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## **Unprecedented Aid: Federal Assistance to State and Locals Shatters Previous Levels**

*Funds turn budget crisis into potential opportunity, but prudent use advised*

State and local governments in Wisconsin are on track to receive nearly \$20 billion in federal aid from COVID-19 relief measures enacted in the last 13 months, more than double what the state received from the 2009 federal stimulus amid the Great Recession, according to a new Wisconsin Policy Forum report.

This infusion of federal dollars has created a remarkable shift from what appeared, just a year ago, to be an historic fiscal quandary for state and local governments coping with the pandemic. However, these governments would be well-served to consider appropriate uses for the one-time funds that avoid creating future budget challenges, the report finds.

“In a striking turnabout, this unprecedented influx of federal aid has turned what a year ago appeared to be a historic fiscal challenge for state and local governments into a potential opportunity to address needs that emerged from the pandemic or even predated it,” the report finds.

We calculate government units in Wisconsin are expected to receive at least \$19.9 billion in federal relief funds through 2024 – a figure that exceeds a year’s worth of state general fund tax collections and will likely grow as additional amounts become known.

This figure represents only amounts going to or passing through a state or local government or school district in the state. It excludes many billions more in federal funds distributed directly to Wisconsin individuals, businesses, and organizations; as well as an additional more than \$1 billion that the state would have to take some action to receive.

These funds come from five federal COVID-19 relief packages, with the bulk flowing from three massive laws: the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed in March 2020; the Consolidated Appropriations Act approved in December; and, most recently, the American Rescue Plan Act, or ARPA, in March. CARES Act funds largely have been delivered and spent, while funds from the latter two measures are still arriving and in some cases will not be paid out for at least a year.

The largest category of these dollars, more than \$5.2 billion, is for direct aid to state government, with Gov. Tony Evers having authority to determine how they are spent. The bulk of an initial \$2 billion round of CARES funds went to pandemic response and aid to businesses affected by the pandemic. Evers and Assembly Republicans both recently announced competing proposals for spending a subsequent round of about \$3.2 billion in ARPA direct aid.

Additional categories of federal aid include:

- More than \$4 billion in federally funded unemployment benefits paid out from March 1, 2020 through April 9, 2021;
- More than \$3.7 billion to both public and private K-12 schools, colleges, and universities;
- About \$2.5 billion in direct aid to local governments including all 72 counties and large cities in Wisconsin;

- About \$800 million for child care priorities such as assisting providers and funding the state's child care subsidy program;
- An estimated \$600 million in state savings due to enhanced federal reimbursement rates for Medicaid;
- More than \$400 million for local transit systems.

Additional details about the breakdown of these funds can be found in our report.

In using these one-time revenues, state and local policymakers may wish to focus on needed one-time or emergency spending on items such as public health and economic relief, addressing student learning loss, capital projects and technology purchases, and debt payments if allowed.

Spending it on new ongoing programs or local tax cuts could create an unsustainable “fiscal cliff” once the federal funds are exhausted, particularly if state and local economies and tax revenues lag.

While vaccinations and the scale of the federal response this time may spur a more robust recovery than after the Great Recession, Wisconsin may wish to take lessons from its response to the last major economic downturn. From 2009 through 2011, Wisconsin made heavy use of federal stimulus funds, particularly for K-12 schools and Medicaid.

But when those funds ran out, the state faced a difficult 2011-13 budget and ultimately cut state aid to schools and local governments substantially.

“As state and local policymakers consider how to use this historic influx of federal funding,” the report concludes, “they would be wise to consider how spending plans may impact future budgets as well as the immediate needs that confront them.”

[Click here to read our new report: “Unprecedented Aid: Federal Assistance to State and Locals Hits Massive Levels.”](#)

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