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Replenish, Replace, Repair: How Illinois is Using its ARPA Aid

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INTRODUCTION

In the early months of the COVID-19 pandemic, governments across the United States found themselves grappling with a public health crisis while simultaneously experiencing sharp declines in revenue collections. For the State of Illinois, this situation was especially challenging as it had little in reserve funds and billions in backlogged bills. Illinois' fiscal challenges had been building for years, and so the fiscal effects of the pandemic compounded the state's financial predicament.

In this article, we focus on the Coronavirus State and Local Fiscal Recovery Fund (SLFRF) program, which set aside $350 billion in flexible federal aid to states, counties, cities, Tribal governments, territories, and the District of Columbia. Under that program, Illinois' state government was allocated $8.1 billion in federal aid that state lawmakers have a relatively broad level of discretion over how to spend.[1] To put that $8.1 billion in context, Illinois' total appropriations in Fiscal Year (FY) 2019—the last full fiscal year before the pandemic—were about $106 billion, of which $37 billion were General Funds appropriations.[2]

We first detail the SLFRF program before turning our attention to how Illinois plans to use its aid. Because of the flexible nature of the SLFRF program the federal funds can be used for a variety of

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policy purposes, and while we describe how Illinois is using its funds, we are not evaluating these spending decisions. Unlike many of its neighboring states, Illinois adopted spending plans for nearly all its SLFRF aid as of June 30, 2022. This can be attributed in part to the state's compliance with the program's Final Rule handed down by the U.S. Department of the Treasury denoting eligible and non-eligible uses for the SLFRF funds.[3] Other states have gone to battle with the federal government over how recipient governments should be able to use these funds,[4] causing delays in obligating the total amount of funds made available to them. In this paper, we examine how Illinois has gone about obligating funds, and to what ends, specifically when compared to neighboring states.

A prime directive was to get funds into the coffers of state and local governments as soon as possible. The SLFRF program was not meant merely to make up for revenue loss, but to pay for new and increased spending demands tied to the pandemic and that would assist in building a "stronger, more equitable economy."

WHAT IS THE CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUND PROGRAM?

With the signing of the American Rescue Plan Act (ARPA) by President Joseph R. Biden in March of 2021, states, municipalities, territories, and Tribal areas were set to receive an infusion of what many saw at the time as much needed financial support.[5] As part of ARPA, the Coronavirus State and Local Fiscal Recovery Fund program was created, and under this program $350 billion in flexible (although not totally discretionary) aid was allocated to governments.[6] The U.S. Department of the Treasury is charged with overseeing the program, and it released the final rules for the SLFRF program at the start of calendar year 2022.

While it was initially feared that governments would suffer drastic revenue losses, the actual impact on revenue has not been as severe as what was expected during the early part of the pandemic.[7] This is in part because of the unprecedented amount of federal support that has come from multiple relief packages, a marked "departure from what some have called 'fend for yourself' federalism."[8] While, in hindsight, actual revenue losses were not as drastic as many had feared, ARPA was passed shortly after President Biden took office along political lines in a short timeframe during an unfolding crisis with an immense amount of uncertainty. It is the financial and social impact of this uncertainty that drove many decision-making processes in the height of the pandemic. A prime directive was to get funds into the coffers of state and local governments as soon as possible. The SLFRF program was not meant merely to make up for revenue loss, but to pay for new and increased spending demands tied to the pandemic and that would assist in building a "stronger, more equitable economy."[9]

Governments have the power to decide how to spend SLFRF aid, as long as that spending falls under one of the following broad areas that were written into ARPA and elaborated in the Treasury Department's rules for the program:

- Replacing government revenue;
- Responding to the pandemic's public health and/or negative economic impacts;
- Providing premium pay to essential workers; and/or
- Investing in water, sewer, and broadband infrastructure.[10]

In addition to what governments are allowed to use the money for, there are also prohibited uses of SLFRF aid. More specifically, governments cannot use SLFRF aid for tax cuts, deposits to public pension systems, debt service, judgements, or replenishing rainy day funds.[11] Governments have several years to spend SLFRF aid; however, all the funds must be obligated by December 31, 2024.

The SLFRF program is historic both in terms of the amount of federal aid provided to governments and spending flexibility.[12] The SLFRF program also builds from the Coronavirus Aid, Relief, and Economic Security Act's Coronavirus Relief Fund (CRF) program.[13] The CRF program provided

$150 billion in federal aid to state governments, U.S. territories, Tribal governments, the District of Columbia, and 154 city and county governments. The SLFRF program, in contrast, provides more aid to a far larger number of governments, with nearly all general-purpose local governments in the U.S. allocated some SLFRF aid.[14]

The State of Illinois received $3.5 billion in CRF aid and is allocated $8.1 billion in aid from the SLFRF program.[15] An important distinction to note is that the Coronavirus Aid, Relief and Economic Security Act (CARES) and the constituent CRF program were specifically designed to help governments deal with the direct impacts of COVID-19, as specified in the criteria for eligible uses that included costs that "are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID–19)."[16] This first round of federal fiscal aid targeted COVID-19 as an interrupter for day-to-day governmental functions. Importantly, CRF aid could not be used to replace government revenue and fund general government services, which frustrated governments that were experiencing pandemic-induced revenue shortfalls and were hoping to use the federal funds to prevent cuts to existing operations rather than just newly incurred expenses.[17]

