State and Local Fiscal Recovery Funds: Harnessing Federal Investment for Locally-Led Growth

In response to economic challenges stemming from the pandemic, the Biden-Harris administration and Congressional Democrats set up the first program in U.S. history to provide flexible fiscal relief directly to small and mid-sized counties and cities, in addition to states, Territories, and Tribal governments. This American Rescue Plan program, known as the "State and Local Fiscal Recovery Funds" (Recovery Funds), gave governments across the country both the resources and the flexibility to invest in local needs. The program has brought billions of dollars to areas that previously haven't accessed high levels of federal investment and has provided evidence that, when given access to adequate federal funding, local leaders will make investments that drive the U.S. economy from the ground up.

Public investment is key to economic recovery and growth

Public investments have been shown to stimulate economic activity, raise the productivity of existing physical and human capital, boost private sector output, and increase employment. Research shows a strong association between public investment and higher annual Gross Domestic Product (GDP) and private sector productivity. Moreover, a 2021 analysis by the Congressional Budget Office found greater public investment in physical infrastructure in the U.S. would lead to higher levels of private sector productivity, as well as economic growth that would increase federal revenues and bring down long-run net public spending costs.

Despite these benefits, a 2018 study found that public investment in GDP-adjusted dollars had declined by roughly 40 percent since 1968. After the Trump administration failed to reverse this trend, the Biden-Harris Recovery Funds helped begin a new era of public investment.

The Trump administration did not invest in long-term solutions for local economies

Before the pandemic, former president Trump repeatedly sought to eliminate federal support for community development, including for rural and farming communities. For example, the former president's last budget would have cut critical programs for rural communities and farmers, such as funding for rural broadband, transportation, and water infrastructure. Researchers have also found the Trump administration's trade war harmed U.S. agricultural employment.

The Trump administration also impeded funding for state governments during the pandemic. Top Trump administration officials sought to block funding for states' vaccine rollouts in the fall of 2020, fought against support for state governments shouldering the pandemic response, and delayed signing major legislation that provided Americans with economic relief. Each of these decisions threatened the nation's prospects for a return to normalcy and a strong economic recovery.

With Recovery Funds, local leaders are laying the groundwork for economic prosperity

While the past administration's policies left many communities without a path for economic growth, states and localities have used the Biden-Harris administration's Recovery Funds to meet constituents' needs. The Joint Economic Committee (JEC) Democrats' analysis of Recovery Fund reporting data shows that—in addition to funding for COVID relief efforts—states and localities directed a significant amount of Recovery Funds to infrastructure, affordable housing, workforce training, education, and child care. Key findings from this analysis are below.

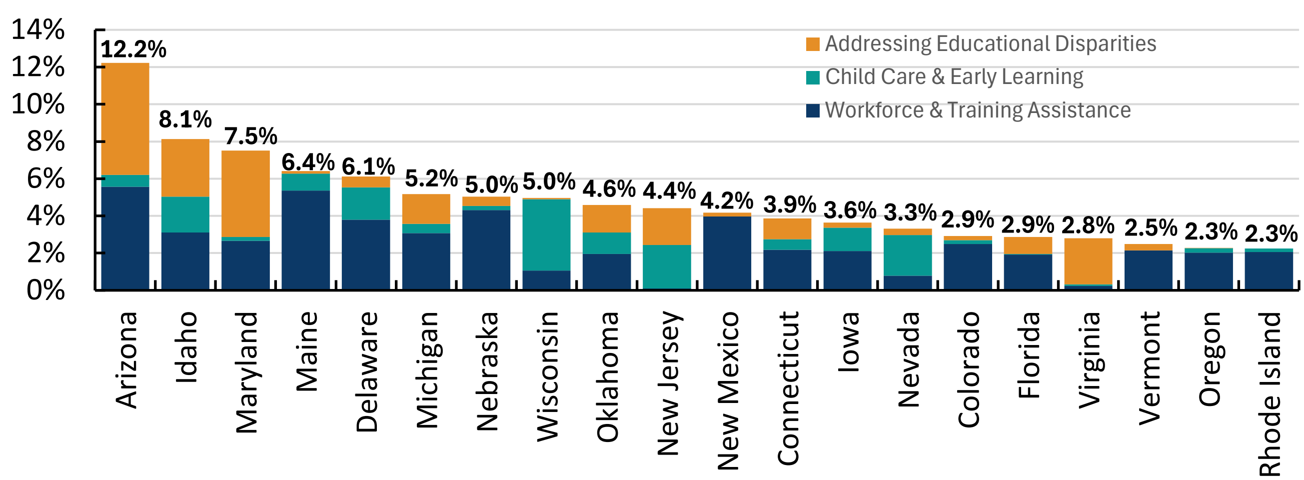
States and localities have used Recovery Funds to invest in education and the workforce

