SOUTHERN ECONOMIC ADVANCEMENT PROJECT

Engagement & Equity First: Opportunities and Challenges for Federal Funding Implementation

DECEMBER 2022

ABOUT SEAP

SEAP is your partner and resource. We amplify the efforts of existing organizations and networks that work towards broadening economic power and building a more equitable future. Broadening economic power brings attention to how race, class and gender intersect social and economic policy in the South. We explore policy ideas designed to address these connections directly. SEAP focuses on 12 Southern states and marginalized/vulnerable populations within the region.

Authored by Leila Pedersen

This report was produced with support from the W.K. Kellogg Foundation.

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INTRODUCTION

Federal funding programs can boost economic growth, improve individual quality of life, and strengthen community resiliency. As the COVID-19 pandemic showed, federal dollars are especially important in times of crisis, as the federal government has the unique ability to leverage abundant resources.

Whether you are a mother who is able to feed her children because of Pandemic Electronic Benefit Transfer, a small business owner who is able to keep staff as a result of the Paycheck Protection Program, or someone who lost their job but was able to avoid eviction thanks to Emergency Rental Assistance – everyone has benefited from public programs either directly or indirectly.

Federal funding programs help direct recipients, both individuals and institutions, meet their immediate needs and invest in long-term well-being. Indirect recipients of federal funding, like landlords and employers, benefit from federal funding when renters have greater access to financial assistance and workers have access to child care they need to keep working. Federal funding benefits everyone by providing the aid and support that families and communities need in times of crisis.

For many federal funding programs, state and local governments decide how dollars are spent, what goals are prioritized, and what outcomes result. Accessible, transparent information is essential to determine how effective federal funding is at achieving its intended purpose. The following framework can serve as a guide to help understand what impacts are delivered and sustained due to federal funding.

IMPLEMENTATION

ENGAGEMENT - How are residents engaged, and how is community input used to set priorities and inform spending decisions?

ALLOCATION - What processes determine which projects receive federal funding?

ADMINISTRATION - Who is responsible for managing funded projects, what activities result, and who is most impacted?

REPORTING - Are results evaluated, and how are metrics measured, collected, and reported?

IMPACT

Based on insights from more than 50 stakeholders, this report aims to identify challenges associated with federal funding implementation and recommend opportunities to promote more meaningful community engagement and deliver equitable impacts now and in the future.

How recent waves of pandemic recovery funding have laid the foundation for this research

Federal fiscal policy has the power to leverage abundant resources in response to market swings, geopolitical forces, public health crises, natural disasters, and other emergencies. The amount of funding available to meet individual and community needs can adjust as automatic stabilizers (e.g., unemployment insurance) fluctuate and new legislation provides additional resources.

During the COVID-19 public health crisis, the U.S. federal government made critical investments at a scale unseen since FDR's New Deal. Recent waves of recovery funding were unprecedented in that they were directed not only to states and counties but also cities, Tribal governments, and individuals. Eligible uses for these funds were more flexible than in the past, which allowed for greater experimentation and learning.

Learn more about the federal response to COVID-19 here and here

The following timeline illustrates how the federal government worked to address the COVID-19 public health crisis, stabilize the resulting economic shock, and ensure equitable implementation:

MARCH 2020

To provide fast and direct economic assistance for American workers, families, small businesses, and industries, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. The CARES Act directed funding toward various spending categories, including but not limited to broadband, education, health care, small business support, unemployment, and individual Economic Impact Payments.

JANUARY 2021

On his first day in office, President Biden signed Executive Order 13985, the Advancing Racial Equity and Support for Underserved Communities Through the Federal Government, which calls on federal agencies to advance equity through Equity Action Plans. In its One Year Progress Report, the Department of the Treasury stated that it is "building the infrastructure necessary to identify barriers to racial equity and continuously reexamine the Department's efforts to meaningfully reduce access barriers and strengthen the delivery of programs and services to better reach historically underserved communities."

