

ISSUE BRIEF:

PANDEMIC CASH TO THE RESCUE?

HOW LOCAL GOVERNMENTS IN ILLINOIS ARE USING FEDERAL AID FROM THE AMERICAN RESCUE PLAN ACT

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The American Rescue Plan Act's Coronavirus State and Local Fiscal Relief Fund (CSLFRF) program allocated nearly \$3.5 billion in flexible federal aid to 1,259 Illinois municipalities. In this Issue Brief, we investigate how municipalities are spending this unprecedented level of aid. We find that governments with larger populations are spending aid at a slower pace but are using it on a wider variety of programs and initiatives. In contrast, governments with smaller populations have tended to devote their entire CSLFRF allocations to addressing revenue shortfalls tied to the pandemic and funding general services.

INTRODUCTION

The American Rescue Plan Act's Coronavirus State and Local Fiscal Relief Fund (CSLFRF) program allocated \$350 billion in highly flexible federal aid to states, cities, counties, U.S. territories, tribal governments, and the District of Columbia. In Illinois, nearly \$3.5 billion in CSLFRF aid was earmarked to 1,259 cities, villages, and towns. The CSLFRF program represents the largest one-time transfer of flexible federal grant dollars in more than 40 years (Rocco & Kass, 2022). In contrast to intergovernmental aid programs created in the first year of the pandemic, which imposed numerous constraints on how governments could use federal dollars, the CSLFRF program affords governments a high degree of discretion. Indeed, CSLFRF aid can be used for everything from COVID-19 vaccines to broadband infrastructure projects, as well as to cover revenue shortfalls incurred during the pandemic. In addition, the timeline for individual projects can vary and be one-off payments (like bonuses for essential workers) or multi-year programs (like cash assistance). While the program affords governments a high degree of autonomy in deciding how to spend the aid, it is not purely general intergovernmental aid. As the window for spending CSLFRF dollars begins to

close,² this *Issue Brief* examines the extent to which Illinois municipalities have used the funds they received.

TRACKING CSLFRF SPENDING

To track how Illinois governments spent CSLFRF aid, we analyze data collected from Project and Expenditure (P&E) reports submitted by recipient governments to the U.S. Department of the Treasury (hereafter “Treasury Department”).³ In these reports, governments submit spending information at the level of individual projects, which the Treasury Department defines as “a grouping of closely related activities that together are intended to achieve a specific goal or are directed toward a common purpose” (Department of the Treasury, 2022, p. 19). Governments classify each project into one of 124 expenditure categories nested in 10 functional groups.⁴

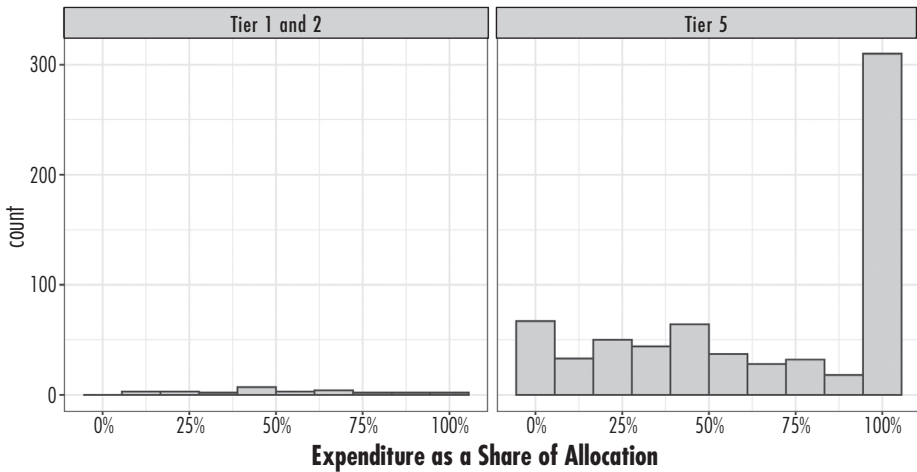
The frequency of when governments must report information to the federal government varies across Treasury Department-created “tiers” of governments, based on the size of local populations and CSLFRF grant allocations. Governments in Tiers 1 and 2 must report data to the Treasury Department quarterly while those in Tier 5 report annually. Given these varied reporting requirements, we analyzed two different P&E Reports: (1) for Tier 1 and 2 governments we used the October 2023 reporting cycle dataset, which covers spending that has taken place between April 1, 2022, and September 30, 2023; and (2) for Tier 5 governments, we used the dataset for the April 2023 reporting cycle, which covers spending that has taken place between April 1, 2022, and March 31, 2023. We included governments that reported spending information in either of those reports. While 1,259 cities, villages and towns in Illinois were eligible for aid, our combined dataset includes information for just 711 municipalities (see Table 1).⁵