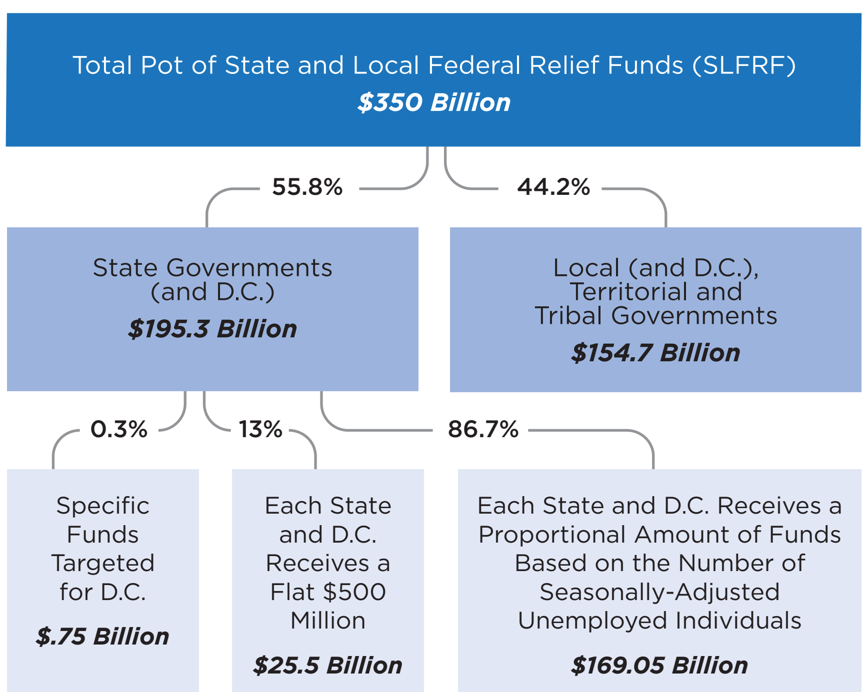
While CRF aid was meant to address pressing health and economic impacts of the pandemic, the Treasury Department's rules allow—and the Biden administration has encouraged—governments to use SLFRF aid to address pre-pandemic inequities, as well as immediate needs tied to the pandemic. This is because ARPA was crafted with a longer-term strategy in mind, looking past immediate impacts of the pandemic and examining productive options for recovery. One of the main goals of the SLFRF program is to provide resources that "lay the foundation for a strong, equitable economic recovery, not only by providing immediate economic stabilization for households and businesses, but also by addressing the systemic public health and economic challenges that may have contributed to more severe impacts of the pandemic among low-income communities and people of color."[18]

While there are procedural limitations on how CRF and SLFRF funds can be spent, there is nonetheless a question around the fungibility of these funds, and how they can be internally transferred to cover certain costs. Since a dollar is interchangeable with another dollar, it is difficult to fully prevent indirect coverage of costs not contained in the list of eligible expenses and/or prohibited ones. This is especially clear when money is deposited into general funds—one cannot maintain a specific dollar amount in the general fund as earmarked. As an example, while the SLFRF aid cannot be used directly to pay off debt, the City of Chicago was able to pay off outstanding short-term debt by using a portion of its SLFRF aid for revenue replacement and thereby freeing up other revenue. As such, Chicago indirectly used SLFRF aid for debt service.[19] The SLFRF program's restriction on usage is, arguably, procedurally vague and difficult to enforce.

How Is SLFRF Aid Allocated?

Of the SLFRF's $350 billion, $195.3 billion (or 55.8%) was set aside for the 50 state governments and the District of Columbia (D.C.), with $154.7 billion awarded to local, territorial, and Tribal governments and D.C.[20] Figure 1 provides a visualization of how the $350 billion was

Figure 1: SLFRF Allocation Methodology for State Governments and the District of Columbia[21]



allocated to different governments, with a focus on how the $195.3 billion was distributed to state governments and D.C.

The $195.3 billion of state and D.C.-specific funds was further split into several, separate buckets. First, a small amount ($750 million) was set aside for D.C.[22] Another bucket contained $25.5 billion, and this amount was split evenly between all 51 entities, with each state and D.C. receiving $500 million. The remaining $169.05 billion was allocated to each state and D.C. in a proportional manner dependent on the number of unemployed individuals in each state. The approach to dividing up that $169.05 billion contrasted with the approach used for distributing CRF dollars (which were allocated using just population).[23]

To allocate the SLFRF aid, Treasury used the Bureau of Labor Statistics' data on seasonally adjusted unemployed individuals. To account for monthly fluctuations, the Treasury Department took the three-month average of the October – December 2020 numbers for each state, and then using the national average of unemployed individuals over the same time frame, allocated the funds based on the ratio of unemployed individuals in each state to the national average.[24]

Table 1 shows Illinois' total SLFRF allocation and per capita allocation and compares it to neighboring states, as well as the U.S. total (excluding D.C.). Also included are three comparisons to states with similar economies: New Jersey, Ohio, and Pennsylvania. The per capita amount of SLFRF dollars varied widely among the 50 states: Florida's per capita allocation was the lowest ($415.54), while Wyoming's was the highest ($1,837.94). Table 1 also shows states' per capita CRF allocation and highlights that state governments were provided more federal support from the SLFRF in comparison to the CRF.

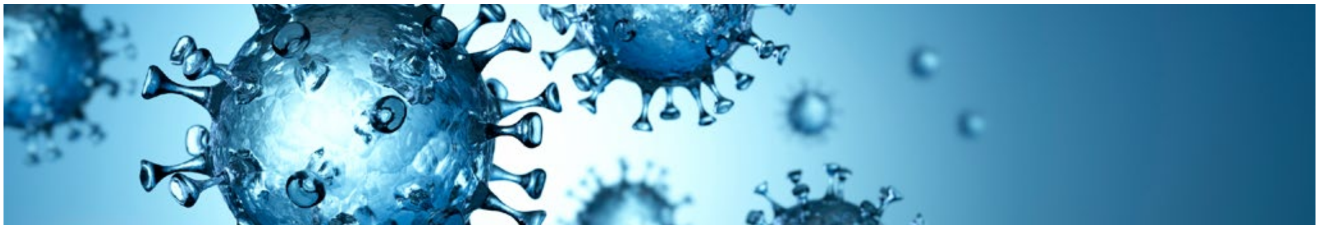
We looked narrowly at the per capita sums that state governments were allocated from the SLFRF program. However, the SLFRF program is just one component of the greater ARPA package and focuses only on resources that went to governments. Since the start of the pandemic, there have been several major relief packages at the federal level that have provided aid to governments,

