*Fiscal Facts by Wisconsin Policy Forum*

**Federal funds turn state, local fiscal crises into potential opportunity**

State and local governments in Wisconsin are set to receive nearly $20 billion in federal aid from recent COVID-19 relief measures — a remarkable shift from what appeared, just a year ago, to be a historic fiscal quandary for state and local governments coping with the pandemic.

As these governments mull appropriate uses for these one-time dollars, they would be well-served to consider uses that avoid creating future budget challenges.

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 the dollars 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.

The above estimate for federal aid 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. These funds come from three federal COVID-19 relief packages: 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.

While vaccinations and the scale of the federal response this time may spur a more robust recovery than after the last major economic downturn, the Great Recession, Wisconsin may wish to take lessons from that response.

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, they would be wise to consider how spending plans may impact future budgets as well as the immediate needs that confront them.

*This information is provided to Wisconsin Newspaper Association members as a service of the Wisconsin Policy Forum, the state’s leading resource for nonpartisan state and local government research and civic education. Learn more at wispolicyforum.org.*