TABLE 1
CSLFRF AID ALLOCATIONS TO ILLINOIS MUNICIPALITIES, BY REPORTING TIER

REPORTING TIER	# ILLINOIS MUNICIPALITIES	TOTAL CSLFRF ALLOCATION (\$ MILLIONS)
1 (places with populations > 2.5m (2,500,000))	1	\$1,886.59
2 (places with populations < 2.5m and CSLFRF allocation > \$10m)	27	\$624.70
5 (places with populations < 2.5m and CSLFRF allocation < \$10m)	683	\$669.23

Source: Authors’ analysis of P&E data.

FIGURE 1
EXPENDITURES AS A SHARE OF CSLFRF ALLOCATION FOR ILLINOIS MUNICIPALITIES



Source: Authors’ analysis of P&E data.

Note: Tiers 1 and 2 (N=28); Tier 5 (N=683); Tier 1 and 2 data represents total CSLFRF expenditures as a share of total aid allocation that have taken place between April 1, 2022, and September 30, 2023. Tier 5 data represents average expenditures as percent of total expenditures that took place between April 1, 2022, and March 31, 2023. As detailed in this Issue Brief, the requirements for how frequently governments must submit spending information to the Treasury Department varies depending on which reporting tier they are in.

SPENDING TRENDS FOR ILLINOIS MUNICIPALITIES

There are 28 Illinois municipalities in Tiers 1 and 2, and these governments received a combined \$2.51 billion in CSLFRF aid. The CSLFRF awards for these municipalities range from \$10.42 million (City of DeKalb) to \$1.89 billion (Chicago). The median award for Tier 1 and 2 governments is \$20.44 million. As of September 30, 2023, these municipalities have reported, on average, 19 projects. Among the Tier 1 and 2 municipalities, the median amount of the allocation that has been spent is 48%. As the left panel of Figure 1 shows, however, spending ranged from 9% to 100% of governments' total allocations for Tiers 1 and 2 municipalities.

