

What the American Rescue Plan Means for Local Budgets

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What is the American Rescue Plan?

The American Rescue Plan Act (ARPA) was signed into law by President Biden on March 11, 2021. ARPA provides \$1.9 *trillion* in economic relief through direct payments (stimulus checks), expanded child tax credits and unemployment benefits, small business loans, and aid to local and state governments. This memo focuses on the impact that ARPA funding will have on state and local budgets.

What is Aid to Local and State Governments?

ARPA allocates \$350 billion in aid for state and local governments. This is in addition to the aid previously allocated under prior coronavirus relief efforts (the CARES Act and the Coronavirus Response and Relief Supplemental Appropriations Act). Unlike aid in the previous supplemental act, aid in ARPA is largely *unrestricted*.

State governments will receive \$195.3 billion, divided according to the share of the nation's unemployed workers residing in each state (so states with proportionally higher share of unemployment will get a larger payment).

American Rescue Plan Aid Distribution by Level of Government

Level of Government	Amount	Distribution Formula
State	\$195.3 billion	Share of national unemployment with CARES Act minimum payment
Counties	\$65.1 billion	Share of population (~\$200 per resident)
Cities (populations > 50,000)	\$45.6 billion	HUD Community Development Block Grant (CDBG) formula
Municipalities with < 50,000 people	\$19.5 billion	Distributed by the state, based on share of the overall population in the state.
Territories	\$4.5 billion	Base allocation plus population
Tribal	\$20.0 billion	Treasury determination

Aid Payments, Requirements, and Restrictions

An important aspect of the American Rescue Plan is that most of the state and local government aid is *unrestricted*. This means local officials can choose how to deploy the funds. The Treasury Department is still finalizing the funding rules, but, from the text of the law, here are the conditions we can expect.

Allowable Uses

1. Respond to the public health emergency of COVID-19 and its economic impact through aid to impacted industries, direct or indirect assistance to households, or small business and non-profit aids
2. Provide government services to the extent they were reduced due to revenue decreases
3. Make necessary investments in infrastructure such as broadband, sewer, or water
4. Provide premium pay for essential workers. Premium pay cannot exceed \$13 per hour or \$25,000 per worker extra.
5. Funds may be transferred to:
 - **A private non-profit organization**
 - A public benefit corporation for transit of people or cargo (e.g., regional transit authorities)
 - A special-purpose unit of state or local government (e.g., a school or water district)

Restrictions

- Cannot be used to backfill revenue lost due to a tax decrease
- Cannot be used to fund pensions

Reporting Requirements

States must report to the treasury how their tax revenue changed during the funding period and how their stimulus funds were used. Local government reporting requirements are being drafted but legislation says that “periodic reports” will be required.

Payment Timeline

50% of the funds above will be paid directly from the U.S. Treasury to each county and each city with >50,000 residents by **May 10, 2021**. Counties and cities will receive a follow-up payment for the remaining 50% no sooner than May 10, 2022. Funds must be expended by **Dec. 31, 2024**.

To receive the funds the local government must provide a signed certification to the U.S. Treasury for each payment.

Here’s a useful summary of the entire plan.

Aid Simulations

The final aid allocation is not yet clear – it will be determined by final regulations, state and local government certifications, and other requirements. Most importantly, a few provisions will affect the

final amount of funding to be divided among all cities and could significantly impact the amount of funds available for municipalities with <50,000 residents:

- No city with < 50,000 residents can receive a grant larger than 75% of their pre-pandemic annual budget (per analysis from the National League of Cities).
- States have discretion in the rules for disbursement and the method of population certification for municipalities with fewer than 50,000 residents.
- The exact data elements used to implement the Community Development Block Grant formula (CDBG) for cities with over 50,000 residents will affect amounts. The CDBG formula takes into account population, poverty levels, and housing instability in a community.
- How disbanded counties are accounted for in states and areas where all county land is co-terminous with city land and county and cities share revenue may affect amounts. In some cases cities may receive a portion of the aid allocated to their county based on existing pass-through agreements. (The Massachusetts Municipal Association has raised this issue with respect to some counties in the state.¹)

How do these estimates differ from the estimates published by the Senate?

