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# American Rescue Plan Act

40+ ways for state and local governments  
to get ready, get going and get results

# The basics



On March 12, President Biden signed the \$1.9 trillion American Rescue Plan Act (ARPA) into law. It includes approximately \$350 billion in direct aid to state and local governments. Here's how it breaks down:

States	\$195.3b
Territories	\$4.5b
Tribal governments	\$20b
Cities and counties	\$130.2b

The ARPA includes another \$200 billion for school districts, higher education, transit systems and airports. In addition, it funds rental and homeowner assistance, small businesses, food aid, rural hospitals, vaccination and testing, and more. It also includes a \$10 billion Capital Project Fund, half of which will be divided equally among the states and territories and the other half based on rural and low-income populations.

The amount for state and local government is more than double what was included in last year's Coronavirus Aid, Relief, and Economic Security (CARES) Act, and the funding is both more direct and flexible. Cities and counties of every size will receive allocations – half this year and half next year – and the money can be used to respond to the public health emergency; promote economic recovery; replace lost revenue; and invest in water, sewer and broadband infrastructure.

The funds must be spent by December 31, 2024, and cannot be deposited into a pension fund or used to offset tax reductions or delay tax increases.

For many governments, the ARPA allocation will be more than enough to balance the budget, reverse service cuts and avoid layoffs. After filling the fiscal holes caused by the pandemic, these governments will have a historic opportunity to make their communities more sustainable and equitable through intentional and strategic deployment of dollars. They also run the risk of spending hastily and haphazardly, making structural budget problems worse, and failing to properly account for the dollars.

On May 10, the Treasury Department issued interim rules on how direct ARPA funding for state and local governments can be spent. The rules can be found at [Interim Final Rule \(treasury.gov\)](https://www.treasury.gov/interim-final-rule). Consistent with the law, the rules provide significant spending flexibility and longer timeframes compared to the CARES Act.

Here are more than 40 ways that government leaders can prepare for ARPA funding, manage it effectively, spend it wisely and show voters results that endure.



# The opportunity (and challenge)

# GETTING READY



ARPA funding represents an extraordinary opportunity for governments and government leaders to be bold. Their leadership is critical to assure these funds support recovery and chart the path for long-term economic growth in support of thriving communities. Many of the communities receiving the two planned tranches of funding also received CARES Act funding, yet there are many new cities and counties that will directly receive funding. How can they prepare?

- ▶ **Reflect and re-energize.** ARPA funding is significant and represents a unique opportunity to make community investments, achieve equity and rebuild post-pandemic. Given the sacrifices made to adapt to significant changes during COVID-19, leaders and employees will benefit from taking a step back to think boldly about how these funds can rejuvenate their communities.
- ▶ **Appoint a task force or commission to advise on the use of ARPA funding.** Be sure to include all key stakeholders, give the group a clear charter and provide staff support.
- ▶ **Engage in an objective assessment of needs.** Begin any strategic planning efforts with a data and benchmarking analysis of needs across demographic groups, geographies and industries in your community. Also, schedule listening sessions with local stakeholders, layering their insights into the data assessment to present a more complete understanding of where the greatest needs are to help inform decisions about funding allocation.
- ▶ **Map ARPA funding streams to needs and priorities.** The ARPA contains more than 180 funding programs, covering everything from health centers to child abuse prevention to transportation to the arts. Understanding the full range of available funding up front will enable state and local governments to realize the full benefit of the ARPA and avoid confusion and backtracking later in the ARPA planning process.
- ▶ **Define and implement governance systems.** Align management of ARPA funds with existing or refreshed decision-making practices through government managers, executive leadership and legislators. Assess what responsibilities are necessary to design, implement and monitor ARPA programs and define roles to meet these programmatic and administrative needs.
- ▶ **Review work and workplace requirements.** Through the pandemic, remote work became necessary, yet as society reopens, work-from-home policies should be revisited. Review human capital management practices to determine which roles can be best executed remotely versus which roles are best served in government offices. Once role analysis is performed, assess human resource policies to address new practices and requirements, and review physical space requirements.
- ▶ **Commit to transparency.** Publicly share strategies, goals and progress, as well as tracking of funds usage (e.g., grant awards, contracts, assistance payments). Transparency supports the ongoing trust of the public and improves community engagement.
- ▶ **Conduct lessons learned events.** Governments and their community partners have adapted rapidly to meet the emerging demands of the pandemic. Changes in health services, delivery of essential and non-essential services, transit, and many other supports were rapidly implemented to meet citizens' needs during the pandemic. What changes are worth retaining? Where and how should temporary changes become permanent or evolve further?
- ▶ **Build upon established communication channels.** Communication about ARPA priorities and initiatives is critical to maximizing impact. Identify what approaches worked throughout the pandemic – text messaging, websites, media outlets, etc. Invest in hardening channels that have proved more accessible throughout the crisis and leverage those channels to meet new requirements related to ARPA priorities. Give special attention to reaching marginalized communities by partnering with trusted community organizations, communicating in multiple languages and meeting people where they are.