Public investment can enhance Americans' futures by supporting education and families. Research shows that high-quality and well-funded training programs lead to significantly higher earnings for workers. Investment in early childhood education—including in child care and pre-K— has been shown to have immediate and long-term benefits for the economy. Moreover, investments to address educational disparities and services for underserved schools can lead to significant societal and economic returns.

Under the Recovery Funds program, states and localities could invest in people's education, skillsets, and child care to assist individuals through projects that went beyond the immediate impacts of the pandemic. The JEC Democrats analyzed funding categories related to investments in workforce and training assistance for under-employed and unemployed individuals, child care and early education support, and in addressing educational disparities. Findings below show that, when compared to other states, **Arizona** has directed the largest proportion of its funds (12%) and the greatest amount of funding ($832 million) to child care, education and workforce initiatives. **New Mexico** is also among the top states to invest the largest fraction of its recovery funds into supporting its workforce.

States Have Invested Millions of Dollars to Stregthen Their Workforces

Top 20 states with the highest proportion of Recovery Funds allocated to workforce and training assistance, child care and early learning, and addressing educational disparities.



Source: U.S. Treasury Department

Note: State and Local Fiscal Recovery Funds data released April 2024.

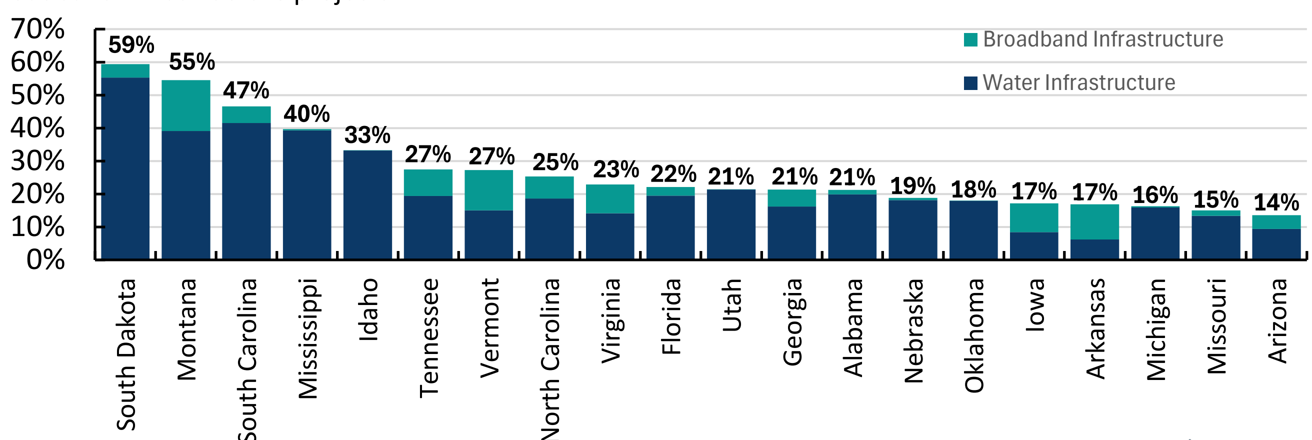
Midwestern and Southern states lead in directing their recovery funds to infrastructure

Many states took the opportunity that the Recovery Funds provided to direct investment to water and broadband infrastructure projects. The ability to address water infrastructure was significant given that low levels of investment in our nation's water infrastructure have led to water crises across the country. Before the Recovery Funds were enacted, the American Society of Civil Engineers' (ASCE) released its 2021 assessment of the country's infrastructure, which graded the nation's drinking water and wastewater infrastructure with a C- and D+, respectively. Similarly, low investment in broadband has led to notable inequality in internet access. As of 2024, an estimated 24 million Americans lack access to broadband internet, with many of these consumers living in rural, tribal, and lower-income communities.