Civilytics' aid estimates differ from the estimates published by the US Senate on 3/8/2021 in several important ways:

- Civilytics uses the ACS's 5-year population estimates, which are the most reliable. It is not clear which population estimates the Senate used.
- The American Rescue Plan allocates aid differently for "metropolitan cities" than for all other cities, towns, and municipalities. On average, "metropolitan cities" will receive more aid per capita than other cities, towns, and municipalities. Thus, cities will likely want to be included in the "metropolitan cities" group rather than the "all other" group if they can. The Senate estimates only include FY20 HUD CDBG grantees in this group but Civilytics identifies and estimate aid for all cities that could be included in this group. Civilytics' estimates include more recent FY21 HUD CDBG grantees along with 150 additional cities that have more than 50,000 residents but do not receive Community Development Block Grants.
- Civilytics is publishing provisional aid estimates for all other towns and municipalities with more than 10 residents. The Senate projections acknowledge that they "do not include villages or other sublocal entities that may also qualify for funding
- The Senate estimates for counties include adjustments for special provisions regarding some urban counties. These provisions are not detailed in the calculations. The per capita amount used is still correct, but the populations of some urban counties may be adjusted to account for

¹ "Where county governments have been abolished (Berkshire, Essex, Franklin, Hampden, Hampshire, Middlesex, Suffolk and Worcester), the law will keep the aid in the state by distributing the money to the cities and towns in the county based on the municipalities' percentage of the county population, and communities may use the funds to supplement their direct aid."

relationships with urban centers in ways that we are unable to recreate without more information.

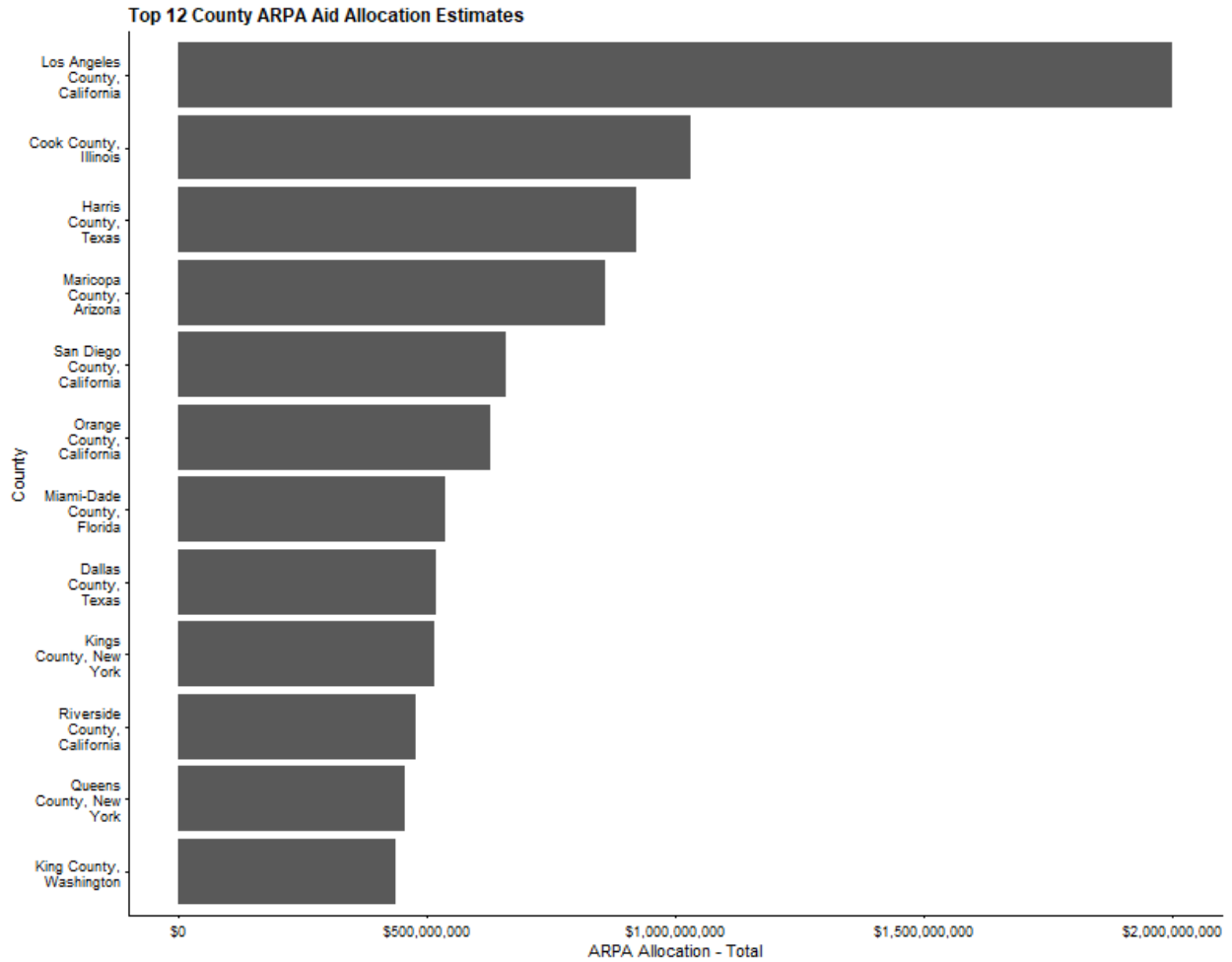
County Aid

Aid to counties is to be allocated using a proportional funding formula based on population. Using the most recent 5-year American Community Survey (ACS) population estimates, we can estimate the population of each county and identify the amount of revenue each is likely to receive.²

Dividing the \$65.1 billion in direct aid to counties by the county populations from the 2019 ACS (328,016,242 residents) results in an estimated \$198 payment per resident. Since the aid is proportional, we can use this per capita figure to estimate the aid payment to every county based simply on the county population. Civilytics aid estimates use the population figures for every county reported by the US Census and make no adjustments for urban counties - consider consulting the Senate estimates for another aid estimate that incorporates, but does not define, those estimates.

