

Handle with Care: Public Planning and Accountability Must Guide Spending of Federal Relief Funds

June 22, 2021



The \$1.9 trillion American Rescue Plan Act (ARPA) will deliver unprecedented federal funding to spur state and local recovery from the COVID-19 pandemic's economic, fiscal and health impacts. It includes \$3 billion for the State of Louisiana (State), \$388 million for the City of New Orleans (City) and hundreds of millions more for other local government entities. ARPA gives recipients substantial flexibility to decide where the money will go. This creates a rare opportunity to address local public service, infrastructure and community needs without burdening taxpayers. But realizing the full potential of this one-time money will require policymakers to establish a prudent decision-making process with strong oversight mechanisms.

In this release, BGR draws on its research on local government fiscal issues and its mission of promoting the effective use of public resources to provide guidance on harnessing the opportunities presented by the federal aid. The release focuses primarily on the City's \$388 million allocation because of its size – the largest among Louisiana's parish and city governments. However, BGR's recommendations generally apply to all government entities that will receive ARPA allocations, including school districts and the State.

BACKGROUND

In Louisiana, the State, parish and municipal governments will receive about \$5 billion in direct aid from ARPA, as shown in the chart. Millions more will flow through these governments for specific ARPA programs, such as rental and housing assistance. In addition, Louisiana public schools will receive almost \$4 billion in federal aid, as described in the box on the next page.

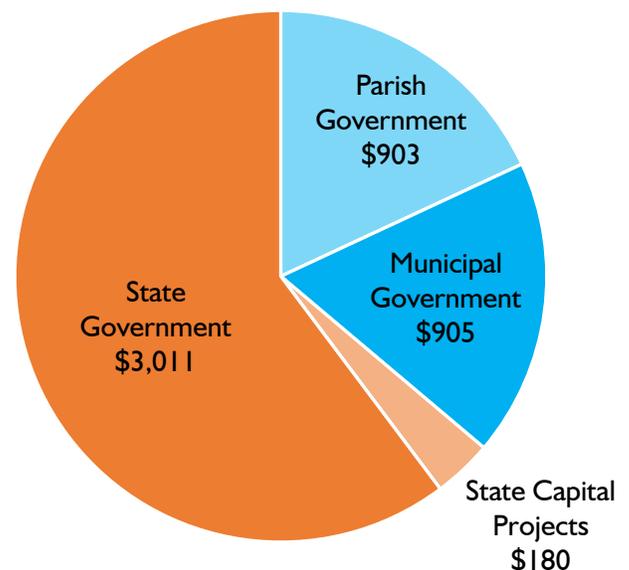
The federal government determined ARPA allocations for urban parishes and larger municipalities based on population and various measures of poverty that it uses to calculate allocations for the Community Develop-

ment Block Grant program. Because the City of New Orleans' boundaries are coterminous with Orleans Parish, its \$388 million comes from ARPA's parish and municipal portions. Jefferson and St. Tammany parishes will receive \$84 million and \$51 million, respectively.¹ Their allocations come only from ARPA's parish portion. However, municipalities within Jefferson and St. Tammany will receive their own ARPA allocations, increasing the total aid for residents of these parishes.²

On top of ARPA's direct aid, federal earmarks and an infrastructure bill could send billions more to state and local governments across the country. Congress may approve about \$13 billion in earmarks later this year, ending a decade hiatus of House members directing discretionary funds to projects in their own districts. President Biden has proposed a wide-ranging \$2.3 tril-

AMERICAN RESCUE PLAN ACT FUNDING FOR LOUISIANA'S STATE, PARISH AND MUNICIPAL GOVERNMENTS

(\$ in millions)



Sources: U.S. Department of the Treasury and Louisiana Budget Project

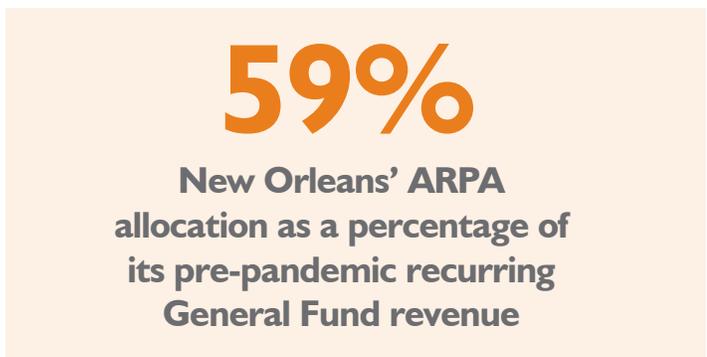
lion infrastructure plan, but its ultimate cost and scope will depend on Congress.

