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Priorities for Spending the American Rescue Plan's State and Local Fiscal Recovery Funds

By CBPP Staff

The American Rescue Plan is not only an extraordinary federal policy response to the COVID-19 pandemic and its severe attendant hardships, but also a historic opportunity to begin undoing longstanding racial and economic inequities that the pandemic exposed and worsened. States, localities, U.S. territories, and tribal governments will play a central role in realizing this opportunity. That's partly because the Rescue Plan provides them with \$350 billion in Fiscal Recovery Funds and wide latitude around using this aid to address the crisis and build toward a better future. How they choose to spend the Fiscal Recovery Funds — and what complementary policies they put in place for the long term — will make a crucial difference in limiting pandemic-induced hardships, which have been concentrated in Black, Indigenous, and Latinx and other communities of color, and in building a more equitable recovery and communities.

A previous CBPP report¹ recommended three principles that should undergird *all* state policy responses to the pandemic:

- Target aid to those most in need due to the COVID-19 and consequent economic crises.
- Advance antiracist and equitable policies — both short- and long-term — to dismantle persistent racial, ethnic, gender, and economic inequities and other barriers that non-dominant groups and identities experience.
- Strengthen state revenue systems to sustain transformative, long-term investments in Black, brown, Indigenous, immigrant, and low-income communities.

States, localities, territories, and tribal nations should apply these principles in the policy choices they will make in coming weeks and months to spend the Fiscal Recovery Funds. (They also should consult forthcoming Treasury guidance detailing permissible uses of the funds.²) Of the many possible equity-enhancing steps they could take, some options stand out, including:

¹ Cortney Sanders, Michael Leachman, and Erica Williams, “3 Principles for an Antiracist, Equitable State Response to COVID-19 – and a Stronger Recovery,” CBPP, updated April 29, 2021, <https://www.cbpp.org/research/state-budget-and-tax/3-principles-for-an-antiracist-equitable-state-response-to-covid-19>.

² Treasury will likely post the guidance on its Coronavirus State and Local Fiscal Recovery Funds site, <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-fund#main-content>.

- Restoring funding cuts for schools and other services;
- Building a robust outreach operation to help people access available federal, state, and local aid;
- Boosting incomes for essential workers and people with limited incomes;
- Invest in people to improve public safety;
- Helping children catch up on unfinished learning; and
- Investing in equity-enhancing broadband, clean water, and infrastructure projects.

Using the Fiscal Recovery Funds in these ways to address the immediate crisis would, in and of itself, have long-term benefits. Boosting access to income supports and programs that can help households pay for rent, food, and child care, for example, would reduce the number of people who become homeless and face other severe hardships that can harm their and their children’s physical and mental health. Investing in people’s mental health, improving supports for people with substance use disorders, and helping people in other ways that reduce their contact with police and the criminal justice system, especially for Black people, would increase their safety. By shifting public resources toward helping people rather than punishing them, these steps would also lay the groundwork for more productive, permanent policy approaches in Black and brown communities. Helping children catch up on unfinished learning would boost their long-term employment opportunities and productivity. And infrastructure investments targeted to long-neglected communities would improve residents’ health and opportunities, such as by reducing lead poisoning in children caused by neglected water pipes or lead paint.

States and localities should sustain many of these investments with their own funds after the federal funds are spent out. Post-pandemic economic growth may yield new revenue as long as states don’t squander it on tax cuts for individuals or companies that don’t need it. In addition, states and localities can raise new revenues by taxing wealthy individuals and companies that have done especially well during the pandemic. The vast majority of state and local tax systems today are upside down — that is, they ask the most (as a share of income) of those with the least — so raising revenues in this way would itself reduce economic inequality. It also would directly reduce racial inequities, since historical racism and ongoing forms of discrimination have resulted in severe racial inequities by income.

Policymakers charged with spending the Fiscal Recovery Funds should seek input from residents, especially the communities most harmed by the pandemic. Committing to a robust community engagement process, as for example Nevada has,³ can maximize the benefits of the aid by targeting problems identified by people living in the communities most affected. Policymakers can also establish and empower oversight councils rooted in the communities most affected to ensure that the funds are spent equitably and in line with the needs those communities identify.⁴

³ “Every Nevadan Recovery Framework,” April 2021, https://nvhealthresponse.nv.gov/wp-content/uploads/2021/04/Every-Nevadan-Recovery-Framework_final.pdf.

⁴ For an example of how this might work, see Jeffrey Levi *et al.*, “Building Equity and Community Accountability into Pandemic Response and Recovery: A Proposal to Create Response and Resilience Accountability Councils,” Funders Forum on Accountable Health, July 2020, <https://accountablehealth.gwu.edu/sites/accountablehealth.gwu.edu/files/Response%20and%20Resilience%20Accountability%20Councils.pdf>.