The figure below shows the top 12 counties in total payment. Consult the full list to identify how much your county is receiving in aid.

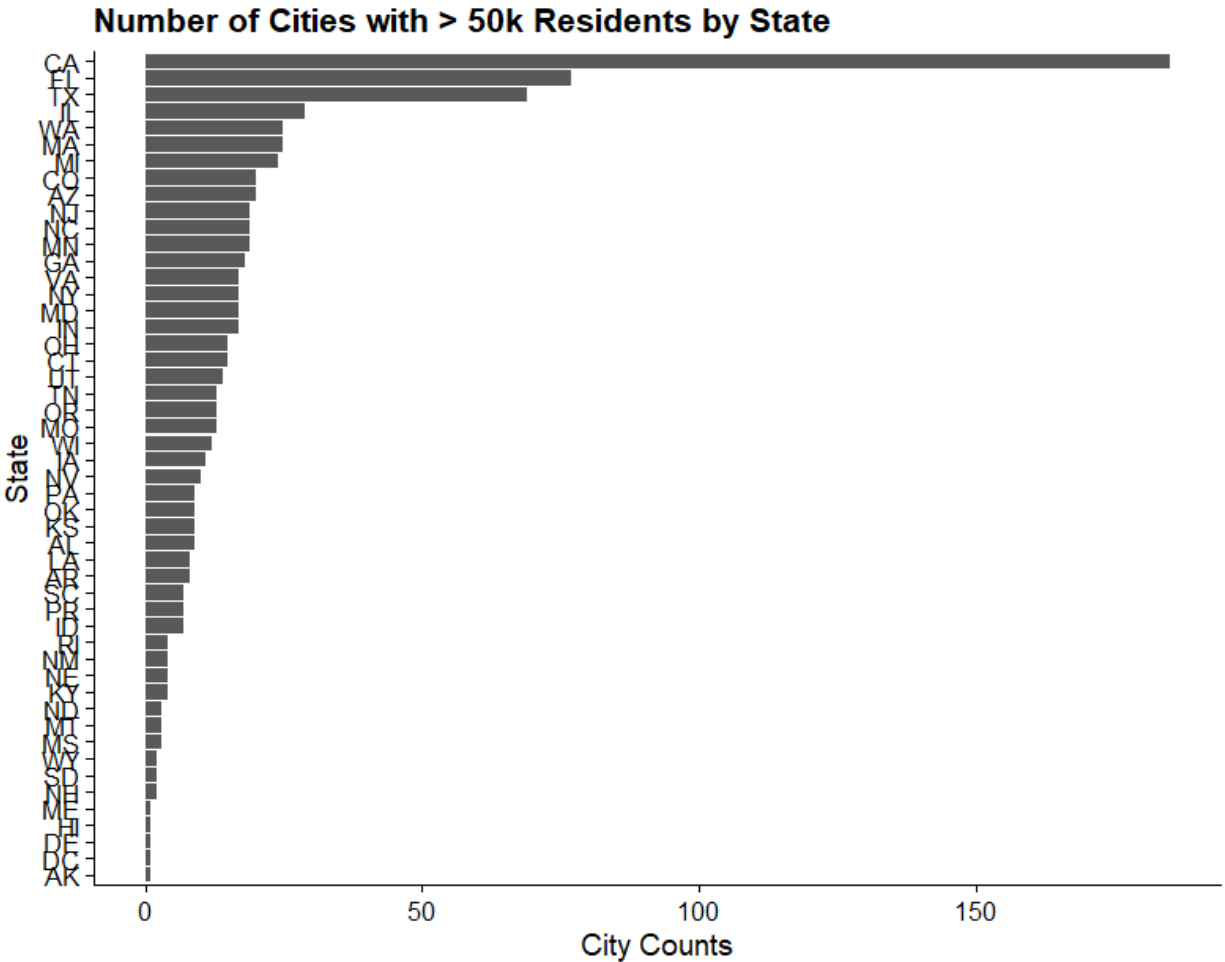
² This simulation includes counties recognized by the U.S. Census located in Puerto Rico and the District of Columbia. It also includes “county equivalents” as classified by the Census, including 17 boroughs in Alaska; 38 cities in Virginia; 78 municipios in Puerto Rico; Baltimore, MD; and St. Louis, MO. The final U.S. Treasury regulations could impact how these counties are treated.



