Pennsylvania’s Use of ARPA Funds

Brandon Van Dyck, Senior Policy Analyst

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.
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. 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. In June of 2021, workers at various Pennsylvania homes voted to authorize strikes in protest of low pay and staff shortages. The federal relief is meant to help address these challenges.

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. 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

- $377 million for Long-term living
- $279 million for Highways & safety improvement
- $50 million for Public housing construction
- $50 million for State System of Higher Education
- $282 million for Pandemic response


### 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.
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.
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
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**. Continued failure to address this problem will result in **tax hikes on all businesses**. Connecticut, Hawaii, Indiana, Kentucky, Louisiana, Nevada, Ohio, Utah, and Washington used SLFR funds to pay off their unemployment debt. Ohio dedicated **$1.5 billion** to this purpose. 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. 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.\(^6\) 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.\(^7\)

**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.\(^8\) 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.\(^9\)

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.\(^10\) 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.\(^11\) 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).\(^12\)

---


11 “Title XII Advance Activities Schedule,” TreasuryDirect (September 16, 2021), https://www.treasurydirect.gov/govt/reports/tfmp/tfmp_advactivitiessched.htm?fbclid=IwAR0LKQCWEO4QdE3dawzEY4x1qFY2oVUlf92fhUyzv2luKMO57X2pAJS0Xzo.

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=eyJrIjoiODMxYjI1NGMtZWOQ0Ny00YzNiLTkxNyQ0MTBtMzBzYTMzYyJ9&fbclid=IwAR0LKQCWEO4QdE3dawzEY4x1qFY2oVUlf92fhUyzv2luKMO57X2pAJS0Xzo.