Amounts and Broad Uses of Fiscal Recovery Funds

The American Rescue Plan⁵ includes an array of emergency aid to reduce the extreme hardship many people and businesses are experiencing due to the COVID-19 pandemic. Much of this aid will be delivered to states, localities, and other governments, which will then use it to help people. This includes various forms of aid that states and other governments must spend on specific services. For instance, the Rescue Plan includes funding that states and other governments must use to help eligible people pay rent, afford food, or access child care (or to improve the supply of child care), as well as funding that states must pass through to school districts to help schools reopen and help students recover unfinished learning from the last year.

In addition, the Rescue Plan includes \$350 billion in Fiscal Recovery Funds for states, localities, tribal nations, and U.S. territories and allows them to use these funds for a broad set of purposes, giving them much more latitude than with the funds noted above. This \$350 billion is distributed as follows:

- \$195 billion to states, distributed based on each state's share of unemployed people after an initial allotment of \$500 million per state;
- \$65 billion to counties, distributed based on each county's share of the general population;
- \$65 billion to municipalities, distributed using the Community Development Block Grant formula, which considers a variety of measures largely focused on population, poverty, and housing overcrowding;
- \$20 billion to tribal governments, distributed primarily using a method that the Secretary of the Treasury will determine; and
- \$4.5 billion to U.S. territories, half distributed equally and the other half based on population.

The Rescue Plan provides that states and other governments may spend these funds to:

- respond to the pandemic and its negative economic impacts;
- provide bonus pay to essential workers;
- restore cuts in public services caused by pandemic-induced revenue losses and avoid additional cuts; and
- invest in water, sewer, or broadband infrastructure.

States and territories may *not* use the funds to offset a tax cut⁶ and no government may use the funds to support public employee pensions.

⁵ CBPP Staff, "American Rescue Plan Act Will Help Millions and Bolster the Economy," updated March 15, 2021, <https://www.cbpp.org/research/poverty-and-inequality/american-rescue-plan-act-will-help-millions-and-bolster-the-economy>.

⁶ Nicholas Johnson, "Latest Proposals Show Need for Rescue Plan's State Tax Cut Provision," CBPP, March 25, 2021, <https://www.cbpp.org/blog/latest-proposals-show-need-for-rescue-plans-state-tax-cut-restriction>.

Treasury Department guidance will provide details around these allowable uses of funds and is expected to be released before Treasury distributes the funds. The Rescue Plan provides for the following distribution plan:

- States and territories must submit a certification assuring that the funds are needed and will be used in the ways allowed under the Rescue Plan. Treasury has 60 days from receipt of this certification to distribute the funds to states and territories. Treasury has the authority to withhold up to half a state or territory's allocation for up to a year if the state's or territory's unemployment rate suggests it may not need all the funds immediately.
- Cities and counties will receive the first half of their funds within 60 days of the Rescue Plan's enactment (that is, by May 11, 2021), and the rest 12 months later.
- Tribal nations will receive the funds within 60 days of the Rescue Plan's enactment.⁷

Priorities for Spending Fiscal Recovery Funds

While there are many important steps states and other governments can take with the Fiscal Recovery Funds, the following options are particularly high priorities. In large part, that's because they would have substantial long-term benefits for Black and brown communities as well as for all low-income people and the economy as a whole, especially if states and other governments combine their short-term Fiscal Recovery Fund expenditures with revenue-raising policies that allow the investments to be sustained in the future.

Restore Cuts for Schools and Other Services

The pandemic caused a sharp decline last year in state, local, tribal, and territorial revenues relative to previously expected levels. Policymakers responded by laying off workers and, in some cases, reducing funding for schools and other services. As of March 2021, states and localities employed 1.2 million fewer workers than they did in February 2020, the month before the pandemic took hold. And while state and local revenues improved in recent months, some of those cuts remain in place. For example, Georgia lawmakers restored only about a half of the education funding cuts imposed last summer, leaving a reduction of \$561 million in place.⁸ And Ohio's governor restored some funding cuts for schools and higher education, but left in place about \$390 million in service cuts imposed last year.⁹

⁷ The American Rescue Plan Act states that Treasury must meet this deadline "to the extent practicable."

⁸ Danny Kansa, "Sine Die: Overview of Georgia's 2022 Fiscal Year Budget," Georgia Budget and Policy Institute, April 9, 2021, <https://gbpi.org/sine-die-overview-of-georgias-2022-fiscal-year-budget/>.