Aid to Cities with > 50,000 Residents*

Cities with more than 50,000 residents are allocated **\$45.57 billion** in aid. Aid allocations for these cities are based on the formula used by HUD to allocate Community Development Block Grants. We can use the most recent aid allocations from HUD to estimate how the city aid will be divided.

* The aid is not restricted to cities with more than 50,000 residents. Cities and metropolitan areas that qualify for HUD CDBG grants are included in this definition.



We start with the 990 CDBG grantees identified by HUD and in the Senate allocations which include many, but not all, cities with more than 50,000 residents and other eligible municipalities.

Next, we find the 164 cities with more than 50,000 residents that did not receive a CDBG grant from HUD, but would be eligible under the ARPA statute based on their population. Of these cities:

- 5 have received CDBG grants in FY21 but not FY20 and were excluded from the Senate estimates
- 154 have populations greater than 50,000 but not CDBG grant and would likely be eligible for these funds
- 5 of these have populations within the margin of error of 50,000 but not CDBG grant and would likely be eligible for these fund

This gives us a total of 1,154 which can qualify for this funding.³ Next, we allocate the \$45.7 billion in ARPA aid these cities are eligible for in two steps:

³ We use the most generous estimate of population by identifying all cities that fall within the ACS margin-of-error for total population above 50,000 and include all cities also mentioned in the US Senate

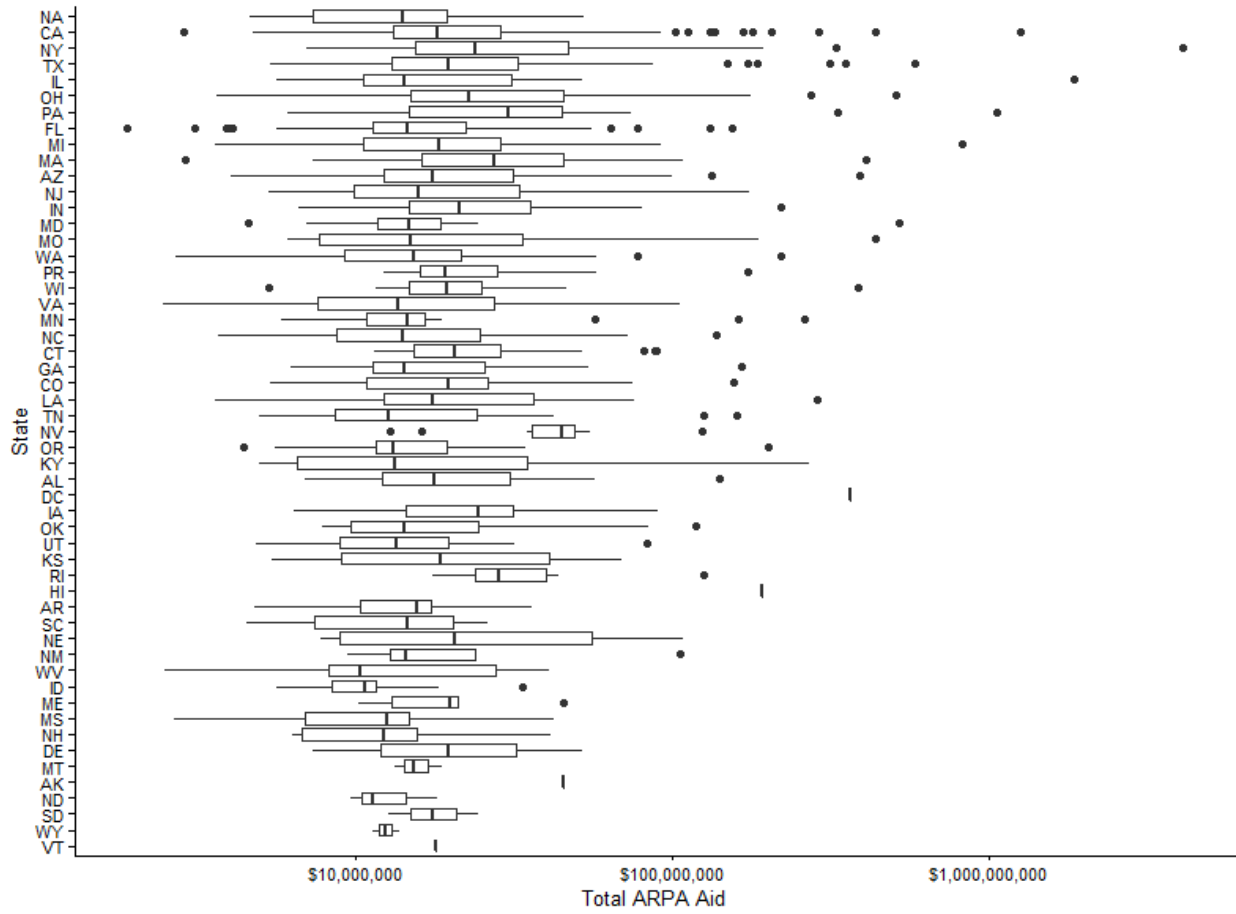
1. For the 162 cities that did not receive a CDBG grant, we estimate their potential award using their population and the median per capita CDBG grant award (\$9.95). For the 992 cities that received a CDBG grant, we use the value of their most recent award.⁴
2. We assign cities a proportion of the ARPA aid equal to the proportion of estimated CDBG funds they received in step 1.⁵