ARPA's direct relief to local governments allows a broad range of uses, which distinguishes it from FEMA funding sent to local governments for specific disaster recovery projects. Under ARPA, local governments can:

- Support public health expenditures that respond to the pandemic's direct and indirect effects
- Address the pandemic's negative economic impacts by providing, among other things, assistance to households, small businesses, nonprofits and impacted industries
- Offset their revenue shortfalls through 2023
- Provide premium pay for essential workers
- Invest in water, sewer, stormwater management and broadband infrastructure³

They can use the federal relief for other infrastructure expenditures up to the amount of their revenue losses. However, they cannot use it to repay debt, reduce unfunded pension liability, replenish reserve funds, or pay legal settlements.⁴

To put New Orleans' ARPA allocation into perspective, it is equivalent to 59% of the City's \$661 million pre-pandemic recurring General Fund revenue. The City's budgeted 2021 General Fund recurring revenue is about \$102 million below the 2021 projection officials had made prior to the pandemic's onset – mainly due to reductions in sales tax receipts, fines and fees.⁵ This means the City's ARPA allocation is almost four times its projected 2021 revenue losses. While revenue may take additional years to fully recover, losses should shrink over time as the pandemic recedes and the economy picks up.



FEDERAL RELIEF FUNDS FOR PUBLIC SCHOOLS

The American Rescue Plan Act, combined with a pandemic relief package Congress approved in December 2020, will send about \$3.8 billion to Louisiana to support K-12 public education.* The State must pass at least 90% of the funding to local school districts and charter schools according to federal Title I Grant formulas that consider various measures of poverty and student needs.** The State estimates New Orleans, Jefferson and St. Tammany schools will receive \$316 million, \$249 million and \$93 million, respectively.*** The federal relief for schools has its own sets of rules. Notably, schools must develop ARPA spending plans with input from many stakeholders – including parents, students and advocacy groups – and use 20% of their allocations for programs and services to address pandemic-related learning loss. In Louisiana, districts and charter schools must receive approval for their spending plans from the State's Department of Education. More resources on federal aid for schools can be found on the department's [website](#).

* U.S. Department of Education, Coronavirus Response and Relief Supplemental Appropriations Act, Elementary and Secondary School Emergency Relief Fund, [CRRSA ESSER II Methodology and Allocation Table](#), and [American Rescue Plan ESSER Methodology and Allocation Table](#).

** For more on Title I allocation determinants, see Bureau of Governmental Research, [Learning Curve: A Guide to Navigating Funding in New Orleans' Unified District](#), March 2020, p. 55.

*** BGR's calculation for New Orleans' schools includes federal relief allocations for the Orleans Parish School Board and charter schools in the district governed by the board, as shown in [Louisiana Department of Education data](#).

BGR'S GUIDANCE

In its research on City fiscal issues, BGR has identified steps the City should take to direct more revenue to expenditures that effectively address high-priority needs. BGR highlighted the importance of long-term planning, systematic analysis of funding sources and expenditures, citizen participation, and public accountability. These components are also essential for maximizing the community-wide impact of the City's ARPA allocation.

Planning and Analysis

Comprehensive planning is critical for directing the relief funding to expenditures that can best address the community's priorities. In March, the mayor created the Stimulus Command Task Force, composed of business and civic leaders and public officials. While some observers have had the impression that the task force will advise the City on how to best use its \$388 million ARPA allocation, the City administration told BGR that the group's purpose is to help the community access other funding available through the \$1.9 trillion aid package.

City officials have begun discussing how New Orleans' direct relief funds could allow the City to cover unbudgeted expenditures this year, including retroactive payments to municipal employees for days they were furloughed and the addition of staff in various departments. They have also discussed how the aid will be essential for filling expected future budget gaps. The chair of the City Council's Budget Committee told BGR that he has called on the administration to produce a written plan for ARPA usage. The administration has not yet formally proposed any allocations to the City Council, and it continues to gather information on the federal rules and restrictions that will apply. While ensuring federal compliance is important, the City should avoid piecemeal decision making by developing a comprehensive ARPA spending plan. Grounded in rigorous analysis, the plan should:

- Demonstrate responsiveness to emerging economic recovery and funding circumstances
- Focus on top priorities identified by a thorough analysis of City and community needs
- Pursue expenditures that evidence strongly suggests would deliver successful outcomes

“**The City has projected a fairly slow recovery, expecting revenue losses to continue through 2025. A faster recovery would reduce the amount of ARPA funds City officials say they need to restore services, leaving more revenue for other purposes.**”

Local governments have until the end of 2024 to use the money.⁶ This gives the City sufficient time to develop a comprehensive, multi-year plan and eliminates any need to rush to spend down the allocation. The City's plan should include various options, each based on different assumptions for local economic recovery. As the recovery unfolds, the City can adjust the plan to respond to the actual circumstances.