⁹ See Randy Ludlow, "DeWine restores \$260 million pandemic-related cuts to Ohio K-12 schools, universities," *Columbus Dispatch*, January 22, 2021, <https://www.dispatch.com/story/news/coronavirus/2021/01/22/ohio-gov-mike-dewine-restore-budget-cuts-k-12-schools-universities-coronavirus-pandemic/6678781002/>. While the Rescue Plan and the relief package enacted in December 2020 provide significant federal aid to school districts, that funding is needed to help cover the unexpected costs associated with educating children in a pandemic and to help schools make up students' learning loss over the last year. Moreover, it is targeted specifically to schools and school districts with large numbers of low-income children, meaning some school districts don't receive it. So this funding doesn't justify states cutting their own support for schools.

States and localities should use the Fiscal Recovery Funds (as well as the targeted Rescue Plan’s funding for things like schools, child care, and housing) to avoid *additional* layoffs and funding cuts and to restore jobs and services lost over the last year. They can’t undo the difficulties faced by laid-off public workers or the damage done by diminished public services over the last year, but they can position their schools and other services for a strong recovery.

Build Robust Outreach to Help Eligible Residents Get Needed Help

The American Rescue Plan’s assistance to help people pay rent and utilities, buy food, and pay for child care and other basic needs¹⁰ will have less impact if many eligible people don’t know that it is available or how to get it. Thoughtful, robust plans for outreach and application assistance are therefore critical. To maximize their impact and lay the groundwork for a stronger system moving forward, these plans should help people access *all* supports for which they are eligible, including those that pre-date the Rescue Plan.

States should take particular care to design outreach efforts focused on people with unique challenges. These include immigrants and their family members, who may face language and other barriers and may have misplaced concerns that receiving help could affect their immigration status or ability to stay in this country; people with disabilities; and people of color.

More specifically, states can:

- **Launch a public awareness campaign** that includes a centralized, one-stop-shop webpage where people can learn about the various kinds of supports for which they may be eligible. The campaign should also include media outreach in languages targeted to particular communities and engage community-based groups in raising awareness and directing people to the centralized site. States can also work with existing telephone and online “helplines” to connect people to resources they may not otherwise know about.
- **Fund and train organizations that already help people access SNAP, Medicaid, tax credits, or other supports** on how to connect people to a broader set of help. The state can inform these groups of the kinds of assistance now available and give them tools such as outreach materials and directories of places that people can go to get help. A key goal here is to build more destinations where people can learn about the full range of supports and how to get them.

Boosting funding for these groups can allow them both to broaden the scope of services they help people access and to expand their reach; in particular, they can target groups often barred from accessing services (such as immigrants) and those facing other systemic barriers to enrolling in government support programs. These programs may include federally funded entities such as Affordable Care Act (ACA) marketplace navigators that operate in most states. States can also build on the partnerships they established to encourage participation in the 2020 census and those built to provide access to COVID-19 testing, both of which reached people often left out of government programs. States should also train their own staff across a range of programs so they can help connect applicants for one program to other supports for which they may be eligible.

¹⁰ CBPP Staff, *op. cit.*

- **Fund organizations that are well positioned to reach people with particularly significant barriers** to accessing support, including immigrants and people of color with low incomes. Community action agencies, faith-based organizations, and religious institutions with the trust of their target communities can inform people of the resources available to them and help them get it, in some cases by providing application assistance or help navigating programs. State funding for these groups should continue as long as there is a need to target people for accessing the recovery resources.
- **Consider designing outreach efforts as part of a broader subsidized jobs program** (see below), thereby providing jobs to unemployed workers while maximizing the benefits of the available federal aid.

Boost Incomes for Essential Workers and People With Limited Incomes

Tens of millions of people are struggling to put food on the table, pay rent and utilities, or cover other basic expenses. While the Rescue Plan provides aid to address some of these needs, some people will experience high levels of hardship for the foreseeable future. Many of them were already having trouble meeting basic needs before the pandemic and lacked the savings or flexibility in their tight budgets to cover the extra costs it imposed. Even with the Rescue Plan's aid, these people will still struggle for basic necessities. By helping them cover those essential costs, increasing their income would stabilize their lives and help them provide for their children, with long-term benefits for all of us.