aid allocation estimates published on 3/8/2021. The final regulations may move as many as 50 cities into or out of this category and into the category for municipalities with fewer than 50,000 residents.

⁴ To estimate cities' aid allocation, we use the list of HUD CDBG recipients in the most recent year. The average CDBG grant award for cities was \$NA in FY21 and the median was \$NA. The per capita CDBG award distribution is skewed, with a few high outliers bringing the average above the median. Since it seems likely that more needy cities would apply for CDBG funds, we take a conservative approach and assume that cities that did not apply for a CDBG grant are more like the median CDBG awardee than the mean CDBG awardee.

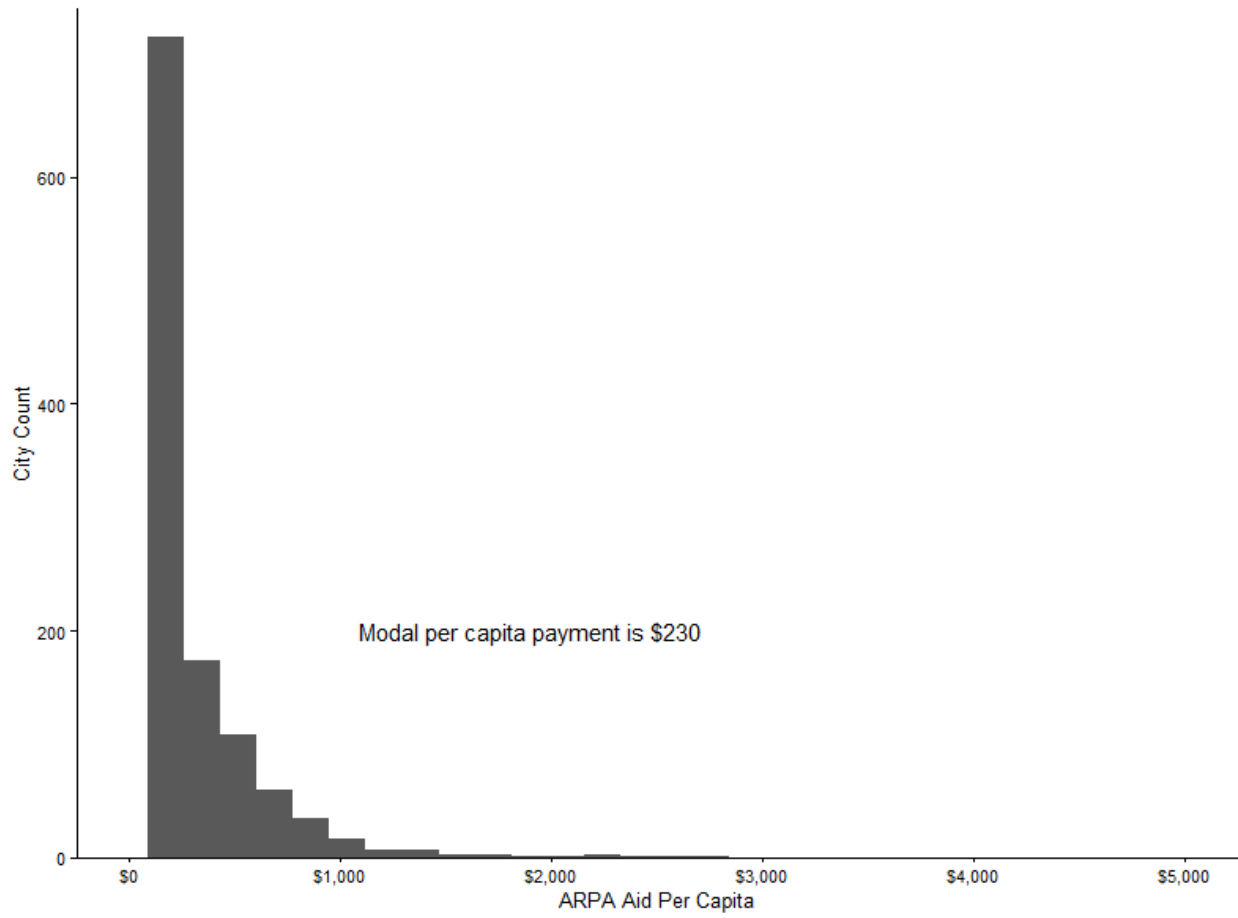
⁵ There were 995 cities that received CDBG block grants in either FY20 or FY21. We identify all of the cities with a population >50,000 from the Census and estimate their CDBG block grants where no grant was awarded by combining ACS 5-year estimates by Census place for municipalities with the HUD data using a crosswalk created by this author.