Table 1: Illinois' SLFRF Allocation Compared to Neighboring and Peer States

State	Total SLFRF ($ Billions)	SLFRF per capita	CRF per capita
Illinois	$8.1	$639	$277
Indiana	$3.1	$459	$365
Iowa	$1.5	$470	$397
Kentucky	$2.2	$489	$358
Michigan	$6.5	$656	$309
Missouri	$2.7	$438	$340
New Jersey	$6.2	$703	$269
Ohio	$5.4	$460	$322
Pennsylvania	$7.3	$570	$308
Wisconsin	$2.5	$436	$344
All 50 States (excludes D.C.)	$193.5	$594	$573
Median All 50 States (excludes D.C.)	$2.6	$620	$577

Source: Allocation data from the Treasury Department (accessed July 2022); per capita allocations calculated by authors using state populations from U.S. Census Bureau. CRF per capita taken from Treasury's OIG Report "Interim Report of Costs Incurred by State and Local Recipients through June 30" detailing CRF allocations.

businesses, and people: CARES; the Families First Coronavirus Response Act (FFCRA); the Response and Relief Act (RRA); and ARPA.[25] As Clemens and Veuger have shown, there was a substantial allocation bias towards states with smaller populations that tend to be over-represented in Congress. If all four of those legislative packages allocated money with equal representation in mind, it "would have shifted some $30 billion away from small states."[26] Importantly, Clemens and Veuger's study shows that unlike FFCRA, RRA, and CARES, ARPA's funding formula looks at unemployment numbers per capita rather than population.[27] In other words, the way aid was allocated in ARPA is a departure from the previous COVID relief packages. It should be noted that Clemens and Veuger examined ARPA as a whole, whereas this paper specifically looks at the SLFRF program within the greater ARPA package, so not



all findings may be transferable to this context. Rather, they denote general trends regarding both the differences and similarities between Biden-approved (ARPA) and Trump-approved (FFCRA, RRA, CARES) COVID relief packages.

DISTRIBUTION OF SLFRF AID AND APPROVING SPENDING PLANS

States began receiving SLFRF aid a few months after the ARPA was signed into law.[28] The SLFRF program rules specify that the Treasury Department is to provide states with their SLFRF aid within 60 days of the state submitting its "Certification of Need" to the Treasury Department.[29] Illinois received its SLFRF aid on July 22, 2021.[30] Some states, like Missouri, did not receive their funding until early August.[31] In addition to variances in when states received their aid, not all states received their full allocation in one payment.[32] This is because the Treasury Department distributed the SLFRF aid to state governments based on their unemployment rate. States whose unemployment rates were "2.0 or more percentage points above [their] pre-pandemic level" received all their SLFRF aid in one payment while states that did not meet that threshold received their aid in two payments.[33] As highlighted in Table 2, although Illinois received all its SLFRF aid in one payment, all its neighboring states received split payments.

Table 2: Sample States' Poverty Rates and Whether They Received SLFRF Aid in One or Split Payments

State	Split Payment?	Pre-Pandemic Unemployment Rate (February 2020)	Pandemic Unemployment Rate (Average)
Illinois	N	3.8%	6.6%
Indiana	Y	3.4%	4.1%
Iowa	Y	2.6%	4.5%
Kentucky	Y	4.1%	4.7%
Michigan[34]	Y	3.8%	6.2%
Missouri	Y	3.3%	4.7%
New Jersey	N	3.5%	6.8%
Ohio	Y	4.6%	5.6%
Pennsylvania	N	5.0%	6.9%
Wisconsin	Y	3.0%	4.2%

Source: Department of the Treasury, Coronavirus State Fiscal Recovery Fund: Split Payments to State Governments, December 16, 2022; Author's Query from Bureau of Labor Statistics Data Finder Portal; Pre-pandemic unemployment rate is the seasonally-adjusted rate for February 2020; Pandemic unemployment rate is the authors' analysis determined by averaging March, April, and May 2021 seasonally-adjusted unemployment rates; states submitted a certification of need during this period, however, exact dates of submission are unknown.

Illinois lawmakers have approved SLFRF spending as part of the regular budget process for both fiscal years 2022 and 2023. Illinois' neighboring states, except Michigan, took a similar approach to adopting SLFRF spending plans. This is unsurprising because Illinois and all of Illinois' neighboring states, except for Michigan, have a July 1-June 30 fiscal year. In contrast, Michigan's fiscal year starts on October 1 and ends on September 30 (i.e. its FY2022 is October 1, 2021-September 30, 2022). Michigan has taken both a more piecemeal approach to appropriating SLFRF spending and incorporated it into the regular budget process. For example, Michigan's Public Act 67 appropriated funds meant for hospitals and long-term care facilities, while Public Act 48 went to expand the Great Start Readiness Program and provided matching grants to local school districts.[35]

In Illinois, the first SLFRF appropriations were part of Senate Bill 2017, the FY22 Budget Implementation Act, and Senate Bill 2800, the omnibus state spending plan signed into law by Governor Pritzker on June 15, 2021.[36] A year later, the FY2023 budget process saw three bills comprise Illinois' spending plan, House Bill 900 (Appropriations), House Bill 4700 (the Budget Implementation bill), and Senate Bill 157 (the revenue omnibus bill).[37] For both fiscal years, SLFRF funds were woven into annual budget discussions and were appropriated as part of a larger yearly appropriations bill to supplement other state priorities. In addition to using the SLFRF aid for new programs and services, a portion was also used for the SLFRF spending category "revenue replacement" during this initial appropriation cycle.[38] As previously mentioned, SLFRF aid—unlike its predecessor, the CRF—can be used to make up for revenue shortfalls experienced because of the pandemic, and this revenue can then be used to pay for government services and programs that pre-date the pandemic and have no ties to it. To determine how much SLFRF aid can be claimed for revenue replacement state and local governments have the option to take a $10 million allowance (referred to as the "standard allowance") or calculate their revenue loss using a Treasury Department created formula. Smaller governments that are receiving $10 million or less in SLFRF aid have tended to opt for the standard allowance, but larger governments, such as the State of Illinois, have calculated their revenue losses using the Treasury formula.[39] The revenue replacement category allows SLFRF aid to become a general revenue source, so the SLFRF aid gets deposited into a fund and mixed with other revenue sources (like income and sales tax revenue). This also means, however, that SLFRF aid used for revenue replacement cannot be easily linked to a specific spending line-item.