An efficient way to get additional income to these households is to provide direct, unrestricted cash payments for households with little or no income to meet basic needs. Some households would benefit from one-time emergency assistance, while others may need income for an extended period. States can also use the Fiscal Recovery Funds to boost the incomes of essential workers, who are disproportionately people of color and women. More specifically, states can:

- **Provide cash payments** for an extended period for specific populations particularly likely to struggle in the current economy. In each community, certain populations will have heightened needs; states and localities could identify those residents and target aid to them. For example, those populations could include families fleeing domestic violence, families in the child welfare system, single adults not caring for minor children, families receiving benefits through SNAP or Temporary Assistance for Needy Families (TANF), community college students with low incomes, people returning from jail or prison, young people exiting the foster care system, and workers ineligible for unemployment insurance, including immigrants who have been left out of most other relief measures.
- **Create or expand emergency assistance programs** to help families pay off debt accumulated during the pandemic, meet needs not met by other relief measures, and return to work. These programs could, for example, help families pay for car repairs and car insurance or unmet medical or dental needs that keep individuals from meeting basic needs and looking for work.
- **Provide up to \$13 per hour in bonus or “premium” pay** — on top of their regular pay — to essential public and private workers, up to \$25,000 per worker, as allowed under the Rescue Plan. States should prioritize workers most needing support, particularly those earning less than \$15 per hour, and provide the most premium pay to the lowest-paid workers; this would help ensure that the support reaches essential workers of color in proportion to the

pandemic's racially disparate impact.¹¹ (Some essential workers who did heroic work are not low paid, and while honoring their service is important, extending premium pay to people with above-average wages would divert resources from other efforts.) States also should prioritize workers who performed essential work at high risk during the pandemic before vaccines were widely available.

- **Create subsidized jobs programs** to keep people attached to the labor market while providing income to meet their basic needs. Workers of color, workers without a college degree, women, and immigrants have experienced a disproportionate share of job losses in the past year. Also, in recoveries from previous economic downturns, improvements in job prospects for Black workers in particular have lagged those for white workers. Subsidized employment, in which the government temporarily covers the costs of wages that workers earn in public- or private-sector jobs, can play an important role in creating an equitable recovery.

States should avoid requiring an immigration status check when providing cash aid or other forms of assistance using the Fiscal Recovery Funds except when federal law requires it (for example, for cash assistance provided with Pandemic TANF Emergency Assistance funds). The American Rescue Plan does *not* require government entities or grantees to ask about immigration status when using the Recovery Funds, and such status checks prevent many people from getting help, including non-immigrants who may not have ready access to documents proving their status. States and localities should check Treasury guidance and consider legal issues involved in each particular case, but — even if Treasury does not address these questions — they should feel confident about their legal position when using the Recovery Funds to assist people without imposing an immigration status check.

Besides boosting incomes, states and other governments can take additional steps to support people left out of other forms of assistance. For example, to the extent Treasury guidance allows, they should use the Fiscal Recovery Funds to expand health coverage to cover uninsured people who can't get coverage through Medicaid, the Children's Health Insurance Program, or the ACA marketplaces due to immigration-related restrictions.

Invest in People to Improve Public Safety

The high-profile police killings of George Floyd, Breonna Taylor, and others — and continued police killings of unarmed Black and brown people — have led to growing demands to shift toward non-police alternatives to public safety. Further, because the current policing and incarceration system grew out of a racist history of oppression targeting Black people and retains many features of that legacy, changing it is imperative for building a more equitable country in which everyone is safe and able to thrive. Several provisions of the American Rescue Plan can help states and localities build safer and more modern systems of emergency response and replace systems of control and punishment with more forward-looking, human-centered investments.

For example, states should take advantage of the Rescue Plan's enhanced federal matching rate for states that cover mobile crisis intervention services in Medicaid and its funding for state planning

¹¹ Molly Kinder, "With federal aid on the way, it's time for state and local governments to boost pay for frontline essential workers," Brookings, April, 6, 2021, <https://www.brookings.edu/blog/the-avenue/2021/04/06/with-federal-aid-on-the-way-its-time-for-state-and-local-governments-to-boost-pay-for-frontline-essential-workers/>.

grants and implementation efforts to expand mobile crisis teams. Many communities have created teams led by behavioral health professionals who help de-escalate behavioral health crises and connect people to community-based services.¹² Mobile crisis services may also prevent the arrest and incarceration of people with mental health and substance use disorders, who are disproportionately represented in the nation’s jails and prisons and among fatal police shootings.¹³ One model — Eugene, Oregon’s Crisis Assistance Helping Out On The Streets (CAHOOTS) program — dispatches teams of mental health experts and medics to respond to mental health crises, and it has reported a large drop in the need for law enforcement to respond to such emergencies.¹⁴

