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The American Rescue Plan, two years later: Analyzing local governments' efforts at equitable, transformative change

Lavea Brachman and Glencora Haskins Thursday, March 9, 2023

When Congress passed the American Rescue Plan Act (ARPA) two years ago this month, then-Speaker Nancy Pelosi (D-Calif.) heralded it as "historic, consequential and transformative legislation." Of the $1.9 trillion in economic relief the law provided, $350 billion in fiscal aid went directly to state, local, and tribal governments through the State and Local Fiscal Recovery Funds (SLFRF) program.

ARPA's two-year anniversary provides an opportune moment to examine how local governments (i.e., cities/consolidated city-counties and counties) have utilized their $130 billion share of SLFRF dollars, and to what extent the legislation has enabled the kinds of large-scale investments that can realistically alter the economic trajectory of cities and counties.

Over the past year, Brookings Metro has analyzed SLFRF spending through the Local Government ARPA Investment Tracker, a joint project with the National Association of Counties and National League of Cities. And in partnership with Accelerator for America and the National Association of Counties, we supplemented that analysis with in-depth interviews with local decisionmakers to understand the nature of specific initiatives and how and why allocation decisions were made. This qualitative research reveals a core set of new local and regional investments that may portend long-term impact and community transformation.

We've found that after an early focus on providing direct relief and addressing the health consequences of the COVID-19 pandemic, local governments are now finding a balance between cautious fiscal oversight and experimentation with innovative investments in an equitable recovery.

Local governments welcomed ARPA's scale and ambition, but their capacity and politics were tested

ARPA's design required that the Department of the Treasury disburse SLFRF dollars to over 30,000 governments in two tranches—the first in spring 2021 and second in spring 2022. Congress required that all funds be "obligated" by December 2024 and spent by December 2026—a timeline that accords with the legislation's goals around recovery.

These funds, universally welcomed by local leaders that we interviewed, also created unique tests for local government due to a range of factors: initial uncertainty around Treasury guidelines for the program's eligible uses; compressed expenditure timelines; a general reluctance to commit funding for operating programs or new staff capacity without future sustainable revenue sources; and a lack of incentives in APRA's design for collaboration across jurisdictions or even among local partners.

Local leaders also noted the political challenges they faced. In some instances, executive (e.g., mayors) and legislative (e.g., city councils) priorities for the dollars clashed, which slowed or delayed their allocation. Such challenges constrained some local leaders and possibly even undermined their potential to respond as nimbly and innovatively as they might have.

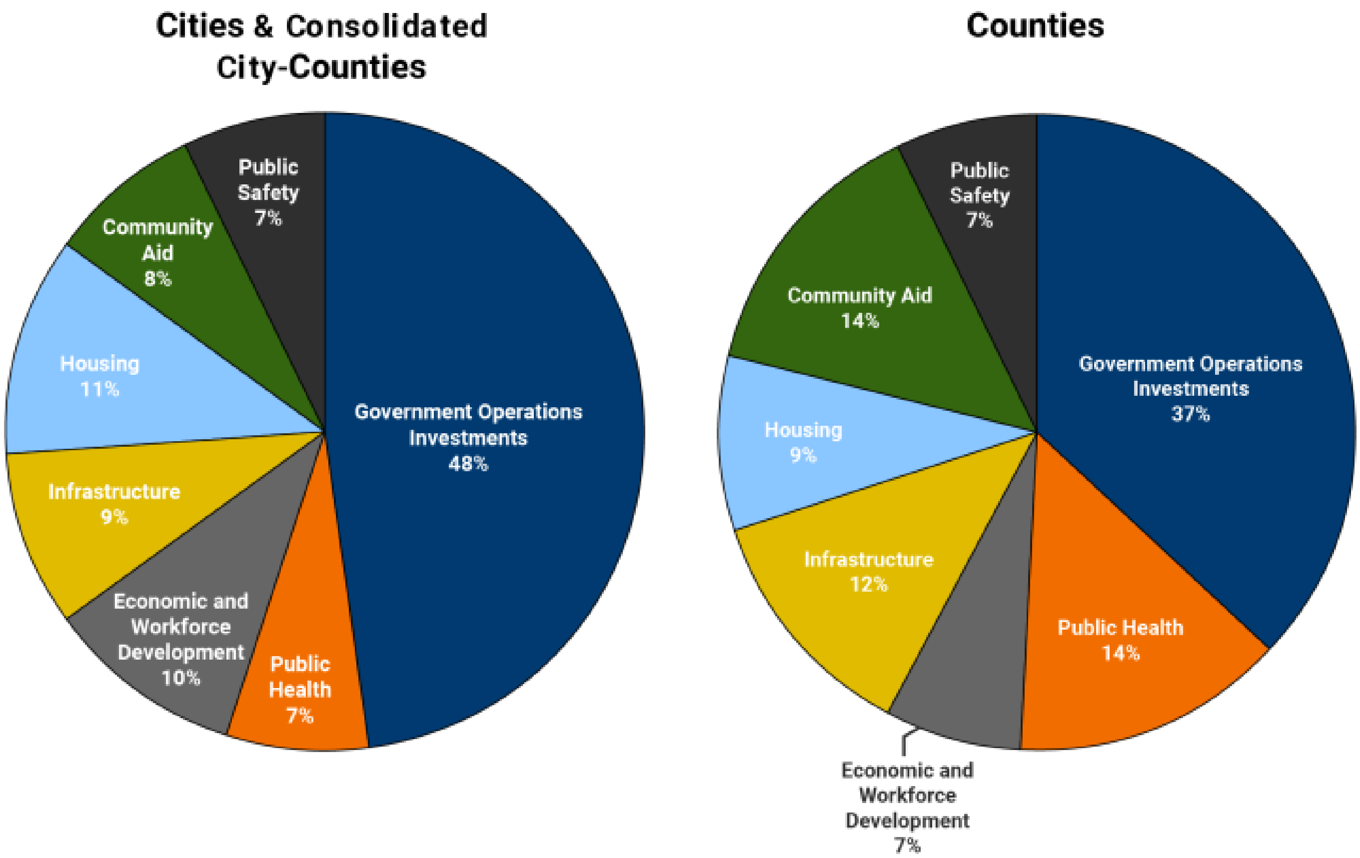
Local governments used their funds for a mix of pandemic recovery, fiscal management, and future-looking initiatives