ARPA Allocation for Cities with > 50k Residents

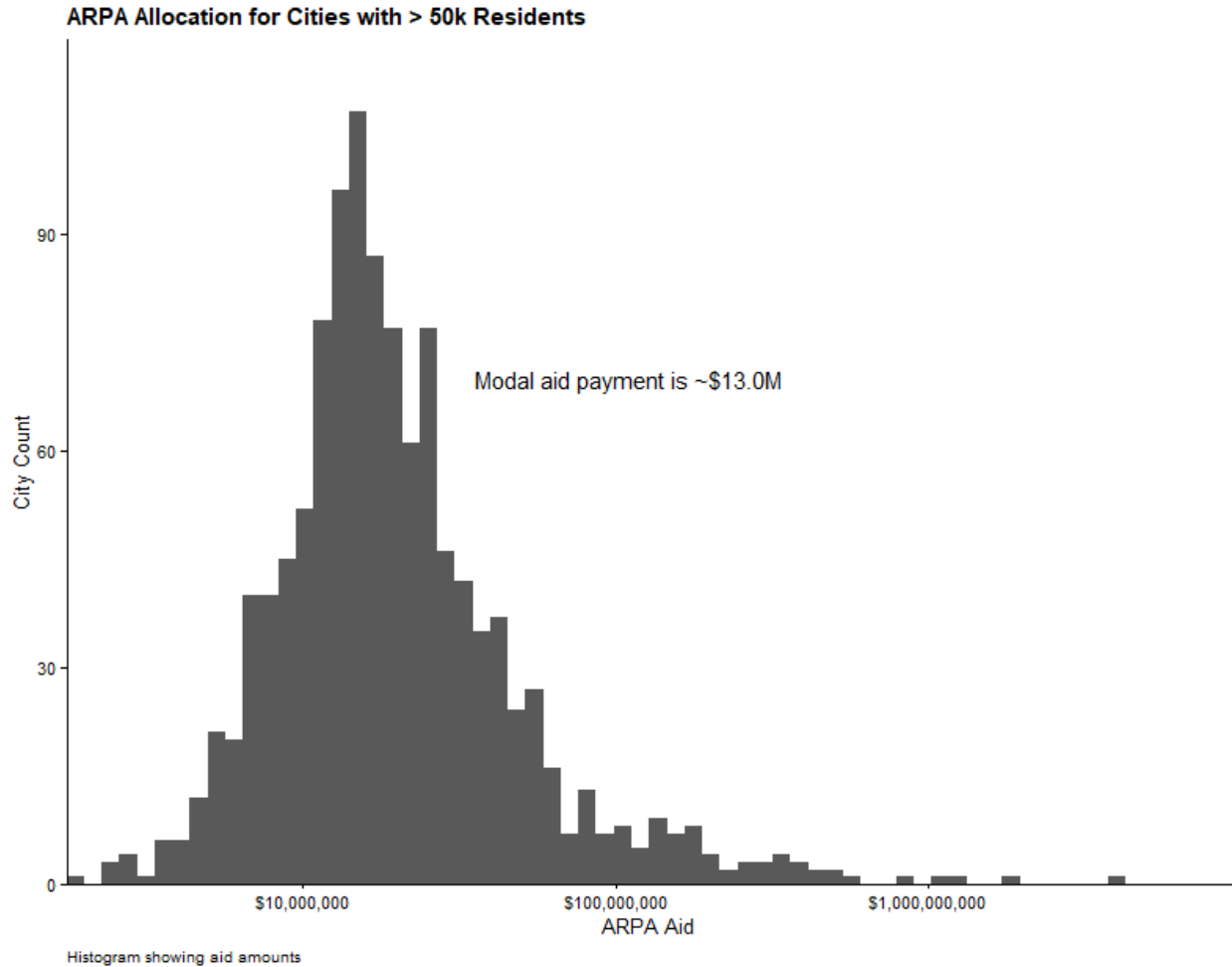


Sorted by total state allocation

ARPA Allocation per Capita for Cities with > 50k Residents



Histogram showing per capita aid amounts



Aid to Municipalities with < 50,000 Residents

Municipalities with fewer than 50,000 residents will receive the remaining \$19.53 billion in local municipal aid via a state distribution of funds proportional to the municipality's share of the state's total population. To estimate this aid, we use the 5-year ACS estimates to filter to places with a population < 50,000 and those that are designated as an incorporated municipality (e.g., village, town, city).⁶