MARCH 2021

The American Rescue Plan (ARP) Act was signed into law on March 11, 2021, to continue many of the programs started by the CARES Act by adding new phases, new allocations, and new guidance to address issues related to the continuation of the COVID-19 pandemic. Unlike The CARES Act, which included funding that flowed through the states, ARP created the State and Local Fiscal Recovery Fund (SLFRF), which sent large sums of money directly to local and Tribal governments. The U.S. Treasury's ARP guidance "encourages recipients to engage in their communities as part of ensuring that funds are directed towards communities most impacted by the pandemic." This guidance directs "governments to seek and incorporate diverse community feedback from constituents, community-based organizations, and the communities themselves in planning efforts." This explicit call for robust community engagement and equitable outcomes was the first of its kind, and the way local governments incorporated this guidance into their implementation plans varied widely.

The three main types of reporting requirements for the SLFRF include the following:

1. **Interim Report**, to provide an initial overview of the status and uses of funding,
2. **Project and Expenditure Report**, to provide more detail about projects funded, expenditures, and contract and subawards, and
3. **Recovery Plan Performance Report**, to provide information on key performance indicators to ensure program outcomes are achieved effectively, efficiently, and equitably.

According to the Pandemic Response Accountability Committee's SLFRF data dashboard, $101 billion of the $350 billion allocated to states and localities was obligated by March 2022. Ample opportunity remains to unlock remaining SLFRF dollars and direct them toward community-centered, data-driven projects before the December 2024 deadline. Once funds are allocated, projects have until December 2026 to spend the money. Continued public engagement and transparency are needed to hold decision-makers and project administrators accountable for the results they must deliver.

In addition to CARES and ARP funding, Community Development Block Grants, Economic Development Grants, Emergency Rental Assistance, Emergency Solutions Grants, and other federal funding streams provide ongoing opportunities to promote engagement and equity as core success metrics. Looking ahead, state and local governments have the opportunity to apply lessons learned and leverage strengthened networks of support to ensure the Bipartisan Infrastructure Law, Inflation Reduction Act, and ongoing implementation of current and future federal funding programs are community-driven and deliver equitable outcomes.

Opportunities and challenges for incorporating more substantive community engagement and ensuring equitable outcomes across federal funding initiatives.

TENSIONS AND TRADEOFFS

Considerations for public policy design and implementation

Some contradictions exist between the objectives of federal funding programs and the realities of implementation on the ground. These are some of the tensions and tradeoffs that on-the-ground experts mentioned most in interviews conducted for this report. Although not always in opposition, these considerations can help design policies and set programmatic goals to achieve intended outcomes.

Engagement vs. Urgency

The deep community engagement needed to truly understand resident needs and priorities takes time, which can delay funds from being allocated toward immediate needs.

Flexibility vs. Clarity

Federal funding guidelines must be flexible enough to allow for variation based on local communities' different needs and conditions. But if federal guidelines are not clear enough, it is impossible to understand how funding can and cannot be used.

Equity vs. Compliance

To advance equity, public funding should be targeted toward meeting the immediate needs of people most impacted by the crisis or injustice the funding aims to address. But compliance and reporting requirements have led many jurisdictions to pursue "safe" investments over "riskier" ideas that could do more to advance equity.

WHAT'S WORKING?

According to our interviews, what's working well about how federal funding programs are implemented?

1

In times of crisis, the federal government can provide state and local governments with urgent resources at scale

"The main thing differentiating federal response from state and local is the ability to respond immediately and deficit finance as needed."

Congress has the unique power to authorize deficit spending, and the central bank can adjust interest rates to encourage private-sector investment. But state and local governments must operate with greater fiscal constraints. Unlike the federal government, state and local governments have balanced budget requirements that require them to spend less than they collect in revenues each year. This makes it difficult to ramp up spending in the case of an emergency, especially when revenues are down. Federal funding provides critical support in times of need because only the federal government can tap the enormous resources and practices needed to deliver relief at scale.

2

Flexible funds, flowing directly to local governments, allow for adaptive implementation, alignment with community priorities, and new cross-sector partnerships

Directing funding to local governments without the need to apply or go through the states provides greater flexibility to tailor spending based on local needs. The U.S. Treasury wrote the Interim Final Rule with flexible eligibility parameters as long as recipients adhere to compliance and reporting requirements. Numerous interviewees noted the importance of sending funds directly to city and county governments. In several states, people acknowledged an imbalance in engagement and priorities between state and local governments. Therefore, funds flowing directly to cities and counties allowed community priorities to influence funds more than if directed through the state.