# MANAGING THE MONEY

Administering ARPA funds will be a challenge even for the most sophisticated state and local governments. Ensuring that funds are spent with integrity, transparency and accountability is critical. How can governments meet the expectations of taxpayers, auditors and others who want to be sure that ARPA funds are not misused?

► **Plan and implement compliance-driven processes.**

For governments that received CARES Act funds, review compliance management efforts to assess what worked, what might be improved and/or how to streamline processes. For new recipients, leverage practices related to eligibility determination, expense management, tracking and reporting. Identify if external support is necessary given demands on internal staff and expectations of independent auditors and oversight bodies. If your government doesn't already have a "watchdog" – such as an Inspector General – appoint one for ARPA.

► **Design programs to work together.** With so many different programs funded in the ARPA, it will be easy for the funding to become siloed. ARPA planning should look across all funding streams (ARPA, other COVID-19 relief funds and ongoing programs), even when those funding streams are owned by different divisions, offices or agencies. This approach helps prevent duplication of benefits across programs while also maximizing the impact of the dollars. There's an additional benefit of working together: many of these programs are intended to target our most vulnerable populations. By designing our programs to work together, governments can create a support mesh and share data to build awareness and increase access to assistance for those with the greatest needs.

► **Review opportunities to leverage technology solutions.**

Market solutions that support programmatic and financial management for locally directed funding programs – including small-business initiatives, workforce development, health equity programs, social services, rental assistance and housing programs – that are readily available to customize and implement. Such programs provide integrated tracking of funds allocated to each program, program performance, financial and performance reporting, and web-based postings.

► **Consider opportunities to design for the future.** Short-term, quick-implementation technology solutions are a great answer for getting dollars out the door fast to people who need them, but they leave us with major gaps in audit and reporting capabilities, and leave us with a longer-term challenge of eventually shifting away from those short-term solutions toward longer-term solutions. Governments should seek to make decisions that answer the immediate needs and provide a path to long-term capability and efficiency.

► **Perform in-process reviews.** Continuous review of strategies is a critical element in governance for fund management. This is an unprecedented time in our communities and their economies so anticipate that needs will evolve. Programs should be continually assessed to review demand, their performance and applicability as fiscal conditions change. Building internal and potentially engaging external reviews will strengthen utilization of funds and funds oversight.

► **Minimize fraud, waste and abuse.** State-led unemployment programs experienced such significant levels of fraudulent claims that every government needs to assume that its external funding programs are targets for fraud. Enterprise risk management programs should be updated to reflect new systems, processes, programs, governance and organizational structures. As funding programs are developed, internal controls must be comprehensively designed to strengthen their resilience, and governments need to invest in upgrading cybersecurity practices given heightened technology reliance.



# PROMOTING SUSTAINABILITY

Although ARPA funding is one-time money, if used wisely it can make state and local governments more fiscally sustainable for the long term. How can leaders take advantage of this opportunity?

