

OVERVIEW

The American Rescue Plan (ARP) has distributed \$130 billion in payments to local governments to assist in the economic recovery from the COVID-19 pandemic. Payments were calculated by need and population size. While there is flexibility in using the funds, local governments must follow Treasury Department guidance when deciding where to spend funds. The COVID-19 pandemic has impacted low-income people and Black, Indigenous, and other people of color (BIPOC) more than others due to structural inequalities. Local ARP funds should be used to advance equitable economic development that ensures people have what they need and that barriers to opportunity are removed so communities can get to greater resiliency and well-being.

BACKGROUND

In March 2021, Congress passed the American Rescue Plan Act, which spent \$1.9 trillion to revitalize the economy and help it recover from the pandemic. The ARP included direct payments to U.S. citizens, expanded Child Tax Credits, and \$350 billion in aid to local and state governments. \$130 billion went to metropolitan areas, counties, and non-entitlement governments. Payments to local governments began in May 2021.

Governments will receive ARP funds in two dispersals, one this summer and one in about 12 months. ARP funds can be used to support public health and address negative economic impacts caused by the health emergency as well as to replace lost public sector revenue, provide premium pay for essential workers, and invest in water, sewer, and broadband infrastructure. The above categories are broad enough to allow local governments flexibility in allocation. Each category has room to account for equity and to encourage equitable development. This is intentional in the design of the American Rescue Plan, as one of the [policy objectives in treasury guidance](#) to local governments is to “address systemic public health and economic challenges that have contributed to the unequal impact of the pandemic.”

While past stimulus packages, such as the CARES Act, were aimed at immediate assistance and relief during the pandemic, ARP provides a stimulus aimed at recovery. ARP funds are meant to be used strategically. Local governments should focus on spending to address existing inequities and create equitable development in the post-pandemic economy.

DEFINITIONS

EQUITY: Equity means the presence of fairness and justice. This is different than equality, which implies things are equal, or the same. Equality means there is equal standing and value, while equity means that there is mutual interest in just outcomes. In policy, equity can be a more useful tool than equality. It would hardly be fair to tax all incomes at the same amount, which meets the criteria of equality. This is why there is a progressive income tax structure, where people with higher incomes pay more in taxes.¹

ECONOMIC DEVELOPMENT: Economic development is a broad framework, and while it is difficult to agree on a single definition, “Economic Development: A Definition and Model for Investment” provides the following helpful explanation: “Economic development is the expansion of capacities that contribute to the advancement of society through the realization of individual, firm and community potential. ... Economic development is

DEFINITIONS (CONT'D)

essential to creating the conditions for economic growth and ensuring our economic future.”²

EQUITABLE ECONOMIC DEVELOPMENT: Equitable economic development applies the concept of equity to economic development. It recognizes a history of underinvestment, discrimination, and devaluation of under-served communities, and it encourages investment and attention to their economic futures.

USING ARP FUNDS TO ADVANCE EQUITY

There is a myth that natural disasters like the COVID-19 pandemic do not discriminate and are blind in their effects, but existing inequities have exacerbated the negative economic, health, and social impacts of the pandemic. During the COVID-19 pandemic, BIPOC communities — especially Black communities — have experienced greater negative social, health, and economic fallout because of entrenched racist policymaking. Previous eras of government spending following an economic or physical disaster, such as the New Deal, G.I. Bill, and the bank and auto industry bailouts during the Great Recession have aided institutionalized powers instead of assisting under-served populations and have often harmed those most in need. Stimulus checks provide short-term relief but do little to address the underlying systemic issues. Economic recovery efforts should address the institutionalized inequities to foster equitable economic development, which would build more resilient economies and reduce the risk of future economic disasters. Furthermore, lessons from the CARES Act demonstrate the need for governments to create infrastructure for the equitable use of resources. As an example, the [CARES Act funds were under-accessed and under-utilized by minority owned businesses despite the intentions of Congress](#) because robust networks of financial institutions, technical assistance, and other groups were not in place to reach, facilitate, and ensure the engagement of these firms that are essential to jobs and wealth building in so many communities.

GUIDANCE AND VALUES FOR EQUITABLE SPENDING OF ARP FUNDS

According to the Treasury Department, [one of the purposes of providing these funds](#) is to “address systemic public health and economic challenges that have contributed to the unequal impact of the pandemic.” In further guidance on [compliance and reporting](#), the Treasury makes clear that putting community feedback and engagement at the center of determining allocations is necessary for the equitable use of funds.