More broadly, states and localities should develop multi-faceted plans for shifting away from heavy reliance on policing and punishment and toward systems that create safety by helping people and communities. These plans would need to include new investments in Black and brown communities, such as for schools, need-based college aid, and affordable housing. To the extent the forthcoming Treasury guidance allows, states and localities should jumpstart these investments using Fiscal Recovery Funds. (Two of the law’s allowable uses of the funds could apply here: to restore cuts in public services caused by pandemic-induced revenue losses or to help people affected by COVID’s economic impacts.) To take just a few examples, states and localities may be able to:

- **Increase support for school-based social services.** School districts with children from lower-income households often coordinate with broader community efforts to provide essential supports like mental health services, food, health care, and after-school care. States and other governments should consider ways of using the Fiscal Recovery Funds and the Rescue Plan’s aid for schools to increase investment in these services in high-poverty neighborhoods. Increasing families’ access to these service “hubs” (sometimes called community schools) would be especially needed for the rest of the health crisis and its aftermath.¹⁵

States and other governments can simultaneously eliminate police presence in schools, a key step in moving from systems that criminalize Black and brown people — beginning in childhood — toward systems that help and invest in them. In the same vein, school districts can reform their disciplinary policies, including truancy policies that engage law enforcement rather than employing supports for children and families. And states and localities should

¹² Substance Abuse and Mental Health Services Administration, “Crisis Services: Effectiveness, Cost-Effectiveness, and Funding Strategies,” U.S. Department of Health and Human Services, 2014, https://www.nasmhpd.org/sites/default/files/SAMSHA%20Publication%20on%20Effectiveness%20%26%20Cost-Effectiveness%20of%2C%20and%20Funding%20Strategies%20for%2C%20Crisis%20Services%206-5-14_8.pdf.

¹³ Julie Tate, Jennifer Jenkins, and Steven Rich, “985 People Have Been Shot and Killed by Police in the Past Year,” *Washington Post*, updated May 5, 2021, https://www.washingtonpost.com/graphics/investigations/police-shootings-database/?tid=ik_inline_manual_3; Amam Z. Saleh *et al.*, “Deaths of people with mental illness during interactions with law enforcement,” *International Journal of Law and Psychiatry*, May-June 2018, <https://pubmed.ncbi.nlm.nih.gov/29853001/>.

¹⁴ White Bird Clinic, “What is CAHOOTS?” October 29, 2020, <https://whitebirdclinic.org/what-is-cahoots/>; Jackson Beck, Melissa Reuland, and Leah Pope, “Behavioral Health Crisis Alternatives — Case Study: Cahoots, Eugene, Oregon,” Vera Institute of Justice, November 2020, <https://www.vera.org/behavioral-health-crisis-alternatives/cahoots>.

¹⁵ Michael B. Horn, Julia Freeland, and Stuart M. Butler, “Schools as Community Hubs: Integrating Support Services to Drive Educational Outcomes,” Brookings Institution, September 2015, <https://www.brookings.edu/wp-content/uploads/2016/06/Horn-Freeland-Paper-FINAL.pdf>.

immediately release youth with low-level offenses or technical probation violations from juvenile detention and support their reentry into schools and communities.¹⁶

- **Build a comprehensive support system for people with substance use disorders (SUDs).** States should use Medicaid as the foundation for funding comprehensive care for people with low incomes. (States that have not expanded Medicaid should do so, which would open up significant funding for SUD treatment.) Medicaid can cover a rich array of clinical SUD treatment services, recovery supports, and other mental and physical health care. And unlike grant-funded programs, Medicaid guarantees health coverage to all who qualify, so funding adjusts to meet rising need. States can then use the Fiscal Recovery Funds, to the extent Treasury allows, to pay for services that Medicaid *doesn't* cover and to fund treatment for people with SUDs who are under- or uninsured and aren't eligible for Medicaid. That includes many formerly incarcerated people, immigrants without Social Security numbers, and people ineligible for Medicaid because their state hasn't expanded the program.
- **Expand support for people with mental health challenges.** Mental health problems increased markedly during the pandemic. As with care for substance use disorders, states should consider ways to use the Recovery Funds to supplement mental health care available through Medicaid and to reach people ineligible for Medicaid. They should target this support to low-income areas and Black and brown communities, where adequate and affordable mental health services are particularly lacking.
- **Eliminate criminal legal fees and base fines on ability to pay.** States and localities should discharge all outstanding fines, fees, and court debt or at least stop penalizing and jailing individuals for unpaid fines and fees while the economy remains weak.¹⁷ States should also stop suspending driver's licenses for unpaid fees and fines, which can prevent people from working and engaging with their families and communities.