In Illinois, the SLFRF aid was deposited into a special fund, the State Coronavirus Urgent Remediation Emergency Fund, also known as the State CURE Fund.[40] This fund was first created in 2020, specifically to receive the state's CRF aid, but it now contains all CRF and SLFRF aid. The State CURE Fund is defined as a "federal trust fund within the State treasury" which is to "receive, directly or indirectly, federal funds" from any federal packages.[41] It then distributes, transfers, or allocates funds as permitted by federal provisions to qualifying entities. As of October 26, 2022, the State CURE Fund had a balance of $2.5 billion.[42]

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ADOPTED SLFRF SPENDING PLANS AS OF JUNE 30, 2022

We examine Illinois' and several other states' planned SLFRF spending using data submitted by governments to the Treasury Department. More specifically, the data we use comes from the "Project and Expenditure Report'' (referred to as P&E Report) that state governments must submit to the Treasury Department every quarter.[43] The most recent P&E Report data was released by the Treasury Department in November 2022 and covers approved and actual spending that has taken place between March 2020 and June 3, 2022.[44] In the P&E Report, governments must include SLFRF spending at the project level, and for every project, they must include the adopted budget for that project, as well as cumulative obligations and expenditures.[45] Every project must be assigned to one of 83 expenditure categories, and the categories are aggregated into seven groups.[46] The Treasury Department allows governments to report adopted

budget figures based on their budget processes, which can vary. In other words, governments may have different definitions for "adopted budget." Spending plans can, and often do, change, so it is important to note that we are capturing spending plans in just one moment of time.

SLFRF spending is designed to take place over several years and adopted budgets should not be conflated with expenditures. Instead, adopted budget figures reflect spending plans that have been approved by those with the authority to decide how to use the SLFRF aid. States are taking varying approaches to how they are approving SLFRF spending plans. Some states, like Wisconsin, reported that they have approved spending plans for all their SLFRF aid.[47] In contrast, South Carolina reported $0 in adopted spending and $0 in expenditures, meaning that as of June 30, 2022, none of that state's SLFRF funds have been directed towards a specific usage.[48] Although South Carolina reported $0 in adopted budgets in its P&E report, the Governor approved $400 million in SLFRF spending plans on May 13, 2022 (H4408 of the 124th session).[49]

This wide variation may be attributable to several factors. States with low adopted budget figures may be taking a "wait-and-see" approach as it relates to the developments in the economy, the trajectory of COVID-19, and court decisions on the SLFRF spending rules (specifically as it relates to using the aid for tax cuts). Governments have been encouraged to engage the public in deciding how SLFRF aid should be spent, and robust community engagement is a time intensive process. In addition, some states are receiving their SLFRF allocation in two payments, and as such they may be approving spending plans as they receive these payments. However, other reasons may be more technical. This is, in part, because the Treasury Department does not have a strict definition for "adopted budget." Instead, governments report adopted budget figures to the Treasury Department using their existing financial systems and budget processes, which the Treasury acknowledges may vary from jurisdiction to jurisdiction.[50] As such, some of the variation may be attributable to differences in how the "adopted budget" is interpreted. Another factor is that some states have their legislatures meet biennially instead of annually, delaying possible budget adoption. Depending on how they receive their aid from the Treasury Department, tranching of funds may also affect spending patterns (lump sum versus two separate tranches). Last, states' legislative cycles may be mismatched with SLFRF reporting deadlines.

We compare Illinois' and its neighboring and peer states' total adopted SLFRF budget with their total SLFRF allocation in Table 3. The data we use captures spending plans as of June 30, 2022, as reported in the P&E report data the Treasury Department has made publicly available, and as such reflects just one point in time.

Like Indiana and Wisconsin, Illinois reported to the Treasury Department that it has adopted spending plans for nearly all its SLFRF aid. In contrast, Missouri reports its adopted SLFRF budget is just 2% of its total SLFRF allocation.[51] One potential reason for this delay in allocating funds is that

Table 3: Comparison of Budgeted SLFRF Spending to Total SLFRF Aid (As of June 30, 2022)

State	Total Adopted SLFRF Budget ($ Millions)	Ratio of Adopted SLFRF Spending to Total SLFRF Allocation
Illinois	$7,758	95%
Indiana	$3,035	99%
Iowa	$662	45%
Kentucky	$874	40%
Michigan	$3,362	51%
Missouri	$65	2%
New Jersey	$2,058	33%
Ohio	$1,897	35%
Pennsylvania	$5,199	71%
Wisconsin	$2,533	100%
All 50 States (excludes D.C.)	$122,632	63%
Median All 50 States (excludes D.C.)	$1,046	52%

Source: Authors' analysis of P&E Data covering the period from March 2021 to June 30, 2022

Missouri is suing the Biden administration over ARPA's prohibition on using SLFRF aid for tax cuts, going so far as to ask the Supreme Court to take up their dispute of the so-called "Tax Mandate" that prohibits the use of ARPA funds to offset tax revenue—i.e., issue tax cuts.[49] This topic has become a hot-button partisan issue for many Republican-led states. Republican Attorneys General from 21 states signed on to a March 16, 2021, letter to Treasury Secretary Janet L. Yellen that contested the prohibition by arguing it violated state sovereignty.[53] Attorneys General have also filed lawsuits against the Biden administration over this aspect of the SLFRF program, with six different lawsuits filed by over a dozen states.[54] Of Illinois' peer and neighboring states, four (Iowa, Kentucky, Missouri, and Ohio) are parties in lawsuits against the Treasury Department. Kentucky and Tennessee filed a joint lawsuit on April 6, 2021; Missouri and Ohio each filed lawsuits in March 2021; and Iowa is part of the *West Virginia et al.* lawsuit that was filed on March 31, 2021.[55] While some states were reticent about using their funds in hopes of future judicial workarounds, Illinois went full steam ahead in allocating its funds, most importantly to shore up its fiscal standing.