While the Treasury affords flexibility in local ARP spending to allow diverse local needs to be met, there is also a risk of disparate geographic impacts within states and counties due to different approaches to spending ARP funds. Thus, local government officials should adopt values promoting the equitable use of ARP funds while engaging directly with community stakeholders to maximize benefits to their communities. Sources offering guidance and values are listed below.

U.S. Treasury Guidance: [The U.S. Treasury has issued guidance](#) on how funds can be used. At the broadest level, local governments must comply by using their ARP funds to support public health expenditures, address negative economic impacts of the public health emergency, replace lost public sector revenue, provide premium pay for essential workers, and invest in water, sewer, or broadband infrastructure.

GUIDANCE AND VALUES (CONT'D)

In [compliance and reporting guidance](#), the Treasury underlines that equity includes listening to impacted communities in addition to serving them. In the required “Recovery Plan Performance Report” for governments of populations over 250,000, local officials must report on community engagement. Local allocations must reflect the diverse feedback of stakeholders in the community.

National League of Cities: The [National League of Cities \(NLC\) developed 5 guidelines for ARP uses](#): assessment of government and community needs; strategic use of revenue sources; prioritization of fiscal stability and returning to work; maintenance of records and documenting impact; and engaging with congressional delegations.

Southern Economic Advancement Project: The Southern Economic Advancement Project (SEAP) outlines key values for an equitable recovery: community input, accountability, and measurement. [SEAP has designed an ARP toolkit](#) to assist local governments in making decisions on how to use ARP funds equitably. In addition, SEAP has issued [community engagement](#) guidance for making local ARP allocations.

STRATEGIC CONSIDERATION IN ARP SPENDING

ARP funds dispersed to local governments are meant to be used strategically. These funds are not meant to offset only the cost of responding to the pandemic; they are meant to help economies recover from it. Local governments must make the following strategic considerations before deciding how to use ARP funds to maximize equitable outcomes.

Infrastructure spending: Many local governments are planning to use one-time ARP funds to make much-needed updates to local infrastructure. Projects include spending on increasing broadband access and updating water infrastructure. A high-profile [\\$579 billion infrastructure bill](#) has been in the works in Washington since the start of the Biden administration, and although it has hit roadblocks on its way to becoming law, it does have bipartisan support. The infrastructure bill includes money for both broadband and water projects, which are included in allowed projects for ARP spending. Local government decision-makers should understand the provisions of this bill and how it might benefit them. They should understand where it might overlap with ARP provisions and then assess the urgency of their infrastructure needs.

Other ARP funding: The \$130 billion funding to local governments is only a fraction of the massive ARP Act, which spends \$1.9 trillion in total. Other pots of ARP money will be available to support local government needs and services. Before seeking to fund new activity, local government officials should ensure they are maximizing other routes of funding. Identifying strategic sources of funding will allow local governments to support as much activity as they are able. The National League of Cities has put together a [database of ARP Act provisions](#) as a resource.

Impacted communities: Local governments should consider who will be most helped by ARP spending in their communities. They should identify who bore the greatest burden of the pandemic and who will need the most assistance in pursuing an equitable economic recovery. This includes people already experiencing economic inequality: Those living in poverty, rural communities, and BIPOC communities. ARP funding should aim to

STRATEGIC CONSIDERATIONS (CONT'D)

create equitable economic development for these communities, so they are less vulnerable to future disasters.

Timeline: ARP funds are a one-time investment that will arrive in two dispersals in 2021 and 2022. Since the funding has an end date, local government decision-makers cannot use the money as the sole source of funding for a new, ongoing program. Funds are better suited for short-term or one-time investments.

TRENDS IN EQUITABLE ARP USES

Comprehensive recovery packages: Larger cities and metropolitan areas are proposing using ARP funds to support comprehensive recovery packages with money set aside for a wide range of investments that target both government recovery and community economic recovery. Packages are often multi-faceted and far-reaching, addressing the socio-economic needs that have to be met to spur equitable economic development. Santa Ana, Calif., is using \$142.9 million to launch its “Revive Santa Ana” program with five focus areas: COVID-19 recovery, assistance programs, homelessness, critical infrastructure, and city fiscal health. Alexandria, Va., is [using its funds for the city’s strategic recovery framework, focusing on its recovery goals](#): businesses thrive, everyone has access to the basics, recovery lifts everyone, and long-term community investment. However, this type of spending proposal is unrealistic for smaller cities, towns, and counties, where they must address the needs of a smaller population with fewer funds.