- ▶ **First and foremost, be careful not to create new programs or expand existing programs that commit your government to ongoing expenses after the ARPA funds are exhausted.** Calling spending “one-time” does not make it any easier to discontinue a popular program.
- ▶ **Don’t automatically restore funding that was cut to balance the budget prior to the ARPA.** The sustainable way to fund new or expanded programs is by repurposing dollars within the base budget. Take a hard look at whether you can make reductions permanent. Contrast restoration of the status quo against alternative uses of funding. How does each option compare in terms of helping achieve strategic goals? This exercise will be easier for governments that have broken their budgets down into programs or services and know the cost and performance of each one.
- ▶ **Replenish reserves, fund balance or “rainy day” funds used to offset pandemic revenue loss or extraordinary expenses.** Treasury’s interim rule does not permit ARP funds to be put in reserves, but allowable expenses can free up general revenue. Now is a good time to review reserve policies. Best practices include:
  - ▶ Setting reserve requirements based on a risk profile that accounts for revenue volatility, vulnerability to natural disasters, probability of infrastructure failures, etc.
  - ▶ Clearly spelling out the conditions under which reserves may be drawn upon.
  - ▶ Requiring that reserves be replenished within a reasonable time period after they are used.
- ▶ Dedicating “excess” revenues to reserves if they are not at required levels. The pandemic is yet another reminder of the importance of reserves in making state and local governments fiscally resilient.
- ▶ **Build a solid forecast of baseline revenue and current service costs for at least the next 5 to 10 years.** A good forecast is the first step in planning for fiscal sustainability beyond the ARPA.
- ▶ **Deal with structural budget gaps before restoring or adding funding for existing or new programs.** Governments should be mindful of some fiscal and economic red flags that could affect their future budgets, such as the potential for commercial real estate to lose value, the dangers of stock market corrections, inflation risks and the income tax waiver on unemployment benefits in the ARPA law.
- ▶ **Review the revenue portfolio.** The pandemic recession was especially hard on state and local governments that depend on economically sensitive revenues like sales and hotel taxes. Revenues that rely on commuters – such as parking fees, tolls and wage taxes – may be forever altered by remote work. State and local governments have an opportunity to make their mix of revenues more resilient.

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- ▶ **Make smart capital investments.** The ARPA law plainly allows for investment in broadband, sewer and water infrastructure, and other types of capital investments are also eligible under certain circumstances. State and local governments should make such investments with the following considerations in mind:
    - ▶ Investing in projects already in the capital plan can reduce long-term debt service costs.
    - ▶ Capital investments can reduce long-term operating costs in other ways, too. Consider projects that reduce energy costs, automate inefficient business processes, use materials (such as for roadways) that are easier to maintain, etc.
    - ▶ Many capital projects have ongoing operating and other lifecycle costs that should be estimated and incorporated into financial plans.
  - ▶ **Develop plans to optimize the use of physical assets.** For many state and local government functions, working remotely will be part of the new normal. This reality creates opportunities for governments to reduce space usage and in turn relinquish or repurpose physical spaces and real estate. Savings could come from getting out of expensive leases, selling or leasing excess properties, or converting space for other cost-saving or revenue generating purposes. ARPA funding may be available for the up-front costs of reconfiguring workspaces and other expenses related to optimizing asset use.
  - ▶ **Invest in projects and initiatives that promise a financial return, if allowed.** These might include economic development plans that could increase future tax revenue, building a municipal composting facility with a profitable business plan, or beefing up tax collection and enforcement.
  - ▶ **Finally, before committing any ARPA funding, agree on a fiscal blueprint that guides how the funding will be spent.** Here are the steps to developing the blueprint:
    - ▶ Gain a comprehensive understanding of what the ARPA law allows and stay current on Treasury Department and other federal guidance.
    - ▶ Map all available federal, state and other funding sources to state or local response and recovery goals so that the ARPA allocation is only used where it is needed.
    - ▶ Determine how much of the allocation is needed to stabilize the government's finances, including meeting balanced budget requirements and replenishing reserves, through the entire period of the funding's availability.
    - ▶ Provide funding required for an effective public health response.
    - ▶ Assess the immediate needs for temporary assistance for individuals, families and businesses in crisis, and respond to any other pressing economic impacts.
    - ▶ If funding remains after addressing short-term needs, decide how much is available for restoring budget reductions in a way that is sustainable beyond ARPA based on the fiscal forecast.
    - ▶ If possible, set aside funding for bold investments that advance strategic goals. Ideally, these investments should create long-term benefits, but not ongoing financial commitments. This may be an opportunity to take some risk and also to pursue projects with local and regional partners.

