American Rescue Plan: State and Local Fiscal Stabilization Funds
Areas for U.S. Department of Treasury to Address in Guidance

March 23, 2021

The American Rescue Plan (ARP) makes approximately $350 billion available to states, counties, and cities to help them respond to COVID-19, recover from its negative impacts, rebuild critical infrastructure, and replace lost revenue. As written in statute, the funds are quite flexible. However, cities, counties, and states need guidance to understand the extent to which they can invest funds in backbone infrastructure, data, personnel, and other activities that are critical to supporting their response and recovery efforts in an equitable manner but also have long-term uses.

To that end, the Treasury Department should specifically address the following areas in its guidance on allowable uses of the ARP's state and local fiscal stabilization funds:

- Investing in data and innovation capacity, collection, matching, and analysis as well as technical assistance;
- Investing in research and evaluation to ensure funds are spent equitably and effectively;
- Funding for infrastructure that supports the whole city;
- Budgeting for equity;
- Improving procurement practices, including the use of outcomes contracts to achieve results for the most affected communities;
- Coordinating with other local, county or state government partners, including pooling funds;
- Providing emergency financial assistance or implementing a targeted guaranteed income program;
- Requiring reporting that aligns with other agencies' requirements; and
- Clarifying whether there is an order in which funds must be used.

GOVERNMENT INFRASTRUCTURE/SYSTEMS IMPROVEMENT

Clarify that investing in data and innovation capacity (human and technological), data collection, data matching, and data analysis as well as technical assistance are allowable uses of state and local fiscal stabilization funds.

To ensure this one-time infusion of funds is used in a way that leads to long-term, sustainable impacts, cities and states need to invest in their data and innovation capacity. Investing in data capacity like this will enable cities and states to better understand where resources are most needed as well as how different funding choices might impact communities differently. This could look like understanding how capital expenditures (e.g., for infrastructure improvements or parks) would impact communities or how revenue cuts would lead to service losses for particular communities.

Cities, counties and states thus need to be able to use their funds for the infrastructure, personnel, training, technology, and technical assistance that will allow them to match, gather, analyze, transform, and understand their data. Moreover, because investments in things like technological and systems improvements have both short-term uses for responding to COVID-19 and long-term uses, Treasury should clarify that state and local governments do not have to bifurcate their spending. Specifically, it should be an allowable use of state and local fiscal stabilization funds to pay for technology and data system upgrades as long as those systems will be used to respond to COVID-19, regardless of how they are used in future years.

Example:

Cities like Boston, New York, Tempe, and several parts of Colorado, are studying sewage to help address the COVID-19 crisis by using the data as an early detection method to help better focus testing and treatment efforts. Investments in data gathering efforts in the sewage system, as well as the policies, people, and practices that govern how such data is reported up to a Mayor and how she may use it to direct efforts, can be critical lessons to support decision making in any issue area.

Clarify that research and evaluation are allowable uses of state and local fiscal stabilization funds, including preparatory work to consult evidence-based practices and experts before deploying a program or a revenue strategy and monitoring for outcomes and continuous improvement.

To recover from the COVID-19 health and economic pandemic, cities, counties and states need to do more than simply administer new relief programs. They should be encouraged to spend their fiscal stabilization funds on the most effective, evidence-based programs available to help the most people, particularly those disproportionately affected by the pandemic. Moreover, for stabilization dollars to have long-term impact, we need to learn from cities' efforts and the programs they develop. This will require spending resources on evaluation during and after the fact but also preparatory work to ensure the most effective practices are being utilized. Spending dollars for research and planning will also allow state and local governments to ensure they are coordinating across government programs and systems to equitably and effectively leverage American Rescue Plan (ARP) resources.

> **Example:**
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> In the What Works Cities Economic Mobility Initiative, nine cities are all piloting new ways to help accelerate economic mobility for their residents; but tied to each new project is a structured evaluation to ensure that any progress made is both documented and supported, so all cities may benefit.

Infrastructure: Clarify that state and local stabilization funds may be used for projects that benefit the whole city so long as the infrastructure supports public health, water, sewer, or broadband.