In the urgency of the pandemic moment, localities initially prioritized responses to acute needs. They dedicated significant portions of their SLFRF dollars to critical public health programming (7% for cities/consolidated city-counties and 14% for counties, which more often manage public health responsibilities) and shoring up internal operations (48% for cities/consolidated city-counties and 37% for counties).

At the same time, many local leaders—particularly mayors—seized the opportunity to issue a broad vision or high-level priorities around issues such as affordable housing, homelessness mitigation, inclusive economic and workforce development, and violence prevention and community safety initiatives.

FIGURE 1

SLFRF dollars budgeted through September 2022 for cities and counties with populations over 250,000



Source: NLC, NACo, and Brookings Metro analysis of U.S. Treasury data covering 92 cities/consolidated city-counties and 237 counties

NLC NATIONAL LEAGUE OF CITIES | B Brookings Metro | NATIONAL ASSOCIATION of COUNTIES NACo.

Additionally, cities and counties expressed genuine concern about maintaining fiscal prudence in the face of economic uncertainty. As they have obligated, budgeted, and spent SLFRF dollars over the past two years, many remain worried about the pressures the ARPA timeline presented. To alleviate this pressure, cities and counties earmarked the largest percentage of SLFRF dollars for "revenue replacement"—essentially using the funds to backfill budget gaps created by the pandemic. The revenue replacement designation allowed cities and counties to satisfy Treasury reporting requirements and timelines with minimal reporting burdens, while also preserving their flexibility to spend the dollars on a variety of future needs.

Emerging SLFRF investments could shift city and county trajectories

As the pandemic subsides and the ARPA expenditure deadline approaches—with the so-called "ARPA cliff" looming—attention is now shifting to whether and how local decisionmakers are investing these funds in longer-term priorities that sustain and strengthen the economic recovery and make investments that support long-term growth, opportunity, and equity, as Treasury's final SLFRF rule states.

Recent Brookings Metro interviews with city and county officials across the country revealed a host of creative strategies aimed at such longer-term, sustained impact. Highlighted here are five ways these local leaders are deploying SLFRF dollars to potentially alter the future landscape and economic conditions of their cities and counties.

- **Leveraging strategic plans and new fiscal spending strategies.** Some counties were able to leverage existing strategic plans and hit the ground running with SLFRF dollars, while others utilized the ARPA moment to generate a strategic plan or spending vision.

  Both Ramsey and Hennepin counties (surrounding the Twin Cities of Saint Paul and Minneapolis, Minn.) were able to leverage existing economic development plans. Hennepin County designed its SLFRF strategy around seven "domains" for economic development issued in 2013: education, employment, health, housing, justice, transportation, and racism as a public health crisis. They credit this existing strategy with making them "ready for ARPA," as they were able to deploy funding to quickly scale up their backlog of shovel-ready projects in these seven areas. Based on its 2019 Economic Competitiveness and Inclusion Plan, Ramsey County was able to make quick decisions about cross-cutting investments in affordable housing, workforce training for targeted and vulnerable populations, and minority-owned small business growth. Ramsey County's workforce officials have also used SLFRF dollars to incentivize an unprecedented alignment of workforce training providers. In Coconino County, Ariz., county leaders developed a funding horizon that visualized all of the federal funding sources to which they would have direct or indirect access, so as to prioritize SLFRF dollars in strategic areas (not including the county's major city of Flagstaff) where no other pots of money would be available.