The City has projected a fairly slow recovery, expecting revenue losses to continue through 2025. A faster recovery would reduce the amount of ARPA funds City officials say they need to restore services, leaving more revenue for other purposes. The City will need to closely monitor revenue collections, forecasts of tourism activity, and economic indicators and COVID-19 trends, and then update projections regularly.

Strategically planning for multiple contingencies would also allow the City to reevaluate its needs as opportunities for new funding streams emerge, such as federal earmarks or the proposed infrastructure bill. For example, modernizing the Sewerage and Water Board's power infrastructure tops the mayor's priority list for any funding from a federal infrastructure bill.⁷ But if Congress does not pass an infrastructure bill, or the bill does not provide for Sewerage and Water Board improvements, the City could use ARPA funds instead – provided it had reserved money for this possibility.

The City's plan should establish spending priorities with thorough analysis of its underfunded needs and their eligibility for ARPA funding. The analysis of needs should include community input and perspectives. BGR's [report library](#) can provide context for policymakers and citizens on fiscal, budget and infrastructure issues, such as Orleans Parish tax revenues and drainage system funding.⁸ In addition, the City should consider other federal aid that can support community

priorities. ARPA's total \$1.9 trillion appropriation includes several grant programs for businesses, public agencies and non-profit organizations to further address the pandemic's consequences as well as systemic public health and economic challenges that contributed to the pandemic's more severe impact on vulnerable populations. The City and its Stimulus Command Task Force continue to assess and monitor opportunities for accessing funding from these grants and connect eligible local entities.

While evolving projections for the City's financial recovery should inform the plan, previous spending levels should not dictate the allocation of ARPA funds. The City projects that recurring revenue will take several years to reach its pre-pandemic level, but using federal relief to merely reconstruct the original 2020 budget by backfilling all cuts would ignore efficiencies the City instituted in response to its fiscal crisis. In addition, the City's pre-pandemic allocation of resources may not reflect emerging concerns resulting from, or highlighted by, the public health emergency. And even prior to the pandemic, BGR urged the City to take a more comprehensive and systematic approach to identifying areas where it could redirect revenues to its many high-priority, yet continually underfunded needs.⁹ The post-Katrina mantra – "Don't just build back. Build back better." – applies to the City's post-pandemic budget as well.

Crucially, the plan should address underfunded needs through expenditures that evidence suggests will deliver effective outcomes. The City can draw on existing strategic plans and analyses of its programs, services, operations and infrastructure, as well as relevant national research findings and established best practices. The City should also compare the cost effectiveness of its options in order to maximize the funding's impact. And because the federal relief is one-time funding, policymakers generally should not use it to initiate long-term programs or projects unless they can identify a dependable funding source after ARPA is gone.

Oversight and Accountability

Strong internal and public oversight mechanisms are fundamental for ensuring that government spending delivers the desired results. The City's intention to adhere to its charter-required budgeting processes when spending federal relief funds is a necessary first step in estab-

lishing transparency. The budget process ensures that the City Council will treat ARPA like other funding sources, by reviewing and approving expenditures during its public meetings. City Council members should carefully review funding requests at their committee meetings and require that all ARPA budget requests include sufficient detail and explanation so they can make informed decisions. This includes information on other City budget changes that the availability of ARPA funding may facilitate. They should also create a dedicated fund for the federal aid to facilitate auditing and accountability.

A multi-year ARPA spending plan will also be essential for public oversight as few residents have the time or inclination to comb through City Council meeting agendas to follow monthly ARPA spending. Nor will isolated budget ordinances reveal the inherent trade-offs the City will have to make. Producing such a plan, and updating it periodically, would help to fulfill policymakers' responsibility to inform the public of decisions they are making on the community's behalf. The City Council could also help keep residents informed about upcoming ARPA funding decisions by including a calendar of proposed expenditure ordinances on its webpage and maintaining a dashboard of its appropriations.

While the federal government will require city and parish governments to submit quarterly ARPA expenditure and project reports, strong public accountability necessitates primary reporting and monitoring measures at the local level. The City should develop meaningful, user-friendly reporting mechanisms that allow residents to track expenditures and results. For example, an ARPA dashboard could display expenditures by category and compare projected and actual expenditures. It could also track the total amount of funding spent and the amount remaining, and link to the ordinances authorizing the expenditures. It could also connect citizens to other relevant documents such as contracts, cooperative endeavor agreements and performance reports for ARPA-supported projects and programs.