Investments in local social services: Some cities are investing in their local safety net to support vulnerable populations that have experienced the negative effects of the pandemic disproportionately. Nashville, Tenn., [is putting around \\$20 million from its ARP funds](#) toward two affordable housing funds to address rapidly rising home prices. Richmond, Va., city council members requested that [\\$7.1 million of the city’s anticipated \\$160 million ARP funds be earmarked for the city’s Affordable Housing Trust Fund](#) to address the city’s high pre-pandemic eviction rates and homelessness. Other cities are piloting guaranteed income initiatives. The NLC identified that Seattle, Wash., Mountain View, Calif., and Minneapolis, Minn., all have [included guaranteed income pilots in their comprehensive recovery plans](#). Such initiatives address income inequalities for low-income individuals and households, who are most vulnerable to the economic impacts of the pandemic. Social service programs that increase economic stability by relieving housing and income insecurity can set the stage for equitable economic development in the wake of the pandemic.

Updating infrastructure: Many local governments, such as [Haywood County in North Carolina](#), are focusing on infrastructure investment, specifically the stormwater and broadband provisions in the ARP guidance from the U.S. Treasury. [Access to broadband is linked to positive health and social outcomes](#). Despite the ubiquity of digital life, millions in the U.S. remain without broadband access, particularly in low-income and rural areas that already experience inequitable economies. Investment in broadband access is an opportunity to create greater economic equity and bring those left behind into the digital fold.

Updates to water and sewer infrastructure may seem like issues that will affect everyone in a community equally; however, low-income communities and communities of color are more likely to experience [unsafe drinking water](#) and [flooding](#), leading to both physical and economic displacement. Investing in infrastructure in vulnerable communities can lead to greater stability and economic development over time. Many local

TRENDS (CONT'D)

governments have identified weaknesses in their infrastructure and will spend ARP funds to improve these systems. Several coastal North Carolina towns will be [directing their funds to stormwater projects to amend ongoing infrastructure issues](#). Local governments should be aware of the infrastructure bill in development in D.C. so they can spend federal dollars most effectively.

Community involvement: Many local governments have already made plans to engage their citizens in using ARP funds. For example, in Greensboro, N.C., the city is asking for citizen input via an [ARP Spending Simulator](#). Other cities, like Youngstown, Ohio, are [soliciting community feedback through community stakeholder surveys](#). Community input is necessary to correctly assess needs and to administer ARP funds in ways that foster equitable development. However, governments must ensure that engagement is meaningful and be intentional in their outreach to vulnerable and hard-to-reach communities.³

LIMITATIONS OF EQUITY IN ARP FUNDS

Limits of targeted action: Local government officials can target spending in low-income census tracts; however, this targeted action is limited to health and housing initiatives. Some officials [want to use funds to create transformational change by looking at broader projects](#), such as building community centers or markets to respond to food deserts in low-income areas.

Funding is a one-time investment: ARP funds are a one-time revenue source. This means that, while the money can help to launch new programs, it cannot fund recurring projects or expenses.

Challenges for rural populations: ARP funds dispersed to local governments are proportional to population and need. Rural areas with high rates of people experiencing poverty have smaller populations but may need more spending on high capital infrastructure projects and may have greater infrastructure needs in general due to consistent underfunding.

Limitations for tourism-dependent places: Places that rely on tourism but have small local populations, such as in eastern North Carolina, may receive less ARP funding and be unable to invest in projects that support tourism capacity. For example, the Village of Bald Head Island in North Carolina has a [population of around 200 full-time residents but hosts over 8,000 tourists in peak summer months](#). The funding received is meant to support the capacity of the local population, not the impacts of the tourism industry.

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1 This definition is based on the definition of equity from the [Encyclopedia of Social Justice and Diversity](#).

2 Feldman, Maryann, et al., [Economic Development: A Definition and Model for Investment](#).

3 SEAP has developed guidance on community engagement in the ARP spending process, [click here](#) for more information.