Many cities or counties have seen opportunities to dramatically assist their residents in this time through infrastructure improvements, but are hesitant to use funding unless it is explicitly included in allowable language. From our early conversations with cities, these areas have included:

- New digital services for residents: Cities see a need to dramatically expand their digital services to ensure that people have virtual access to regular city services in order to minimize in-person interactions. This is especially true for digital services related to utility, rent, and housing relief.
- Physical infrastructure maintenance due to COVID-19 related increased usage or deferred maintenance: Due to cuts resulting from reduced revenues some cities' maintenance of critical infrastructure has been deferred or canceled (e.g. street paving and grading) and in some cases infrastructure requires early maintenance due to increased usage (e.g. bike lanes and walking paths). Clarifying that funds may be used for these kinds of infrastructure improvements is critical.
- Innovation capacity: Many cities have been interested in investing in new, more effective ways of centering residents at the redesign of services; including, but not limited to those services immediately focused on ameliorating challenges due to the pandemic. Clarify that finds may be used for personnel or technical assistance to advance these goals.

FISCAL HEALTH

Clarify that allowable uses of state and local fiscal stabilization funds include personnel, planning, tools (e.g., for data collection and analysis), data governance, and stakeholder engagement efforts to further budgeting for equity.

Cities such as Austin, Birmingham, Columbia (SC) and Columbus (OH) are already developing tools to align their city budgets with racial equity plans. Cities, counties and states doing this work want, and should be encouraged to deploy their fiscal stabilization funds in a similar, intentional way that reduces racial disparities and integrates equity into cities' larger budgeting process. Doing that requires spending resources on things such as developing a racial equity plan and scorecard for the city, stakeholder engagement to solicit input into the cities' budget decisions from community members, data collection and analysis to assess how spending decisions might impact different communities, and possibly technical assistance from racial equity and budgeting organizations.

Clarify that state and local stabilization funds may be used for procurement practices, including outcomes and performance-based payments.

For cities, counties and states to ensure their ARP funds are used effectively and target the communities most impacted by COVID-19 they may need to use some of their funds on planning to understand why small, minority owned businesses are not doing business with them. They may also need to spend some dollars on technical assistance, outreach, business development, and capacity (both in staff, process, and technology) to improve the government's ability to reach contract with and support MWBEs in their communities. These actions could make city, county and state procurement processes more inclusive, increase the number of MWBEs doing business with them (using the stabilization funds), and enhance governmental purchasing strategies.

In addition, cities, counties and states may wish to distribute some of the stabilization funds by way of performance-based or outcomes contracts to ensure that the federal funds get results for specific communities, ie., those most impacted by COVID-19.

Example:

Tulsa, OK applied a results-driven, strategic lens to a $6.5M CARES Act RFP designed to (1) support Tulsans' personal and financial health, development, and resilience, (2) enable secure resumption of economic and community activity, and (3) seed the creation, stability and growth of emerging industries and occupations to create a stronger economic base. This RFP received over 170 proposals (the average number of RFP responses in Tulsa is 5.4) for diverse and potentially transformational programs, thus enabling the city to build relationships and an understanding of the Tulsa social service landscape for the first time. The results-driven RFP approach will help city funds create more equitable outcomes for disadvantaged residents and strengthen the non-profit community in Tulsa.

Phoenix, AZ used CARES Act funding to purchase a hotel specifically to house and treat at-risk veterans. Given the need, the city built out a results-driven RFP process and offered the building and management of the program to the US Vets Association. This facility will now be able to provide clinical and programmatic services, as well as transitional and affordable housing in order to provide homes to more than 170 homeless and at-risk veterans. They currently have an RFP for four more sites, bidding for the hotels and the operating nonprofit partner simultaneously.

GOVERNMENT PARTNERSHIP & REGIONAL COORDINATION

Clarify that state and local governments are encouraged to use stabilization funds to support the personnel and technical costs associated with coordinating among governmental bodies.

Very few local governments exist outside of a county or regional structure. Responding to the COVID-19 pandemic has not been done in isolation, and governmental coordination will continue to be critical. Clarifying that cities, counties, and states may use or pool their fiscal stabilization dollars to coordinate with one another, potentially even to set up a single, interagency staff or combined data center, will be critical.