A group of five diverse children are sitting on stone steps in front of a large, ornate wooden door. From left to right: a girl with light skin and blonde hair in a pink tank top and floral pants; a girl with dark skin and curly hair in a grey dress over a red shirt; a boy with light skin and brown hair wearing a pink shirt and a light blue scarf with sunglasses on his head; a boy with dark skin and curly hair in a brown and orange striped polo shirt; and a girl with dark skin and curly hair in a dark blue tank top. They are all smiling and looking towards the camera. The background features a large wooden door with glass panels and stone pillars. The ground is paved with stones and has some chalk drawings.

# MAKING AN IMPACT

Government officials will be deluged with ideas (and demands) for spending their ARPA funding. How can they get the best possible results?

- ▶ **Start with strategy.** Governments should adopt a set of priority goals for pandemic recovery and use these goals to organize recovery work and guide how ARPA money is invested.
- ▶ **Put process ahead of politics.** With fierce competition for ARPA resources, it is essential that investment decisions are made in a fair, objective and transparent way. Governments should set their goals with community input and announce up-front the process and criteria that will be used to make decisions. Deliberations, recommendations, decisions and results should all be in full view of the public via virtual meetings, dashboards and media.
- ▶ **Measure and report progress, adapting plans as needed.** Governments need to move quickly from goals to action. Step 1 is to turn the goals into measurable indicators, such as reemployment of displaced workers. Step 2 is to understand the problem deeply. Step 3 is to engage the partners needed to help solve the problem. Step 4 is to research potential solutions. Step 5 is to develop an action plan. Too often, governments go straight to Step 5 and implement programs backed by advocacy but not evidence.
- ▶ **Follow the evidence.** Thanks to research clearinghouses like those of The Pew Charitable Trusts and Results for America, governments that have identified their priority goals have ready access to proven and promising solutions for achieving them. Communities looking for successful reemployment models, for instance, can now readily find detailed information about several examples.
- ▶ **Experiment and evaluate.** ARPA funding should not be used to start new programs with recurring costs, but it should be used to test-run promising ideas and inform future budget decisions.

A good model is New York City's Office of Economic Opportunity, which pilots poverty reduction programs and rigorously evaluates them. Programs that demonstrate results are scaled up; those that don't are lessons learned.

- ▶ **Appoint a "results team."** The process of deciding which ideas to fund should include a review by a team of experts and analysts who understand evidence. Members could come from government, universities, businesses and the community.
- ▶ **Issue challenges.** One way to solve a tough problem is to crowdsource it. The federal government's Challenge.gov<sup>1</sup> concept can be replicated at the state and local levels. Challenges that offer monetary awards for the best ideas can put the whole world's brainpower to work on one city's pandemic recovery issue.
- ▶ **Think broadly about funding.** There are over 180 programs in the ARPA. Consider how the other ARPA programs could be utilized by agencies or government bodies with specific purposes. For example, government-owned/supported arts organizations (symphony orchestras, performing arts centers etc.) could apply for the Shuttered Venue Operators Grant and/or the endowment for the arts provisions of ARPA to assist with the fiscal impacts of the pandemic.
- ▶ **Cooperate regionally.** ARPA funding is an unprecedented opportunity for neighboring jurisdictions to join forces and tackle shared challenges. This kind of collaboration can be facilitated by existing regional bodies or new partnerships. Where it makes sense, include state, private, philanthropic and non-profit partners. Most issues aren't confined to political boundaries, and most solutions are more effective and efficient at scale.

<sup>1</sup> <http://www.challenge.gov/>

# DRIVING ECONOMIC RECOVERY



One of the main purposes of ARPA funding is to mitigate the economic impacts of the pandemic recession. How can state and local governments promote economic recovery and help their economies adapt to a post-pandemic world?