This leaves us with 28,051 municipalities to divide up the \$19.53 billion based on their share of their state's population. Our estimate is limited in three important ways:

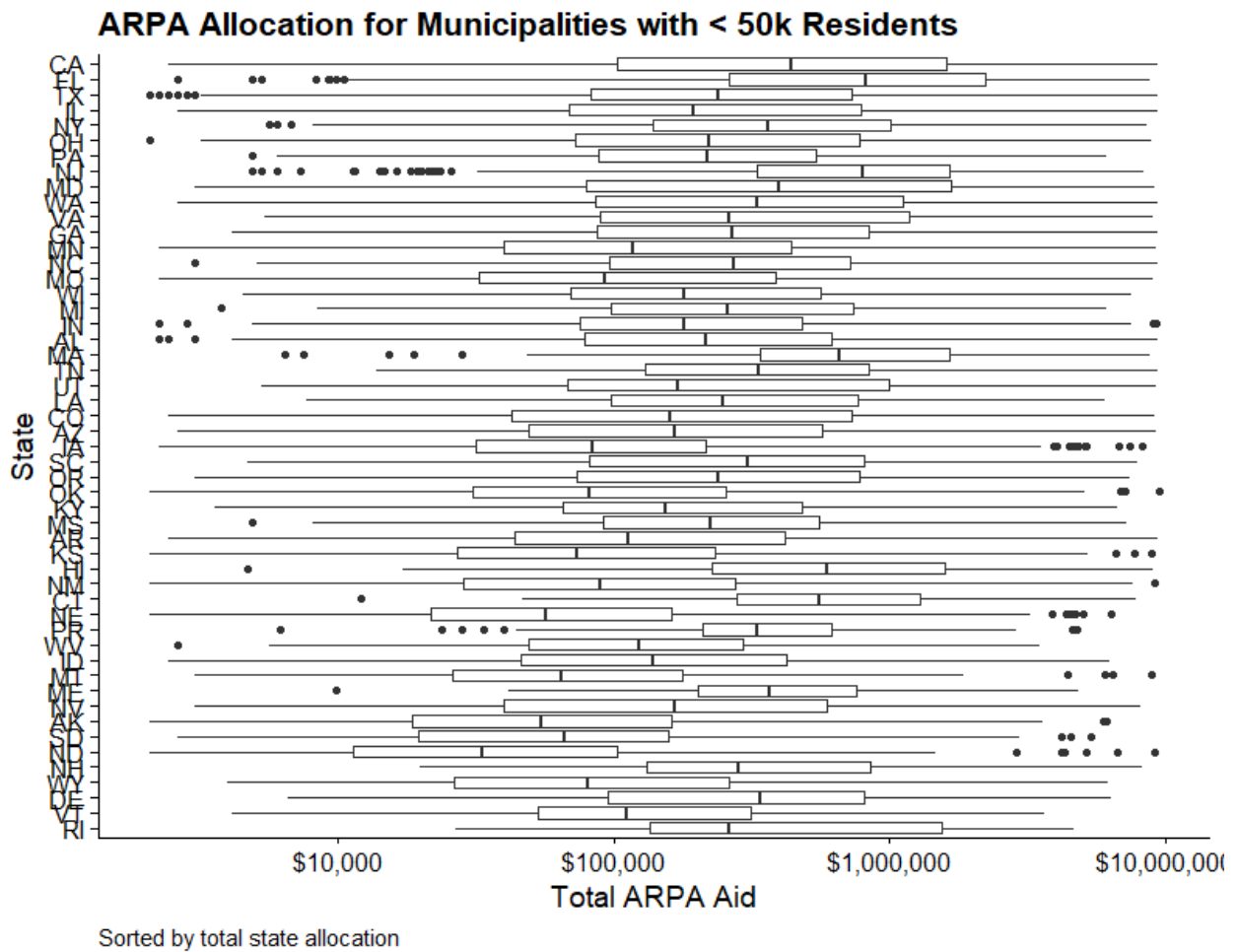
1. States have *some* discretion in how they allocate the funds to municipalities.

