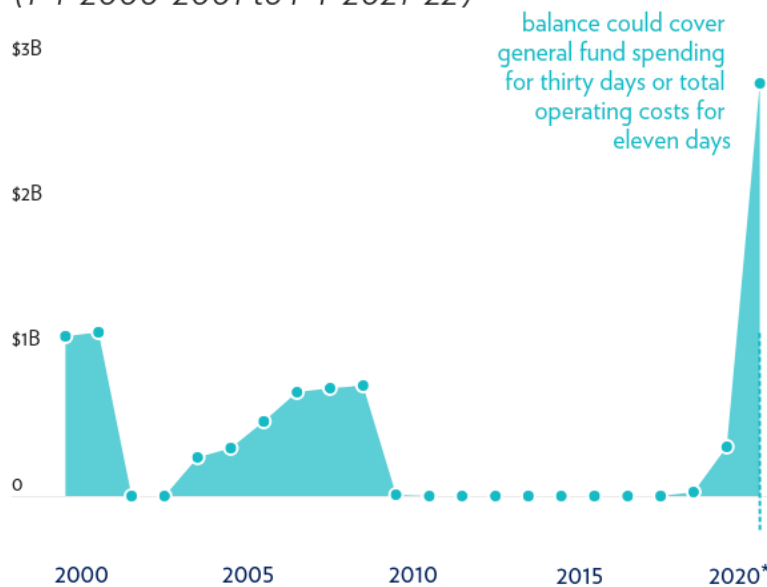
Source: "ARPA State Fiscal Recovery Funds Allocations," National Conference of State Legislatures, (accessed August 2021), <https://app.powerbi.com/view?r=eyJrIjojODMxYjltNGMtZWQ0Ny00YzNiLTkxNjQtMTBNDzjYTkzNzhliwidCl6ljM4MmZiOGlwLTRkYzMtND..EwNy04MGJkLTM1OTViMjQzMmZhZSIsImMiOjZ9&pageName=ReportSection>.

Additionally, lawmakers did not use SLFR funds to cover ongoing spending, or to create new, long-term obligations. They used the funds to address problems created by and limited to the pandemic (e.g., care worker shortages, declining gas tax revenues, and the limited supply of building materials), as intended.

These decisions—to save SLFR funds for future use, and not to cover or create new long-term obligations—follow our [April](#) and [May](#) recommendations.⁸

Also, the Legislature prudently transferred [\\$2.5 billion](#) to the rainy day fund this fiscal year, lifting our balance from a critically low \$340 million to \$2.84 billion.⁹ The new balance is [average by national standards](#), and can cover general fund spending for thirty days or [total operating costs for eleven days](#).¹⁰

Pennsylvania's Rainy Day Fund Balance (FY 2000-2001 to FY 2021-22)



Sources: [The Pew Charitable Trusts, Fiscal 50: State Trends and Analysis, Reserves and Balances](https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5). Retrieved from <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5>

*estimated.

RECOMMENDATIONS FOR USE OF REMAINING FUNDS

Over \$6 billion in SLFR funds remain on the table. Here are some ways the Legislature could use it.

1. Pay off the unemployment compensation debt

Our unemployment compensation debt exploded during the pandemic and stands at \$738 million as of September 2021.¹¹ Continued failure to address this problem will result in tax hikes on all businesses.¹² Connecticut, Hawaii, Indiana, Kentucky, Louisiana, Nevada, Ohio, Utah, and Washington used SLFR funds to pay off their unemployment debt.¹³ Ohio dedicated \$1.5 billion to this purpose.¹⁴ Pennsylvania should follow the example of these states, and avoid saddling local businesses and workers with an additional long-term expense in the form of higher payroll taxes.

2. Support Students

Pennsylvania should also use SLFR funds to provide direct support to kids hurt academically by the pandemic. First, the Legislature could help to compensate for pandemic learning loss by putting educational funds in parents' hands.¹⁵ In the enacted budget, the Legislature increased tax credit scholarships by \$40 million.

3. Support workers and small businesses

The Legislature should also help to reverse Pennsylvania's [high unemployment rate](#) by providing working and hiring bonuses.¹⁶ Oklahoma devoted SLFR funds to this purpose, [offering \\$1,200 to the first 20,000 state residents to take jobs and transition off unemployment benefits](#).¹⁷

LONG-TERM CHALLENGES

Pennsylvania continues to face long-term fiscal challenges that the Legislature should begin to address.