Going forward, states and localities should eliminate criminal legal fees, base fines on ability to pay, and use general funds to support courts and police departments.¹⁸ Fiscal Recovery Funds could help this transition. To the extent Treasury allows, states and localities that eliminate criminal legal fees could use Fiscal Recovery Funds to replace some or all of the lost revenue. In the meantime, they could develop a plan to use general funds to support their courts and police after the Fiscal Recovery Funds are spent. (Reducing fees and fines wouldn't reduce tax revenue so wouldn't appear to run afoul of the Rescue Plan's restriction against states using the funds to cut taxes.¹⁹) In addition, states should reform or eliminate mandatory minimums and other sentencing laws that have led to extremely high incarceration rates, especially among Black and brown people, and leave those in detention facilities at greater risk of infection.

¹⁶ Bill McBride, "COVID-19 Responses in the Juvenile Justice System," National Governors Association, March 30, 2020, https://www.nga.org/wp-content/uploads/2020/04/Memorandum_COVID-19-Responses-in-the-Juvenile-Justice-System.pdf.

¹⁷ Fines & Fees Justice Center, "COVID-19 Crisis: FFJC Policy Recommendations and Policy Tracker," May 6, 2020, <https://finesandfeesjusticecenter.org/articles/ffjc-policy-recommendations-for-the-covid-19-crisis/>.

¹⁸ See Courtney Sanders, "California Criminal Fee Repeal a Big Step for Racial Justice, Equitable Policy," CBPP, October 14, 2020, <https://www.cbpp.org/blog/california-criminal-fee-repeal-a-big-step-for-racial-justice-equitable-policy>.

¹⁹ See Nicholas Johnson, "Rescue Plan Protects Against Using Federal Dollars to Cut State Taxes," CBPP, March 11, 2021, <https://www.cbpp.org/blog/rescue-plan-protects-against-using-federal-dollars-to-cut-state-taxes>.

Spending Choices to Avoid

The American Rescue Plan's historic emergency aid will do little good if states and other governments don't use it to help people struggling because of the pandemic and to invest in ways that undo the structural inequities the pandemic has highlighted and exacerbated. States should spend their Fiscal Recovery Funds in ways consistent with the principles described in this paper — namely, to help the people who need it most and reduce racial and economic inequities. Examples of spending choices states should avoid include:

- **Deposits into state unemployment insurance (UI) trust funds.** The sharp rise in joblessness in the pandemic has depleted many states' UI trust funds, but the financing of the trust funds is not in crisis. When states deplete their funds, the federal government automatically lends states the funds needed to pay benefits and allows a substantial grace period before requiring repayment.
Depositing Fiscal Recovery Funds into UI trust funds would reduce the amount that employers (which entirely finance state UI benefits through dedicated taxes) will eventually need to pay to replenish the funds. But employers wouldn't feel most of the benefit until years in the future, when the bulk of the tax collections necessary to rebuild the trust funds will be collected. And states have other ways to help struggling businesses cover UI taxes during the health crisis, such as temporarily exempting them from the tax. Moreover, using the funds this way would spend emergency federal aid that millions of people need right now, while doing nothing to help laid-off workers.
- **Deposits into state “rainy day” reserve funds.** Treasury guidance will explain the circumstances (if any) in which states and other governments may save the Fiscal Recovery Funds. States may be allowed, for example, to save the funds temporarily as long as they are fully spent by the end of 2024. Such temporary saving may be justified to help people recover from the pandemic (which may take more than one year) and to help transition to state funding of improved systems of support. States should set a responsible timeline for spending these funds and ensure that aid lasts as long as people need, but should not hoard the funds for fear of future budget holes. Instead, they should use the funds to protect people from hunger, homelessness, and other hardships during the remainder of the health crisis and enable them to emerge from the crisis with more opportunities and more supports around them.
- **Expansion of systems of policing and punishment.** The American Rescue Plan gives states and localities a historic opportunity to begin transforming how we help people with mental illnesses and address substance use disorders, homelessness, and other social issues often related to poverty and systemic racism. They should use the Recovery Funds to foster this transformation. Using the funds instead to bolster existing systems of policing and punishment would add to the extensive damage that over-investment in these systems has produced. For example, localities and states should not use the funds to increase police activities that criminalize people experiencing homelessness; rather, funds aimed at addressing homelessness should be used to help people find housing and other supports they need.
- **Poorly negotiated contracts for broadband and other infrastructure projects.** Many small towns and low-population counties with little experience negotiating major contracts will receive substantial Fiscal Recovery Funds; large companies will likely approach them seeking deals on infrastructure projects. States may wish to offer help in consolidating, evaluating, and negotiating contracts to minimize the danger of approving projects with little public benefit.