> **Example:**
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> Many cities and counties, including the City of Boulder and the County of Boulder as well as the City of Memphis and Shelby County, began working together through an Emergency Operations Committee with a single data and performance staff. They understood that there was no time to be concerned about who owns what and that a single body could make meaningful decisions on the best data available. As both cities and counties receive new ARP funds, they ought to expand and formalize these new groups to ensure all common challenges continue to be addressed in this manner.
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> The Western Pennsylvania Regional Data Center houses data from multiple public and private entities--such as Alleghany County, the City of Pittsburgh, as well as local nonprofits like the University of Pittsburgh and 3 Rivers Wet Weather--to ensure that all parties can integrate data in a way that achieves all goals.

Clarify that state and local stabilization funds may be used to provide emergency financial assistance or for a guaranteed income program as part of responding to the negative economic impacts of COVID-19.

Over the past few years a number of cities have instituted guaranteed income or direct payment pilot programs to provide financial stability to their most vulnerable residents, in particular vulnerable groups like single mothers or families with children in poverty. Since the COVID-19 pandemic the number of those programs has increased and initial research findings show these programs help families stabilize their finances. Such programs have also been complemented with emergency financial assistance programs and initial findings from the Wilson Sheehan Lab on Economic Mobility at the University of Notre Dame show that such programs were successful in providing housing stability in particular to vulnerable populations. Given the continued need for economic assistance in communities and the initial success of both guaranteed income and emergency cash assistance programs, these programs are one of the more effective ways cities can spend their resources to help stabilize economically impacted members of their communities.

Example:

In 2019, the Magnolia Mother's Trust provided $1,000 a month for one year to 20 Blackmothers living in extreme poverty in Jackson, MS. A second year of the program began in March of 2020, with 110 moms participating. Initial findings show that mothers were 40% less likely to report debt from emergency financing, 20% more likely to have children performing at or above grade level, and able to budget up to $150 more for food and household costs.

Launched in 2020, Compton Pledge started disbursing payments to 30 low-income families with a goal of reaching 800 families by March 2021. Cash transfers are up to $1,000 a month for 24 months, with payments calculated based on the family's size. Recipients are randomly selected low-income residents. The project emphasizes that formerly incarcerated and undocumented people are eligible.

REPORTING REQUIREMENTS AND PAPERWORK

Clarify how Treasury will align reporting requirements for state and local fiscal stabilization funds with other agencies' reporting requirements.

The stabilization funds are a large, but only one source of funding that states and cities are going to receive under the ARP. They will also receive funding from agencies such as the US Department of Agriculture, the Department of Transportation, the Department of Housing and Urban Development and each distribution of funding will have reporting requirements. Aligning these requirements rather than imposing multiple similar but distinct requirements will enable cities and states to focus as much on the effective use of the funds as on accounting for those uses.

Moreover, Treasury should clarify in its initial guidance what materials or documentation cities and states must maintain to justify their fiscal stabilization expenditures. Being clear with cities and states from the outset what they will be asked to produce should the federal government decide to audit their use of funds will ensure that those materials are collected and will alleviate much of cities' uncertainty about whether they are maintaining the proper paperwork.

Example:

Phoenix, AZ was concerned about the regularly shifting guidance around CARES Act funding. To ensure CARES Act compliance, they devoted an entire team from their budgeting department to real-time compliance monitoring. These staff reviewed project documentation and reporting in real-time so that they could fix errors and realign projects to fit the current CARES guidance, minimizing any chance of downstream audit.

SERVICE AND PROGRAM DELIVERY

Clarify whether there is a priority order for using funds.

In addition to state and local fiscal stabilization funds, states and localities will receive funding related to vaccine distribution and testing. They will also receive funds for homelessness, rental assistance, small business support, etc. It is important to clarify whether state and local governments are required to use funding streams in a particular priority order. For instance, must they use funds that are specifically for vaccines before they use fiscal stabilization funds on a vaccine distribution effort. Given the enormity of COVID-19's impact on cities and states it is important that they have broad clarity about where they can be nimble without fear of later repercussions.

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