South Dakota and **Montana** stand out as the two states whose state and local governments have collectively directed more than 50% of their total allocations towards water and broadband infrastructure funding. They are each closely followed by **South Carolina**, **Mississippi** and **Idaho**, each directing a third of their funding or more to their respective water and broadband infrastructure projects. Most of the funding was directed towards water infrastructure for these states, with **South Dakota (55%), South Carolina (42%), Mississippi (39%)** and **Montana (39%)** directing the greatest fraction of funding towards such infrastructure.

Southern and Midwestern States are Directing the Greatest Fraction of their Fiscal Recovery Funds Towards Water and Broadband Infrastructure

Top 20 states that have adopted a budget or obligated the largest percentage of funding towards water and broadband infrastructure projects.



Source: U.S. Treasury Department
Note: State and Local Fiscal Recovery Funds data released April 2024.

A range of states and localities are using their funds to build affordable housing

The housing affordability crisis in the U.S. is driven in large part by inadequate housing supply. The country is facing a shortage of millions of units, particularly in low-cost rentals and starter homes. One of the highest estimates cites a shortage of 7.3 million affordable and available homes for low-income renters. States and localities have sought solutions to this shortage through updated zoning and land use regulations, but the scale of the problem also requires significant public funding strategies to build more housing. Funding for the latter solutions can often be difficult to come by. For this reason, Recovery Funds have proven to be useful for many states and localities, to help finance their affordable housing supply.

Nevada has allocated the greatest proportion of funding to long-term affordable housing initiatives, compared to other states. In total it has directed about **13%** of its combined state and municipal allocations towards these initiatives. After Nevada, primarily northeastern states are directing among the largest proportions towards such initiatives: **Rhode Island (12%), D.C. (10%), Vermont (9%),** and **Delaware (9%)**. Reviewing the total quantity of funding directed to long-term affordable housing initiatives, **New Jersey, Texas** and **Pennsylvania** are among the top five states allocating the greatest amount of funding, following **California** and **Nevada**, as shown below.

Top 5 States Leading in Recovery Fund Allocation for Long-Term Affordable Housing Initiatives

State	Recovery Funds Directed to Affordable Housing
California	$2,563,321,848.75
Nevada	$483,510,000.00
New Jersey	$333,950,806.50
Texas	$297,318,639.41
Pennsylvania	$293,149,715.43

Source: U.S. Treasury Department
Note: State and Local Fiscal Recovery Funds data released April 2024.

Further use of state and local recovery funds can unlock more growth in the economy

The Biden-Harris administration gave local leaders the opportunity to lay the foundation for economic development and community wellbeing with the State and Local Fiscal Recovery Fund program, and leaders took advantage of this opportunity.

However, states and local governments still have a significant amount of funds outstanding. According to law, they must obligate all Recovery Funds by December 31st, 2024, or risk losing those funds. Obligations are distinct from spending—recipients have until December 2026 to spend their Recovery Funds. Obligations can take the form of state and municipal governments entering into contracts with subrecipients to carry out portions of a project. States can also obligate funds by directing funding to municipalities as subrecipients. Subrecipients of funding are *not* subject to the December 31st, 2024 deadline for obligation. States and municipalities can track their outstanding obligations using downloadable data on the Treasury website.

Recovery Funds are flexible, so localities and states can use funding to support a variety of needs and initiatives, as well as matching requirements for other projects. Resources to support state and local leaders in determining eligible projects can be found across advocates' websites, such as the National League of Cities and the National Association of Counties.

State and Local Fiscal Recovery Funds have laid the groundwork for future growth. With full obligation of these funds, in addition to other Democratically-led laws including the Inflation Reduction Act, the Bipartisan Infrastructure Law, and CHIPS and Science Act, localities are able to rebuild for the future. Through these initiatives, Democrats have worked to ensure that the national economic comeback left no state, town, county, or Tribe behind.