Help Children Catch Up on Unfinished Learning

By some estimates, students on average will lose nine months of learning by the end of the 2020-21 school year due to the pandemic.²⁰ Students of color, who face particular barriers in education partly due to the historical legacy of discrimination, may well have lost a full year. Helping these children make up lost educational time will require a large, sustained effort, including high-quality tutoring and increased learning time (such as through an extended school day or school year). The educational research firm Education Resource Strategies estimates that in districts that serve high concentrations of students living in poverty, Black and Latinx students, or English-language learners, it could take five years of extended learning time and tutoring to put students back on track.²¹ The Rescue Plan's \$123 billion for schools (along with the \$54 billion in federal funds for K-12 schools in the December relief package) will help a great deal,²² but states will need to supplement it with the Fiscal Recovery Funds or their own revenues to help all students who need it over the next several years.

States and school districts should review Treasury guidance on the Fiscal Recovery Funds to understand the parameters for its use in this area. States may be able to use the Fiscal Recovery Funds to invest in intensive tutoring and extended learning time, targeted especially to students in most need of catching up, under the Rescue Plan provision on responding to COVID's negative economic impacts. One argument for this is that COVID's economic impacts were especially great in certain communities, which exacerbated student learning loss in those areas.

Under the same rationale, states and localities may also be able to use Fiscal Recovery Funds to help seed long-term improvements in funding for high-poverty schools, thereby reducing racial and economic disparities in education caused by structural inequality. Students living in poverty, Black and Latinx students, and English-language learners face barriers that research has shown can be mitigated by additional school funding.²³ If allowed, states and localities could use the Fiscal Recovery Funds to help create better funded and more equitable school funding systems, and then plan how to sustain those improvements in the future. If not allowed, states and localities could boost funding for under-resourced schools using their own funds, at least over time. More specifically, states should:

- **Increase base per-pupil funding and boost weights within state school funding formulas** that direct resources to the schools educating the greatest shares of students from low-income families, students with disabilities, and English-language learners. Those

²⁰ Emma Dorn *et al.*, "COVID-19 and Learning Loss — Disparities Grow and Students Need Help," McKinsey & Company, December 8, 2020, <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/covid-19-and-learning-loss-disparities-grow-and-students-need-help>.

²¹ Tiffany Zhao, Tomas Malfino, and Jonathan Travers, "The Cost of Covid: Understanding the full financial impact of COVID-19 on districts and schools," Education Resource Strategies, January 13, 2021, <https://www.erstrategies.org/cms/files/4699-cost-of-covid-paper-final.pdf>.

²² Nicholas Johnson and Victoria Jackson, "American Rescue Plan Act Includes Much-Needed K-12 Funding," CBPP, March 15, 2021, <https://www.cbpp.org/research/state-budget-and-tax/american-rescue-plan-act-includes-much-needed-k-12-funding>.

²³ Bruce Baker, "Does Money Matter in Education?" second edition, Albert Shanker Institute, 2016, <http://www.shankerinstitute.org/resource/does-money-matter-second-edition>.

communities have been hardest hit by the pandemic and have generally been inadequately resourced.

- **Expand community schools in neighborhoods where the pandemic has taken a particularly heavy toll.** As mentioned above, these schools provide or coordinate “wraparound” services such as mental and physical health services, nutrition and housing support, tutoring and expanded learning time, family engagement, and community collaboration, and are shown to improve student outcomes.²⁴ Investments like these, especially when targeted to racially segregated communities whose schools have long been neglected, could reduce racial and economic inequities over the long term.

Invest in Equity-Enhancing Broadband and Clean Water Projects

One allowable use of the Fiscal Recovery Funds is to make needed investments in broadband, water, and sewer infrastructure. These sorts of investments are desperately needed across the country, especially in low-income areas and communities of color and particularly in areas where Black people and Indigenous people are concentrated.

Internet access is a necessity today, yet many millions of children live in homes without it, either because their family can’t afford access or because the connectivity infrastructure in their communities is weak or nonexistent. That disadvantage has been especially obvious during the pandemic, when many schools shifted classes to online only, but it limits children’s educational opportunities outside of health crises as well. Internet access is also essential for adults seeking jobs, medical advice in areas with few doctors, and government services and civic opportunities, among many other uses.

The lack of reliable Internet access is especially acute among Black and Indigenous people. One study found that in counties where more than three-quarters of the population is white, 82 percent of residents have fixed broadband access, on average, compared to 60 percent and 15 percent in counties where more than three-quarters of the population is Black or Indigenous, respectively.²⁵

Further, because of historical racism and ongoing discrimination and bias, many people of color can’t *afford* Internet access even where it is available. While the lack of broadband access in rural areas has gotten much attention, most people who lack a wired or wireless Internet subscription live in metropolitan areas, where the primary issue is affordability.²⁶ Cost issues are also apparent in racial disparities in the type of Internet connection people have, with Black and Hispanic people relying more on cellphones with screens that are much smaller than the typical laptop or home computer.