1. *Ballooning Medicaid costs*

Although we have responsibly administered SLFR funds this year, other forms of federal COVID relief could perpetuate or compound our structural deficit. In particular, the state budget relies on a temporary [increase](#) in the federal Medicaid matching fund (FMAP) to cover overspending that predates the pandemic.¹⁸ Medicaid enrollment in Pennsylvania has risen by 70 percent since 2010 (from 2.3 million to 3.3 million), leading to ballooning costs. The current budget uses \$1.2 billion in temporary FMAP relief funds to cover these costs. When the federal matching rate falls ([most likely in 2022](#)), the commonwealth will have to plug the hole with \$1.2 billion of Pennsylvania residents' money.¹⁹

2. *New long-term constituencies for homeowner and water assistance*

In addition, some of the government's non-discretionary ARPA grants hold earmarks for programs that could develop long-term constituencies. Congress directed \$350 million in ARPA funds to the Public Housing Finance Authority for [homeowner assistance](#) and over \$40 million to the Department of Human Services for [water assistance](#).²⁰ When the pandemic ends, those receiving homeowner and water assistance may pressure the state government to continue these programs.

3. *Short-Term Surplus*

Finally, this year's enacted budget was based on a revenue windfall in 2021; state tax revenues [are projected to decline next year](#).²¹ Lawmakers should tie budget growth to inflation and population growth, not to fluctuating tax revenues. The [Taxpayer Protection Act](#) proposes such a formula and would have restricted the enacted budget to \$37.20 billion (well below the appropriated \$39.78 billion).²²

¹ "Coronavirus State and Local Fiscal Recovery Funds," U.S. Department of the Treasury, <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>.

² "Wolf Administration Joins Legislators to Announce \$20 Million In Pandemic Relief Available to Salon Industry," Official website of Governor Tom Wolf (August 19, 2021), <https://www.governor.pa.gov/newsroom/wolf-administration-joins-legislators-to-announce-20-million-in-pandemic-relief-available-to-salon-industry/>.

³ "Tracking COVID-19 Cases in Pennsylvania," Commonwealth Foundation infogram (September 8, 2021), <https://infogram.com/app/#/edit/1893a66b-fc97-44b7-8073-703e1c411fa9>.

⁴ Stephen Caruso, “Nursing home workers authorize strikes statewide; extra funding on Harrisburg priority list,” Pennsylvania Capital-Star (June 21, 2021), <https://www.penncapital-star.com/working-the-economy/nursing-home-workers-authorize-strikes-statewide-extra-funding-on-harrisburg-priority-list/>.

⁵ Jan Murphy and Charles Thompson, “Pa. lawmakers unveil \$40B spending plan with more money for schools, saving most federal relief aid,” Penn Live Patriot-News (July 1, 2021), <https://www.pennlive.com/news/2021/06/pa-lawmakers-review-40b-state-spending-plan-with-more-money-for-schools.html>.

⁶ Stephen Caruso, “Putting off short-term disaster, Pa. lawmakers must once again face transportation funding woes this winter,” Pennsylvania Capital-Star (December 4, 2020), <https://www.penncapital-star.com/government-politics/putting-off-short-term-disaster-pa-lawmakers-must-once-again-face-transportation-funding-woes-this-winter/>.

⁷ Jan Murphy and Charles Thompson, “Pa. lawmakers...”; Jan Murphy and Charles Thompson, “Pa. lawmakers...” “PHFA thanks General Assembly, governor and others for significant investment in housing in new state budget for FY 2021-22,” Pennsylvania Housing Finance Agency (June 30, 2021), <https://www.prnewswire.com/news-releases/phfa-thanks-general-assembly-governor-and-others-for-significant-investment-in-housing-in-new-state-budget-for-fy-2021-22-301323773.html>.

⁸ Brandon Van Dyck, “Three Ways Pennsylvania Should Spend American Rescue Plan Funds,” Commonwealth Foundation (April 7, 2021), <https://www.commonwealthfoundation.org/policyblog/detail/three-ways-pennsylvania-should-spend-american-rescue-plan-funds>; Elizabeth Stelle and Brandon Van Dyck, “Reinvigorating Pennsylvania with One-time American Rescue Plan Funds,” Commonwealth Foundation (May 18, 2021), <https://www.commonwealthfoundation.org/policyblog/detail/reinvigorating-pennsylvania-with-one-time-american-rescue-plan-funds>.