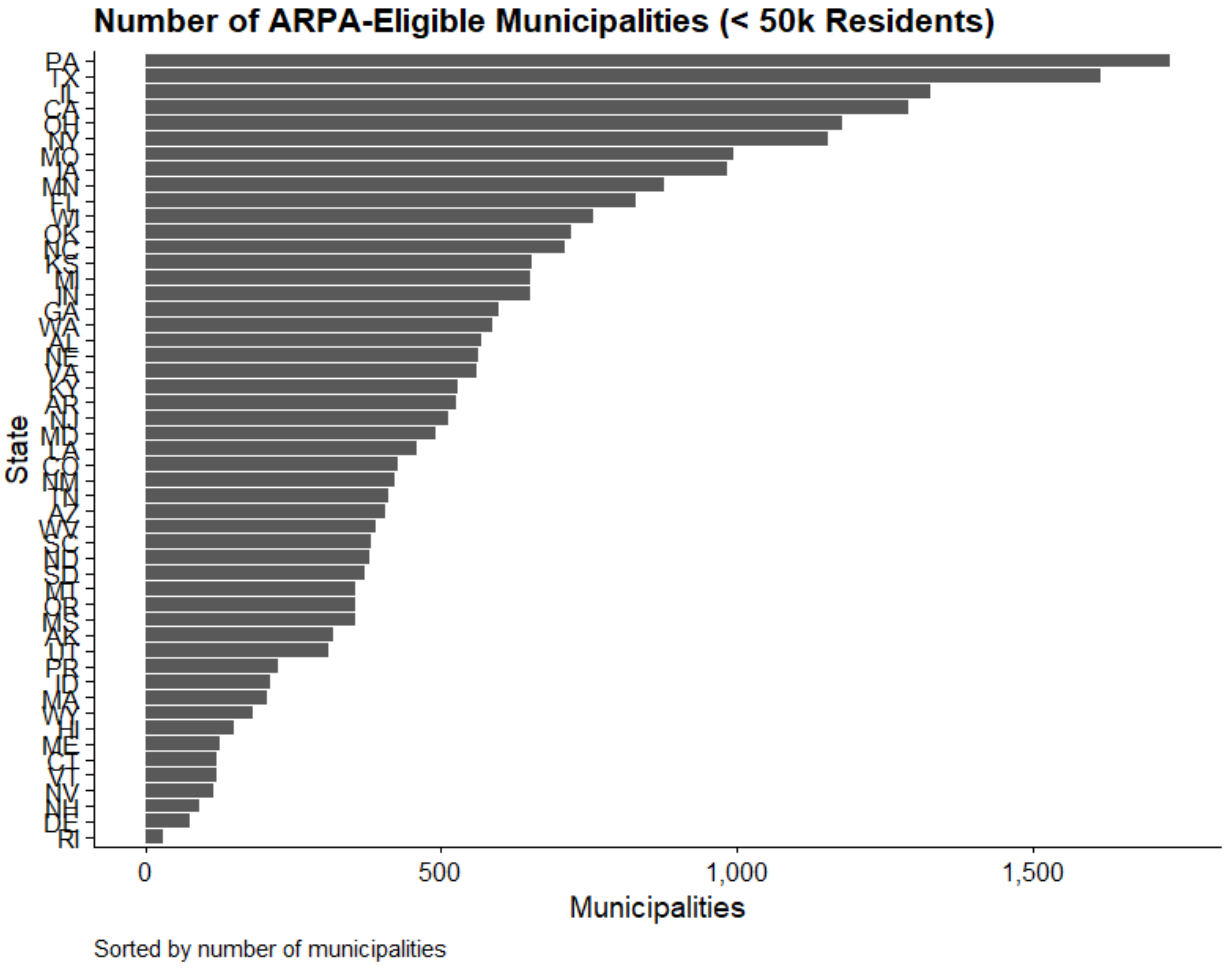
⁶ The Census list of places from the 2019 ACS estimates was filtered to include only incorporated places that qualify as an independent government. Census Designated Places (CDPs) are not included in these aid estimates as they are not incorporated and are unlikely to be eligible for this source of aid, but will instead receive aid via the county aid distribution. These assumptions are pending the rules put in place by each State to distribute this aid.

2. The law sets a ceiling on the amount of funding a municipality can receive relative to its budget, and we do not have access to municipal budget data to account for municipalities reaching their cap (which would allow more money to be allocated to other municipalities).
3. Some county funds will flow directly to some cities depending on existing agreements and legal relationships.

With those caveats, we will proceed to estimate how the \$19.53 billion will be allocated. We first total all of the people living in municipality's eligible under this aid provision, 103,482,423 and divide it by the aid eligible to get the per capita aid estimate for each municipality: \$188.73.

Then we get the list of all 28,051 Census places not eligible for funding under the metropolitan formula above and their populations. We multiply the per capita amount by the population to estimate the aid amounts.





Learn More

Get a full list of cities and county aid estimates, more information on Senate aid estimates, and up to date news about these estimates at www.civilytics.com

References

Analyses of ARPA by Others

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https://www.hud.gov/sites/dfiles/CPD/documents/FY-2021-GeoCodes-with-PPRN_Final.pdf