In addition, the New Orleans' Office of Inspector General should play an active role as an independent watchdog focused on providing accountability for City government and promoting efficiency and effectiveness in City operations and programs. The office told BGR that it plans to monitor the City's ARPA expenditures, but hasn't yet determined the scope of its oversight.

CONCLUSION AND RECOMMENDATIONS

Throughout the last year, local elected leaders in New Orleans and other communities have anticipated a post-pandemic “new normal.” Now they have an opportunity to create a better normal by wisely using substantial federal funds. BGR’s guidance illustrates how policymakers should take a deliberate, strategic approach to deploying the funds, and provide for meaningful public oversight. Specifically, BGR makes the following recommendations to government entities receiving ARPA allocations:

- Government administrators should:
 - Develop and regularly update a multi-year spending plan that shows the public how they intend to address underfunded needs that align with the aid’s permissible uses. The plan should prioritize expenditures addressing the most pressing needs and supported by evidence of their potential to produce effective public outcomes.
 - Establish public oversight mechanisms through online dashboards that track expenditures and results.
- Legislative bodies and governing boards should:
 - Create an online calendar of upcoming ARPA expenditure proposals, review the proposals in their public meetings and maintain a dashboard of their appropriations.
 - Create a dedicated fund for the federal aid and require departments to submit supporting data and thorough explanations with all funding requests.

ENDNOTES

- 1 ARPA bases non-urban parishes' allocations only on population, with each parish receiving an allocation proportional to its total population. The application of Community Development Block Grant formulas increases allocations to urban parishes. Under federal definitions, Jefferson and St. Tammany are urban parishes. However, ARPA uses the lower, non-urban calculation for the parish portion of New Orleans' allocation because of New Orleans' status as a coterminous city-parish. Of New Orleans' \$388 million total direct relief, about \$312 million comes from ARPA's municipal portion and \$76 million comes from the parish portion. U.S. Department of the Treasury, [Coronavirus State and Local Fiscal Recovery Funds: Allocations to Counties](#), May 10, 2021.
- 2 The federal government said it would provide local governments with half of their allocations beginning in May 2021, and deliver the balance approximately 12 months later. U.S. Department of the Treasury, "[Coronavirus State and Local Fiscal Recovery Funds: Tranching of Funds](#)," accessed June 15, 2021. City officials told BGR that, as of June 15, they have received \$152 million from the municipal portion of New Orleans' ARPA allocation and await the first half of their parish allocation. They also cautioned that the 2022 payments are not guaranteed because Congress could amend the law to modify the funding.
- 3 U.S. Department of the Treasury, [Coronavirus State and Local Fiscal Recovery Funds: Interim Final Rule](#), Federal Register Vol. 86, No. 93, May 17, 2021. In the federal rulemaking process, an interim final rule is effective upon issuance but may be amended following a public comment period. For more information, see this guide to the rulemaking process: https://www.federalregister.gov/uploads/2011/01/the_rulemaking_process.pdf
- 4 U.S. Department of the Treasury, [Coronavirus State and Local Fiscal Recovery Funds: Frequently Asked Questions](#), as of June 17, 2021, p. 11.
- 5 Based on 2019 unaudited actual general fund revenue reported in a presentation for the City's October 26, 2020 Revenue Estimating Conference. The City budgeted \$607 million of 2021 General Fund recurring revenue, compared to \$709 million estimated prior to the pandemic in its 2020 adopted budget.
- 6 Interim federal rules do not require local governments to actually spend all ARPA funds by the end of 2024, but only to have obligated all funds to specific projects and expenditures by that date.
- 7 The City's priority list estimated the total cost of modernizing the Sewerage and Water Board's power infrastructure at \$340 million. Last week, the City, the board and Entergy New Orleans announced that they would pay for part of this work, a \$74 million power substation, with existing funding sources. City of New Orleans, "City Secures Funding Commitments to Enable SWBNO Upgrades on Power Infrastructure with Critical Support from Entergy," press release, June 16, 2021.
- 8 See, for example: BGR, [The \\$1 Billion Question Revisited: Updating BGR's 2015 Analysis of Orleans Parish Tax Revenues](#), April 2019, and [Beneath the Surface: A Primer on Stormwater Fees in New Orleans](#), February 2017.
- 9 BGR, [A Framework for Assessing New Orleans' Proposed 2020 Budget](#), October 31, 2019. See also BGR, [A Look Back to Plan Ahead: Analyzing Past New Orleans Budgets to Guide Funding Priorities](#), October 2019.

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