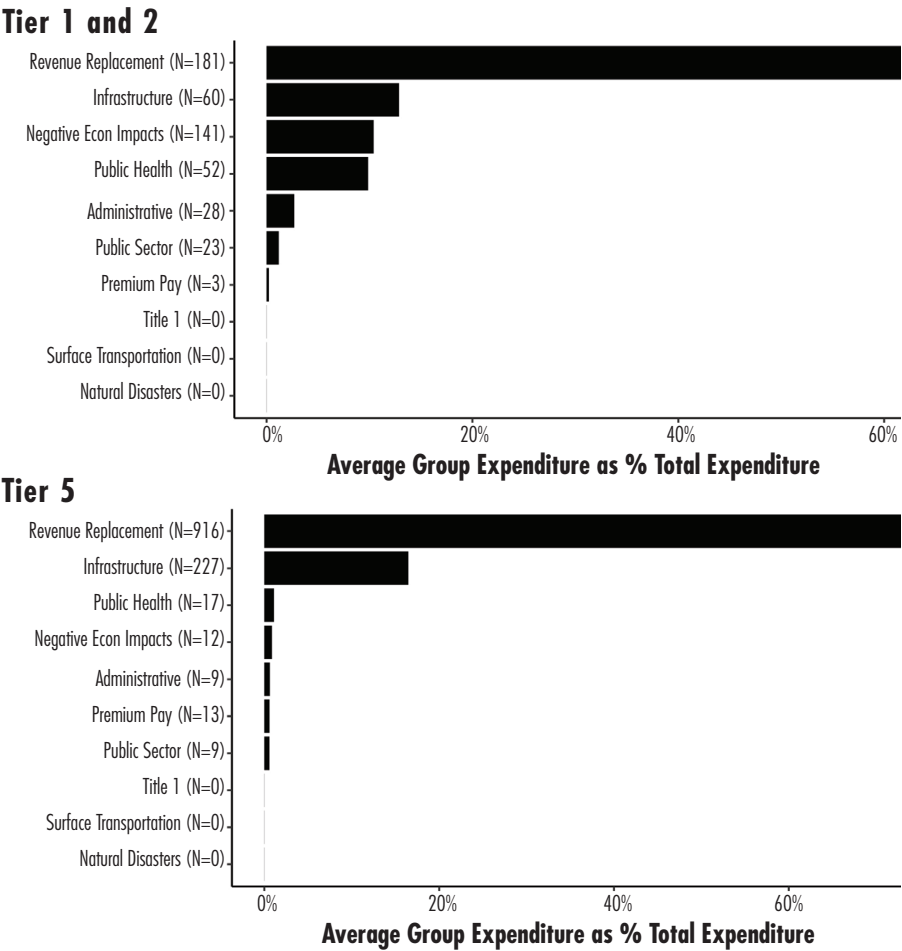
The 683 Illinois municipalities in Tier 5 received a combined \$669.23 million in CSLFRF aid. For these governments, CSLFRF awards range from \$6,123.81 (Deer Grove and La Prairie) to \$9.87 million (Schaumburg). The median award for Tier 5 municipalities is \$256,383. As of March 31, 2023, Tier 5 municipalities have reported, on average, two projects. Among the Tier 5 municipalities the median amount of the CSLFRF aid allocation that has been spent is 79% — a higher percentage than governments in Tiers 1 and 2. Among all 711 municipalities, 39 report they have spent none of their CSLFRF allocations, while 228 report they have spent all their aid.

Municipalities in Tiers 1 and 2 tended to concentrate their spending in a small number of expenditure categories. These municipalities allocated an average of 63% of their CSLFRF expenditures to revenue replacement, 10% to projects in the Negative Economic Impacts category, and 9% to projects in the Public Health category. Tier 5 municipalities tended to spend their aid in qualitatively different ways than larger cities (see bottom panel of Figure 2). Specifically, when compared to Tiers 1 and 2, Tier 5 municipalities tended to spend a larger share of their allocations in the revenue replacement category. On average, Tier 5 municipalities devoted an average of 74% of their expenditures to revenue replacement.

HOW AID FLEXIBILITY AND PROGRAM RULES SHAPE EXPENDITURES

Given the importance of “getting money out the door,” the congressional authors of CSLFRF and the Treasury Department officials who drafted the program's regulations treated flexibility as a paramount consideration (Rocco

FIGURE 2
DISTRIBUTION OF CSLFRF EXPENDITURES BY GROUP, AVERAGE FOR ILLINOIS MUNICIPALITIES, BY REPORTING TIER



Source: Authors' analysis of P&E data.

Note: Numbers in parentheses following the named expenditure-category group indicate the number of projects in that category. Tier 1 and 2 data represents total CSLFRF expenditures as a share of total aid allocation that took place between April 1, 2022, and September 30, 2023. Tier 5 data represents average expenditures as percent of total expenditures for spending that took place between April 1, 2022, and March 31, 2023.