HOW ILLINOIS IS ALLOCATING SLFRF AID

We examined Illinois' planned SLFRF spending and divided it into five major categories that align with the spending groups that were written into ARPA and how governments are required to report their spending to the Treasury Department:[56]

- Public Health includes programs like COVID-19 vaccine campaigns and pay for public health employees;

- Negative Economic Impacts include programs like grants to small businesses and deposits to Unemployment Insurance trust funds;
- Revenue replacement;
- Other includes premium pay to public and private sector essential workers, infrastructure projects, and administrative expenses; and
- Unallocated SLFRF funds.

Figure 2 provides a breakdown of Illinois' planned use of SLFRF aid by these five categories.

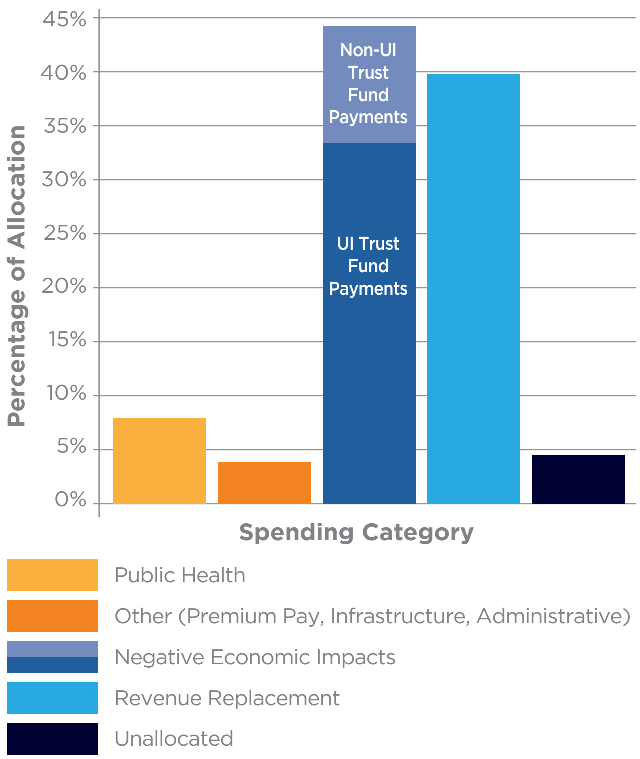
As Figure 2 highlights, the greatest share (44.2%) of Illinois' SLFRF aid is devoted to projects that fall under the negative economic impacts group; however, most of that planned spending is specifically for replenishing Illinois' Unemployment Insurance (UI) trust fund. Of Illinois' \$8.1 billion in SLFRF aid, it has used \$2.7 billion (or 33%) to replenish its UI trust fund.[57] In the most recent report Illinois submitted to the Treasury Department it indicates that it may use up to \$3.2 billion, or 39.7% of its SLFRF aid for revenue replacement. As of June 30, 2022, Illinois reported that it had expended approximately \$1.4 billion of its SLFRF aid on revenue replacement.[58] In its five-year budget outlook, which was published in November 2022, the Governor's Office of Management and Budget reports that Illinois will only use \$1.5 billion of its SLFRF aid on revenue replacement.[59] As such, the state is likely to devote SLFRF dollars it *could* use for revenue replacement to other purposes instead.

The Treasury Department defines revenue replacement as using SLFRF funding to "provide government services up to the amount of revenue loss due to the pandemic."[60] So for states to classify their spending as revenue replacement, the lost revenue must be 1) tied to service provision, and 2) caused by the pandemic. As previously mentioned, using SLFRF for "revenue replacement" allows this federal aid to be commingled with other revenue sources, making it difficult to trace exactly how the funds were spent.

Illinois was not alone in using SLFRF aid for revenue replacement and replenishing its UI trust fund. Using SLFRF funds to build up UI trust fund balances has been a common practice across the country, with 21 states reporting they plan to use a portion of their SLFRF aid for that purpose. Among Illinois' neighboring and peer states, as Table 4 highlights, four plan to use part of their SLFRF aid for revenue replacement and more than half plan to use funds to replenish their UI trust funds.

Unemployment Insurance trust funds pay out benefits to those residents who file for

Figure 2: Illinois' Planned Use of SLFRF Aid by Major Category (as of June 30, 2022)



Source: Data used is from the second P&E report, which captures SLFRF spending plans reported to the Treasury Department as of June 30, 2022.

Table 4: Planned Spending on Revenue Replacement and UI Trust Funds in Illinois and Neighboring States

State	Planned Spending for Revenue Replacement?	Planned Spending for UI Trust Fund?
Illinois	Y	Y
Indiana	Y	Y
Iowa	Y	Y
Kentucky	N	Y
Michigan	N	Y
Missouri	N	N
New Jersey	N	N
Ohio	Y	Y
Pennsylvania	Y	N
Wisconsin	Y	N

unemployment. UI programs are joint between the federal government and states and territories, and these UI trust funds are largely financed through payroll taxes. In April 2020, Illinois had a non-seasonally adjusted unemployment rate of 16.9%, over four times as high as the rate seen in April 2019.[61] With such sky-high unemployment rates and a minimal balance in its UI trust fund, it is no surprise that the resources were quickly depleted.