⁹ Fiscal 50: State Trends and Analysis, The Pew Charitable Trusts (September 2, 2021), <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5>.

¹⁰ Ibid.; Tirzah Duren, TEL-Tale Heart: Crafting Effective Policies to Reduce Spending, Commonwealth Foundation (July 2021), https://www.commonwealthfoundation.org/docLib/20210712_TELsTaxandExpenditureReportDRAFT9.pdf.

¹¹ “Title XII Advance Activities Schedule,” TreasuryDirect (September 16, 2021), https://www.treasurydirect.gov/govt/reports/tfmp/tfmp_advactivitiesched.htm?fbclid=IwAR0LKQCWEO4QdE3dawzEY4x1qFY2oVUIf92fhUyzv2luKMO57X2pAJS0Xzo.

¹² Elizabeth Stelle and Brandon Van Dyck, “Reinvigorating...”

¹³ “ARPA State Fiscal Recovery Fund Allocations, National Conference of State Legislatures (accessed in mid-August 2021), <https://app.powerbi.com/view?r=eyJrIjojODMxYjI1NGMtZWQ0Ny00YzNiLTkxNjQtMTBjNDZjYTkzNzhhliwidCI6IjM4MmZiOGIwLTRkYzMtNDUwNy04MGJkLTM1OTViMjQzMmZhZSIsImMiOjZ9&pageName=ReportSection>.

¹⁴ “Gov. DeWine signs bill to invest American Rescue Plan Act funding into Ohio economy,” Dayton 24/7 Now (June 29, 2021), <https://dayton247now.com/news/local/gov-dewine-signs-bill-to-invest-american-rescue-plan-act-funding-into-ohio-economy>.

¹⁵ Emma Dorn, Bryan Hancock, Jimmy Sarakatsannis, and Ellen Viruleg, “COVID-19 and learning loss—disparities grow and students need help,” McKinsey & Company (December 8, 2020), <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/covid-19-and-learning-loss-disparities-grow-and-students-need-help>; Brandon Van Dyck, “Three Ways....”

¹⁶ “Unemployment Rates for States,” Bureau of Labor Statistics (accessed in mid-August), <https://www.bls.gov/web/laus/laumstrk.htm>.

¹⁷ “Governor Kevin Stitt, OESC Executive Director Zumwalt Announce Return to Work Incentive,” Official website of Governor Kevin Stitt (May 17, 2021), https://www.governor.ok.gov/articles/press_releases/governor-kevin-stitt--oesc-executive-director-zumw.

¹⁸ “Department Of Human Services Announces Public Comment Period For Home And Community-Based Services Federal Funding Available Through American Rescue Plan Act,” Pennsylvania Department of Human Services (June 16, 2021), https://www.media.pa.gov/pages/dhs_details.aspx?newsid=720.

¹⁹ Madeline Guth, Robin Rudowitz, and Rachel Garfield, “Federal Medicaid Outlays During the COVID-19 Pandemic,” Kaiser Family Foundation (April 27, 2021), <https://www.kff.org/coronavirus-covid-19/issue-brief/federal-medicaid-outlays-during-the-covid-19-pandemic/>.

²⁰ “Homeowner Assistance Fund,” U.S. Department of the Treasury (accessed in mid-August 2021), <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/homeowner-assistance-fund>; Rachel Mackey and Nicolette Gerald, “HHS launches new Low-Income Household Water Assistance Program (LIHWAP),” National Association of Counties (June 7, 2021), <https://www.naco.org/blog/hhs-launches-new-low-income-household-water-assistance-program-lihwap>.

²¹ Matthew Knittel et al., “Official Revenue Estimate FY 2021-22,” Independent Fiscal Office (June 2021), http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/June_Revenue_Estimate_2021.pdf.

²² “The Taxpayer Protection Act: An Updated Legislator’s Guide,” The Commonwealth Foundation (February 14, 2019), <https://www.commonwealthfoundation.org/policyblog/detail/the-taxpayer-protection-act-an-updated-legislators-guide>.