& Kass, 2022; Kass & Romano, 2020). In addition to significant flexibility in the law, Treasury Department officials — in response to feedback from state and local governments — greatly enhanced the flexibility for governments using funds to make up for revenue shortfalls caused by the pandemic. Under the final program rules, governments can opt to either formally calculate their revenue loss or take a standard revenue replacement allowance (up to \$10 million, but not to exceed their CSLFRF allocation). For governments with allocations below \$10 million, the standard allowance is advantageous as it does not require them to prove actual revenue loss. The Treasury Department encouraged governments with CSLFRF awards of \$10 million or less (those in Tier 5) to choose the standard allowance and allocate all their CSLFRF aid to revenue replacement (Gleeson, 2022). Among Illinois' municipalities, 17 Tier 1 and 2 governments (or 61% of the governments in those tiers) and 646 Tier 5 governments (or 95% of Tier 5 governments) indicated they are taking the standard allowance.

There is evidence to suggest that the CSLFRF's flexible aid provisions have shaped government expenditure patterns. In short, governments that used the most flexible category of aid (revenue replacement) have spent, on average, a larger share of their CSLFRF aid allocation. Regardless of reporting tier, there is a positive and statistically significant relationship ($b=0.28$, $s.e.=.03$, $p<.001$) between revenue replacement as a share of governments' expenditures and the percentage of CSLFRF aid allocation governments have expended to date.

CONCLUSION

Our descriptive analysis indicates that while most Illinois municipalities are using at least a portion of the CSLFRF aid on revenue replacement, smaller portions of the aid are being used for a wide range of programs and initiatives. There is also variance between municipalities with governments with larger populations using the aid on more projects than municipalities with smaller populations. The varied use of CSLFRF aid reflects a tension in the program's design, which allows for spending on a far more diverse range of purposes than categorical grants and block grants but stops short of resembling "general revenue sharing." In addition, the aid was simultaneously framed as a solution to immediate emergency needs tied directly to the pandemic as well as a means of making strategic investments that addressed pre-pandemic inequities.

Municipalities leveraging the program's flexibilities for spending on revenue replacement — especially smaller municipalities for which the CSLFRF's "standard allowance" accounts for their entire award — have been able to spend down their allocation more quickly. By contrast, municipalities (typically those with larger populations) that have devoted CSLFRF aid to standing up new projects or initiatives have been slower to spend. Importantly, our analysis does not allow us to determine whether CSLFRF aid has been used to create new recurring spending pressures, thereby having a "flypaper" effect (Fisher, 2023, pp. 196-198; Lee, Johnson, and Joyce, 2021, pp. 488-489). Given the one-time nature of the funds, the Government Finance Officers Association (GFOA) suggested that governments should take care to avoid creating programs that would require recurring expenditures and should instead make one-time investments that would produce "long-term financial stability and sustainable operating performance" (GFOA, 2021). Following this guidance, CSLFRF aid should have been used to close short-term budget gaps induced by the pandemic or on one-time initiatives. However, governments can, and have, used CSLFRF on recurring expenditures, thereby creating fiscal cliffs (Bunch, 2022). The aid may have been an especially useful resource to plug budget holes for governments with structural deficits. Further research is needed to assess whether Illinois' municipalities are facing fiscal cliffs and how pre-pandemic fiscal conditions shaped the use of CSLFRF aid.

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ENDNOTES

¹ The broad spending parameters for the program were stipulated in the American Rescue Plan Act (ARPA), and the Consolidated Appropriations Act of 2023 subsequently expanded the spending parameters to include spending related to natural disasters, transportation, and community development.

² All CSLFRF funds must be obligated by December 31, 2024, and expended by December 31, 2026 (Treasury Department, 2021).

³ For more on our general methodological approach, see Rocco & Kass (2024).

⁴ The categorization has changed during the life of the CSLFRF program. The current version of the groups and categories are in Version 9 of the Project and Expenditure Report User Guide (dated January 1, 2024).

⁵ Of the municipalities eligible for CSLFRF aid, 37 municipalities declined CSLFRF aid, and 511 governments did not report spending information in the most recent P&E dataset.

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