As of January 1, 2020, Illinois had $1.95 billion in its UI trust fund.[62] To put this figure in context, the state was tied for the fourth lowest reserve ratio of all 50 states at 0.42, just above Texas (0.36), New York (0.36), and California (0.21).[63] The reserve ratio is the total amount of money in the UI trust fund divided by all of a state's wages paid within a year (a value greater than one means that there are more funds in the UI trust than wages paid, a value less than one means that there are fewer funds available than the total amount of wages paid). A rate of 1 is the Advisory Council on Unemployment Insurance's recommended minimum level—last achieved by Illinois in 1974.[64] So, even if the pandemic-induced unemployment was not as severe as it had been, the numbers demonstrate that Illinois was not fully prepared to support all the possible UI claims for a new recession.[65] This underfunding of Illinois' UI trust fund was a systemic issue prior to the onset of COVID-19. One of the main reasons for this consistent underfunding has been that Illinois has used a pay-as-you-go financing strategy, which curtails the state's ability to build up reserves during periods of economic boom, thereby leaving the state susceptible to underfunding in times of recession.[66]

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At its lowest levels, Illinois' UI trust fund saw debt totaling some $4.5 billion, which cost the state $10 million in interest last year.[67] Illinois used $2.7 billion of its SLFRF monies to partially close that hole and begin rebuilding the solvency of its UI trust fund. In November 2022, Illinois lawmakers reached an agreement to pay off the remaining balance for the loan it took out from the federal government for the UI trust fund during the pandemic.[68] Although Illinois used a large portion of its SLFRF aid towards paying down debt owed to its UI trust fund, the fund's reserve ratio is still well below 1.

While Illinois is devoting the majority of its SLFRF aid to revenue replacement and its UI trust fund, it is also spending smaller amounts of money on a wide range of activities that are eligible expense categories under the SLFRF program rules, including COVID-19 contact tracing, grants to small businesses, broadband infrastructure, and opening up a new Violence Interruption and Restorative Justice Training Academy.[69]

CONCLUSION

Our analysis suggests several important takeaways about how Illinois has put its SLFRF aid money to use. First, Illinois has adopted spending plans for the bulk of its SLFRF dollars, and has approved spending at a faster pace than many other states. This is especially true when compared to neighboring states like Iowa, Missouri, Michigan, and Kentucky—three of which are currently embroiled in lawsuits over whether they can use SLFRF dollars to finance tax cuts. Illinois, by contrast, has adopted spending plans for nearly all of its SLFRF aid, much like neighboring states of Indiana and Wisconsin.

Second, when it comes to the process of budgeting SLFRF funds, Illinois's state legislature—like those in neighboring states—wove decisions about this federal funding source into its annual budget discussions for FY2022 and FY2023. The legislature's integration of decisions about SLFRF into this annual process is likely one reason why the largest share of Illinois' obligated aid has thus far been devoted to responding to the negative economic impacts of the pandemic. Specifically, Illinois has targeted the largest shares of state aid towards replacing lost revenues and replenishing Illinois' Unemployment Insurance trust fund, which falls under the "negative economic impacts" expenditure category group. As we have shown, the condition of the UI trust fund and state revenues generally—suboptimal before the pandemic—took a further hit during the first two years of the pandemic emergency.

Third, the SLFRF aid has been vital for Illinois to recover from the fiscal hit it took during the pandemic, as well as to assist the state in its long-term goals of strengthening its finances. Illinois' allocation of SLFRF funds to replacing revenue and replenishing its UI trust fund reflects the intention of the SLFRF program rules, which were designed to maximize state and local governments' flexibility to respond to highly variable consequences of COVID-19 and pre-pandemic conditions. At the same time, however, these persistent fiscal challenges also mean that Illinois has devoted a comparatively smaller amount of its SLFRF funding to new projects that emerged during the pandemic—illustrating the tradeoffs state and local governments will continue to face when allocating this aid.

In sum, our analysis of Illinois illustrates how the SLFRF accomplished its intended purpose of supporting governments' response to and recovery from the COVID-19 public health emergency *and* addressing pre-pandemic needs. While skeptics of the SLFRF program have suggested that state and local governments' avoidance of dire fiscal expectations indicates that aid contained in the American Rescue Plan was unnecessary, COVID's fiscal impact is not captured by revenue performance alone. While budget deficits characterize the gap between spending and revenue, this too provides an incomplete picture. State and local governments are often bound by balanced budget constraints, and their budgets also only capture planned spending—that is, the spending levels that revenue can support, not spending needs that arise amid the pandemic. Examining Illinois' use of SLFRF funds shows how crucial this aid has been towards addressing such needs.

ENDNOTES

[1] This paper focuses specifically on the SLFRF aid that the State of Illinois was allocated and excludes additional federal funds from other provisions of the American Rescue Plan Act. We also exclude SLFRF aid allocated to local governments within Illinois that the state is responsible for distributing the funds to.

[2] Illinois Commission on Government Forecasting and Accountability, "Fiscal Year 2023 Budget Summary" (2022), https://perma.cc/U633-XBGF.

[3] Coronavirus State and Local Fiscal Recovery Funds, 87 Fed. Reg. 4338 (January 27, 2022) (to be codified at 31 C.F.R. pt. 35), https://perma.cc/MAD8-JY65.

[4] Caitlin Devitt, "Treasury's legal battle with states over ARPA funding heats up," *The Bond Buyer* (December 6, 2021), https://perma.cc/Y328-XX3N; Caitlin Devitt, "Missouri asks Supreme Court to take up ARPA funds dispute," *The Bond Buyer* (October 26, 2022), https://perma.cc/QF92-JKBZ.

[5] American Rescue Plan Act of 2021, Pub. L. No. 117-2 (March 11, 2021), https://www.congress.gov/bill/117th-congress/house-bill/1319/text/pl?overview=closed.