²⁴ Linda Darling-Hammond, Abby Schachner, and Adam K. Edgerton, “Restarting and Reinventing School Learning in the Time of COVID and Beyond: Priority 8 — Establish Community Schools and Wraparound Supports,” Learning Policy Institute, August 2020, <https://restart-reinvent.learningpolicyinstitute.org/establish-community-schools-and-wraparound-supports>.

²⁵ Kelsey Berkowitz and Jim Kessler, “The Racial Equality and Economic Opportunity Case for Expanding Broadband,” Third Way, February 1, 2019, <https://www.thirdway.org/report/the-racial-equality-and-economic-opportunity-case-for-expanding-broadband>.

²⁶ Lara Fishbane and Adie Tomer, “Neighborhood broadband data makes it clear: We need an agenda to fight digital poverty,” Brookings Institution, February 6, 2020, <https://www.brookings.edu/blog/the-avenue/2020/02/05/neighborhood-broadband-data-makes-it-clear-we-need-an-agenda-to-fight-digital-poverty/>.

While 80 percent of white adults have a broadband connection at home, only 71 percent of Black adults and 65 percent of Hispanic adults do.²⁷

In addition, much of the country's clean water and sewer infrastructure is outdated, resulting in regular line breaks and badly polluted waterways. These needs are particularly apparent in Black and brown communities that have long been segregated and neglected by government policies. As the experience of Flint, Michigan demonstrated, this neglect can have dire health implications for the children and adults of these communities;²⁸ removing leaded drinking water lines would yield substantial lifetime benefits for millions of residents.²⁹

States and localities should spend some of their Fiscal Recovery Funds to help overcome inequities in both of these areas. For example, they can invest in infrastructure projects that expand broadband access into rural areas, especially those where Black and Indigenous people are concentrated, and — assuming Treasury guidance allows — provide routers and other equipment to low-income people in metropolitan areas. They can also modernize clean water systems in neighborhoods where lead poisoning from neglected pipes is prevalent, targeting their investment particularly to help Black children.

States and other governments should supplement these infrastructure investments with related investments to reduce lead poisoning and other forms of environmental toxins. For example, they likely can use the Fiscal Recovery Funds to strengthen or adopt lead abatement programs that protect children from lead in housepaint and the soil.³⁰ Treasury guidance should allow use of the funds for these investments, given that children have faced added exposure to lead during the pandemic from spending added time in homes with lead paint³¹ and that reducing lead can help children recover unfinished learning from the past year (since lead poisoning would badly undermine their ability to catch up).

These investments would also have broader economic benefits. In the near term, they would create jobs, boosting the recovery and workers' and families' incomes. Over the longer term, higher-quality, more efficient infrastructure would increase worker productivity, improving economic growth and wages.

²⁷ Pew Research Center, "Internet/Broadband Fact Sheet," April 7, 2021, <https://www.pewresearch.org/internet/fact-sheet/internet-broadband/?menuItem=194b49c6-68e6-45f0-902a-575673edb17f>.

²⁸ Abby Goodnough, Monica Davey, and Mitch Smith, "When the Water Turned Brown," *New York Times*, January 23, 2016, http://www.nytimes.com/2016/01/24/us/when-the-water-turned-brown.html?_r=0. See also Jessica Trounstein, "How Racial Segregation and Political Mismanagement led to Flint's shocking water crisis," *Washington Post*, February 8, 2016, <https://www.washingtonpost.com/news/monkey-cage/wp/2016/02/08/heres-the-political-history-that-led-to-flints-shocking-water-crisis/>.

²⁹ Pew Charitable Trusts, "10 Policies to Prevent and Respond to Childhood Lead Exposure," August 30, 2017, <https://www.pewtrusts.org/en/research-and-analysis/reports/2017/08/10-policies-to-prevent-and-respond-to-childhood-lead-exposure>.

³⁰ Green & Healthy Homes Initiative, "Aligning American Recovery Plan Dollars to End the Toxic Legacy of Lead Poisoning," May 6, 2021, <https://www.greenandhealthyhomes.org/aligning-american-recovery-plan-dollars-to-end-the-toxic-legacy-of-lead-poisoning/>.

³¹ Emily Anthes, "More Childhood Lead Poisoning Is a Side Effect of Covid Lockdowns," *New York Times*, March 11, 2021, <https://www.nytimes.com/2021/03/11/health/virus-lead-poisoning-children.html>.