- ▶ **Promote inclusive economic development.** According to an analysis of US Census Bureau and EMSI data conducted by EY Economic Development Advisory Services, and included in the June 2021 article,<sup>2</sup> regions with greater levels of racial inclusivity enjoy higher levels of employment growth. As governments update their economic development plans for a post-pandemic economy, they should bring into the planning process historically underrepresented communities and give them a real voice.
- ▶ **Rebuild and strengthen trust.** Communities whose private, public and nonprofit organizations work well together also experience greater economic growth. Trust is at the core of effective partnerships. During divisive times, trust can feel like an insurmountable and emotional hurdle. But trust building can be achieved through actionable steps like improving procedures and processes, aligning goals through facilitated planning, and structuring transparent communication channels. Restoring relationships is the first step toward rebuilding our economies.
- ▶ **Cultivate a technology-adept culture.** Changes in how we do business and how we work have been accelerated in response to the pandemic because of technology. Digital transformation of everything from our government systems to the skills we train for and the infrastructure in which we invest will be foundational to economic development. New opportunities for communities arise when remote working becomes more prevalent and businesses invest in automation. Cultivating a technology-adept culture will be a competitive advantage for communities that want to grow their economies.
- ▶ **Shift target industries to align with global business, trade and other market trends.** Most economic development initiatives focus activities on cultivating a handful of industry clusters that fit their regional assets and vision for the community. With the pandemic came a shift in industry trends, with some industries accelerating in growth and others declining. Now is an opportune moment for communities to update their target industries to reflect new market dynamics and along with it, update their strategies for marketing and community investments that enhance competitiveness for those targets.
- ▶ **Expedite transformation of workforce development systems,** linking user interface systems to workforce development and linking workforce development to employer needs.
- ▶ **Collaborate to connect small businesses with the resources they need to re-open and adapt.** Provide them assistance to help them capture their share of available relief funding.
- ▶ **When planning, consider how neighboring jurisdictions are deploying their funds.** Some of the most impactful ARPA-funded initiatives will have impacts across an entire region. A cross-jurisdictional task force could consider major economic recovery needs that could be advanced through coordinated action, as well as help avoid duplication.

<sup>2</sup> <https://pub.ey.com/public/2020/2003/2003-3447037/edas-newsletter/news-home/blog.html>

A young child with curly hair, wearing a dark coat with a fur collar, is looking up at colorful bokeh lights at night. The background is filled with out-of-focus lights in shades of blue, yellow, and purple, creating a festive and magical atmosphere. The child's face is partially illuminated by the warm light, and their expression is one of wonder and hope.

# ADVANCING EQUITY

The pandemic has exposed and exacerbated inequities in education, health, housing, etc., as well as in how people are served by their governments. How can communities use the recovery to become more equitable?

- ▶ **Plan to reduce disparities.** The first step toward greater equity is setting explicit goals for reducing disparities. Examples include shrinking the employment gap between Black and white residents, the academic achievement gap or the life expectancy gap.
- ▶ **Engage underrepresented populations.** Virtual meetings have boosted resident engagement, but only for those with the time and technology to access public meetings. To reach underrepresented populations, co-design engagement events with community organizations and personally invite people to participate. Have adult conversations about the choices the community is facing. Use vaccine and testing sites and food distribution events to inform those who might not otherwise be tuning in.
- ▶ **Target those most in need.** Use data to make sure the hardest-hit people, businesses and neighborhoods are getting the help they need to recover. Assistance programs that offer a fixed grant amount to anyone meeting minimum eligibility requirements on a first-come, first-served basis will fall short of the results that are possible with a more targeted approach.
- ▶ **Bridge the digital divide.** ARPA allows for investment in broadband infrastructure, and governments have an opportunity to provide low-cost digital access to underserved residents, promote economic growth, make municipal services smarter and possibly develop a new revenue source. Local governments will need to carefully evaluate competing options for broadband expansion, including building and operating their own network (where permitted by state law) and partnering with an ISP.
- ▶ **Try participatory budgeting.** Allocate a portion of ARPA funds to underinvested neighborhoods for one-time economic recovery projects. Let residents propose and vote on projects – put the decision in their hands.
- ▶ **Leverage new resources.** Many philanthropies and private companies are committed to advancing equity. Governments should seek out opportunities for grants or matching funds to implement and evaluate innovative solutions that promise to reduce health, employment, academic and other disparities.

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SCORE no. 12714-211US  
2104-3757993  
ED None

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