[6] *Id*. at Subtitle M.

[7] Kenneth Kriz, "Data Indicate COVID-19 Impact on State Revenue Not as Severe as Feared," Institute of Government and Public Affairs (January 26, 2021), https://perma.cc/TS5C-6HF5.

[8] Philip Rocco and Amanda Kass, "Flexible Aid in an Uncertain World: The Coronavirus State and Local Fiscal Recovery Funds Program," *State and Local Government Review* (May 2022), https://doi.org/10.1177/0160323X221101005.

[9] U.S. Dept. of the Treasury, "Coronavirus State and Local Fiscal Recovery Funds" (2021), https://perma.cc/7RDY-UQ8Z.

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[10] Public Law No. 117-2, *supra* n. 5, at §602(c)(1)(A) and §603(c)(1)(A).

[11] *Id*. at §602(c)(2)(B) and §603(c)(2).

[12] Rocco & Kass, "Flexible Aid in an Uncertain World," *supra* n. 8.

[13] *Id*.

[14] Special districts were not allocated SLFRF aid. Illinois townships also were not allocated SLFRF aid.

[15] It is important to note that this paper focuses on aid to state governments only and excludes aid to local governments. In excluding aid to local governments we exclude aid that the Treasury Department directly distributes to local governments and the SLFRF aid that state governments are responsible for distributing to local governments.

[16] Internal Revenue Service, "CARES Act Coronavirus Relief Fund FAQ" (2022), https://perma.cc/ZD5Z-XFYQ.

[17] National Academy of Public Administration, "Coronavirus Relief Fund: Review of Federal Fiscal Assistance and of Innovative County Response Strategies" (2021), https://perma.cc/7L7Z-JCMX.

[18] Coronavirus State and Local Fiscal Recovery Funds, *supra* n. 3.

[19] Rocco & Kass, "Flexible Aid in an Uncertain World," *supra* n. 8.

[20] Public Law No. 117-2, *supra* n. 5.

[21] Figure 1 focuses specifically on how SLFRF aid was allocated to state governments and D.C., and as such it does not detail how aid was allocated to local governments, U.S. territories, and tribal governments. D.C. is unique in that it was allocated SLFRF aid from both the amount of money set aside for states and for local governments. In total D.C. was allocated $2.3 billion in SLFRF aid. More information on allocation breakdowns can be found on the Treasury's SLFRF website, *supra* n. 9.

[22] This $750 million in targeted aid for the District of Columbia was a way to recompense it from a previous categorization in the CRF program.

[23] The CRF aid was allocated to states based on population with portions going to state governments and eligible local governments (only local governments with populations of at least 500,000 were guaranteed CRF aid). The amount of money the state government received was the total state allocation *minus* the amount awarded to local governments within that state. In Illinois, local governments that were eligible for CRF aid were the City of Chicago, Cook County, DuPage County, Kane County, Lake County, and Will County. In some states, like Arkansas, there were no local governments eligible for CRF aid, so the entire allocation went to the state government.

[24] A full detailed breakdown of these state allocations can be found in Department of the Treasury, "Coronavirus State and Local Fiscal Recovery Funds: Allocations to State Governments" (May 10, 2022), https://perma.cc/9WZ7-PLK5.

[25] Jeffrey Clemens and Stan Veuger, "Politics and the Distribution of Federal Funds: Evidence from Federal Legislation in Response to COVID-19," *Journal of Public Economics* 204, No. 104554 (December 2021), https://perma.cc/M4BX-DMTY.

[26] *Id*. at 7.

[27] *Id*. at Fig 1.

[28] For analysis of all 50 states' spending plans see Beverly Bunch, "The $195 Billion Challenge: Facing State Fiscal Cliffs After COVID-19 Aid Expires." *The Volcker Alliance* (April 29, 2022), https://perma.cc/44CL-GBG5.

[29] The "Certification of Need" is an official letter from an "authorized officer that [states] the funds are needed to respond to the pandemic and will be used in compliance with the eligible uses." Senate Democratic Majority, "American Rescue Plan Act of 2021 Coronavirus State and Local Fiscal Recovery Funds Fact Sheet, 4, https://perma.cc/Z9RF-UWGH.

[30] State of Illinois, "State of Illinois Recovery Plan" (2021), https://perma.cc/AAL6-KUVE.

[31] State of Missouri, "State of Missouri Recovery Plan" (2021), https://perma.cc/KNC6-9RGZ.

[32] Authors' analysis of P&E and allocation data.

[33] U.S. Dept. of the Treasury, "Coronavirus State Fiscal Recovery Fund: Split Payments to State Governments" (December 16, 2022), https://perma.cc/ZY4H-LAKE.

[34] Despite the fact that Michigan's difference between pre-pandemic and pandemic unemployment rates is larger than two percentage points, they nonetheless did not qualify for a single bulk payment of funds. Instead, their funds also were tranched into two separate payments. This may have been done due to extenuating circumstances at the discretion of the Secretary of the Treasury who believed that "[s]plitting payments for the majority of States is consistent with the requirement in section 603 of the Act to make payments from the Coronavirus Local Fiscal Recovery Fund to local governments in two tranches." Interim Final Rule, 86 Fed. Reg. 26786, 26812 (May 17, 2021). https://perma.cc/HV6F-7KH4.

[35] State of Michigan, "State of Michigan Recovery Plan" (2021), https://perma.cc/V58J-3AZN.

[36] Illinois Governor's Office, "Gov. Pritzker Signs FY22 State Budget into Law" (June 17, 2021), https://perma.cc/RL8X-DB8Q.

[37] Illinois Governor's Office, "Gov. Pritzker Signs Historic Budget Delivering $1.8 Billion in Tax Relief for Families" (April 19, 2022), https://perma.cc/BR77-7C27.

(Endnotes continued)

[38] Illinois Governor's Office of Management and Budget, "Illinois Economic and Fiscal Policy Report (2021), https://perma.cc/RL9E-MLUF.