- **Bolstering workforce and small business ecosystems that redress structural inequities.** Some local governments have launched thoughtful, innovative programs intended to address long-standing structural inequities—particularly around increasing the number of minority-owned small businesses and making workforce training more inclusive and accessible.

In Phoenix, for instance, the city used SLFRF dollars to buy an abandoned Kmart in a distressed neighborhood and convert it into a large workforce center that local educational and job training institutions will operate. Dayton, Ohio launched the First Floor Fund, using SLFRF dollars to develop and grow small retail businesses (including Black-, brown-, and woman-owned businesses) on the first floors of buildings in the city's commercial corridors when traditional financial resources are not available. Meanwhile, El Paso County in Texas used SLFRF dollars to launch the Financial Assistance for Safety, Technology, and Economic Resilience (FASTER) program, which provides grants, loans, and technical assistance to small, women-owned, and minority-owned businesses throughout rural and unincorporated areas. As of mid-2022, over 800 local businesses across the county have used FASTER to improve their digital literacy and expand their capacity for applying for grants.

- **Making targeted capital investments.** Making large, one-time capital investments emerged as another way to generate long-term impact. In these places, investments were targeted in ways intended to close racial and geographic disparities.

For instance, El Paso County is investing over 20% of its funding to overhaul the water and sewer infrastructure in historically underserved, economically disadvantaged communities along the U.S.-Mexico border. The county also invested heavily in its hospital district's operating budget, which serves geographically isolated populations spanning two counties. These two priority expenditures constitute nearly half of the county's total SLFRF allocation. Similarly, Phoenix is collaborating with the Flood Control District of surrounding Maricopa County to rehabilitate the region's stormwater infrastructure. For its part, Birmingham, Ala. has invested SLFRF dollars into completing its Birmingham Xpress bus rapid transit line. This new public transit system will connect 25 neighborhoods across the city and its outlying communities to health care, education, and other vital services.

- **Catalyzing transformative place-based investments.** In our Local Government ARPA Investment Tracker data, meaningful neighborhood revitalization investments have shown up as a higher priority in Midwest cities and counties than in other parts of the country (more than eight times the share of such commitments elsewhere). These investments are addressing depopulation, blight, concentrated poverty, and racial segregation.

For instance, St. Louis launched the Economic Justice Action Plan to address a multi-dimensional set of neighborhood challenges, including small business and workforce development, commercial corridor redevelopment, and housing accessibility. The plan focuses on the disinvested neighborhood of North St. Louis. Kansas City, Mo., is investing $25 million to capitalize and pilot its Affordable Housing Trust Fund, leading to a successful $50 million bond initiative for affordable housing this past fall. In Cleveland, city officials are actively considering a proposed "transformative projects fund" focused on a wholescale waterfront revitalization encompassing both the lakefront (Lake Erie) and riverfront (Cuyahoga River).

- **Strengthening civic capacity and participation.** In many places, neither the public nor nonprofit sector possessed sufficient capacity to absorb the unprecedented volume of federal funding. However, some local governments realized that using SLFRF dollars to strengthen their local nonprofit partners could extend and amplify their own capacity, and thus sustain the positive impacts of community investments.

For instance, Palm Beach County, Fla. prioritized one-time investments in quasi-governmental and nongovernmental organizations (such as the Health Care District of Palm Beach County and United Way), imbuing them with capacity to sustain operations past the "ARPA cliff." The city of Detroit is using the funding to widen the procurement funnel by reducing bureaucracy and streamlining document preparation for city contracts, in an effort to increase opportunities for community-based grassroots organizations and small businesses. Detroit is also using SLFRF dollars to help applicants overcome barriers to completing applications and set up required organizational accounting to compete for city procurement contracts.

Some obstacles may still threaten the sustainability of these efforts

By most measures, local leaders responded admirably under challenging circumstances and with varying degrees of capacity—balancing fiscal oversight with experimentation in pursuit of equitable recovery. They developed signature programs and implemented systems-change initiatives meant to redress deep-seated inequities. However, the challenges they confronted through the implementation process are emblematic of ongoing impediments that could undermine future sustainability without careful monitoring.

For instance, the challenges in interpreting the federal government's intended uses for SLFRF dollars meant local leaders were uncertain about the regulations and eligibility, while also working under an unusually compressed expenditure timeline. Meanwhile, capacity constraints burdened large planning and oversight needs, and challenges persisted in extending resources to community-based nonprofits to reach historically excluded communities.

So at this two-year anniversary, ARPA's long-term impact on our local communities is still speculative. But it's hard to believe such a large injection of federal funds—and cities' and counties' efforts to invest them innovatively—won't result in altered community trajectories in many places, and ultimately, changed conditions and improvements in residents' quality of life.

"I would credit ARPA in a really big way because we were allowed to experiment," one Midwest official observed. "And in the off-chance it doesn't work…we'll be proud that we tried."