[39] The methodology for calculating revenue loss consists of four main steps; 1) determine the base year revenue, which is revenue in the last full fiscal year prior to the start of the pandemic (dated as January 27, 2020); 2) estimate counterfactual revenue by applying a growth-rate to the base year revenue; 3) identify actual revenue in given fiscal year; and last, 4) calculate extent of revenue loss by comparing counterfactual and actual revenue. In its rules for the SLFRF program the Treasury Department detailed the growth rate of governments and specified the revenue sources that can and cannot be included to determine the base revenue. Coronavirus State and Local Fiscal Recovery Funds, Final Rule, *supra* n. 3.

[40] 30 ILCS 105/5.932; 30 ILCS 105/6Z-121.

[41] 30 ILCS 105/6Z-121.

[42] Illinois State Comptroller, "Financial Reports & Data, Fund Search" (2022), https://perma.cc/3DVD-TBW4.

[43] The Treasury Department has grouped recipient governments into different reporting tiers. There are five reporting group tiers, and state governments are in Tier 1. Governments in Tiers 1, 2, and 3 submit the P&E Report on a quarterly basis while governments in Tiers 4 and 5 submit that report annually.

[44] This data is for the "Quarter 2, 2022" submission, which was due at the end of July.

[45] For the SLFRF program, obligations typically include both expenditures and future contracted expenses. This means that it tracks funds that have been used for services already rendered or goods already delivered, as well as any future expenses that are legally binding (such as contracts, services, property transfers, or sub-awards that are deferred from the present yet still binding from a financial point of view).

[46] We grouped spending using the Treasury Department's expenditure category groups, and for our purposes we combined category groups 1 ("Public Health") and 3 ("Public Health-Negative Economic Impact: Public Sector Capacity") together. We also corrected the expenditure groups for projects that were assigned to the incorrect group. In the dataset, state governments and D.C. reported 2,769 individual spending items, and of those 61 (or 2.2%) were assigned to the incorrect expenditure category group.

[47] Authors' analysis of P&E data.

[48] Authors' analysis of P&E data.

[49] S.C. Legislature, https://perma.cc/5MRZ-LGBA.

[50] U.S. Dept. of the Treasury, "Compliance and Reporting Guidance: State and Local Fiscal Recovery Funds," 34 (September 20, 2022), https://perma.cc/UW5L-W5E7.

[51] Authors' analysis of P&E data.

[52] *Missouri v. Yellen et al.*, No. 21-2118 (8th Cir. 2022); Devitt, "Missouri asks Supreme Court," *supra* n. 4.

[53] Mark Brnovich, *et. al.*, Letter to Secretary of the Treasury Janet Yellen from select States' Attorneys General (March 16, 2021), https://perma.cc/5MNV-WR6V.

[54] Devitt, "Treasury's legal battle," *supra* n. 4; Andrew Wilford and Joe Bishop-Henchman, "Where Things Stand on the ARPA State Tax Cut Provision," *National Taxpayers Union Foundation* (March 21, 2022), https://perma.cc/Y5H8-EXS5.

[55] Wilford and Henchman, "Where Things Stand," *supra* n. 54.

[56] Governments must report their spending to the Treasury Department at the project level. Every project must be assigned to one, and only one, expenditure category group. There are seven category groups: 1-Public Health; 2-Negative Economic Impacts; 3-Public Health-Negative Economic Impact: Public Sector Capacity; 4-Premium Pay; 5-Infrastructure; 6-Revenue Replacement; 7-Administrative. For our analysis we combined category groups 1 and 3 as public health. Our "other" group includes spending category groups 4, 6, and 7.

[57] For more on Illinois' Unemployment Trust fund see Xiaoyan Hu, Alea Wilbur-Mujtaba, and David Merriman, "Why does Illinois' Unemployment Insurance Trust Fund have a large deficit?" Institute of Government and Public Affairs (August 18, 2022), https://perma.cc/QH3F-RT5G.

[58] Authors' analysis of P&E data.

[59] Illinois Governor's Office of Management and Budget, "Illinois Economic and Fiscal Policy Report" (November 14, 2022), https://perma.cc/5HDF-HTNJ.

[60] U.S. Dept. of the Treasury, "Coronavirus State and Local Fiscal Recovery Funds: Final Rule: Frequently Asked Questions" (July 27, 2022), https://perma.cc/A4GD-VKFT.

[61] Illinois Dept. of Employment Security, "Unemployment Rates Rise in all Metro Areas as COVID-19 Impacts Entire State" (May 29, 2020), https://perma.cc/8UZ2-HB6R.

[62] U.S. Dept. of Labor, "State Unemployment Insurance Trust Fund Solvency Report 2020," https://perma.cc/792T-LHER.

[63] *Id*.

[64] Hu, Wilbur-Mujtaba, and Merriman, "Illinois' Unemployment Insurance Trust Fund," *supra* n. 57; U.S. Dept. of Labor, "State Unemployment Insurance Trust Fund Solvency Report 2022," https://perma.cc/L29J-8J2T.

[65] U.S. Dept. of Labor, *supra* n. 62.

[66] Hu, Wilbur-Mujtaba, and Merriman, "Illinois' Unemployment Insurance Trust Fund," *supra* n. 57.

(Endnotes continued)

67 Amanda Vinicky, “Illinois to Use $2.7 Billion in Federal Relief Funds to Pay Off COVID-Related Debt.” *WTTW* (March 24, 2022), https://perma.cc/7J69-4QBW.

68 Illinois Governor’s Office, “Governor Pritzker Announces Historic Agreement to Eliminate Pandemic Unemployment Debt, Protect Benefits for Workers” (November 29, 2022), https://perma.cc/CQ5R-4LA7.

69 State of Illinois, “State of Illinois Recovery Plan” (2021), https://perma.cc/PQ9P-Z5JV.

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