"In the past, a lot of this funding in [our state] would flow through the state government first, and the state government will decide how to divvy it up among the local area regions, cities, and counties. And, to put it mildly, the state is not on the same page with us on a lot of this stuff like serving the most needy and vulnerable communities."

The past few years have shown that local governments can move quickly and provide the support direct service providers need to implement some of the programming and services they often get asked to implement without resources. Governments stood up programs or supported existing programs while sharing learnings across their networks.

"That stands out to me–governments now know that they can move quickly when they need to. They built that muscle of responsiveness and know what that feels like. They now know that they can deliver. I think that has been impressive and really exciting, especially through the emergency rental system, how they were able to just run with it and then sharing best practices across each other, like the pure network and learning."

"What the funding facilitated on the positive side was a new conversation about who was doing the work of delivering services and what the community sees as the priority needs. So, in that sense, I think the biggest opportunity in [our state] has been thinking that has led to a deeper understanding among the Health and Human Services Department, for example, that vaccination drives don't just happen in hard to reach communities if you just use the Public Health Department. There's a role for trusted advisors, and they need to be compensated for their work to promote vaccination in their churches, their service delivery on other issues, and so on…"

Many state and local governments acted quickly in light of challenges and constraints. But there was much variation in the pace and processes state and local governments used to engage residents and make spending decisions. Some administrations surveyed communities and analyzed input before recommending how to allocate dollars. In contrast, others made spending decisions quickly and then engaged residents to get feedback on how to implement the programs that were selected to receive funding. Variation in the manner and method that state and local governments use to engage residents and implement federal funding programs allows administrators and advocates to adapt to their local context.

3 Some governments used federal funding to invest in experimental pilot programs

Many experimental ideas emerged in response to the massive influx of federal dollars. Some jurisdictions launched pilots, such as direct cash assistance, Universal Basic Income, and various housing programs. It will take time to understand the impact of these pilots, but ***"the benefit is that the community is starting to see how public dollars could go towards priorities [communities] long identified and asked for."***

Emergency funding can create opportunities for community organizers, advocates, administrators, and elected officials to pilot new programs. When coupled with the evaluations and feedback loops needed to apply lessons learned effectively, pilot programs can generate the evidence needed to improve systems at scale.

4 US Treasury guidance on equity and engagement was groundbreaking and empowered advocates and local leaders to start a new conversation

The inclusion of equity and engagement guidance, particularly in ARP's Interim Final Rule, allowed advocates to start conversations about community priorities in a new way with local governments. Several interviewees mentioned Treasury's templates for local governments as important tools to carry forward the equity and engagement guidance. More than one contributor used the word empowering when describing the guidance. Interviewees saw this as a first step and opportunity to build muscle in equity and engagement while acknowledging that the practices were not as widespread as hoped.

"The language in the interim rule spoke about some pretty significant policy goals. They added in language and expectations that had never been seen before in a federal program about the federal municipal funding program like equity-like community engagement. Those were words you had not seen on a page related to federal funding in that way before."

"How these dollars are spent and localized it with so much flexibility has been really transformative, or has that opportunity to be, because the Treasury guidance has those really strong provisions around ensuring that it has actual outcomes, that you're engaging the community, that you're thoughtful about how you spend these dollars. Evidence base – we know that these dollars will achieve the outcomes we want, or if you don't know for sure, how can we start building that muscle of evaluation so that we know what is working."

WHAT'S CHALLENGING?

What's most challenging about engaging residents and delivering more equitable outcomes?

1

Many local governments lack the internal capacity needed to engage communities deeply, manage new revenues, and measure impact

Capacity constraints were the most frequently cited challenge across stakeholder groups. After reeling from anticipated deficits at the beginning of the pandemic, local governments had to pivot very quickly from a position of scarcity to one of abundance. To many, the massive influx of dollars was overwhelming. Interviewees noted how local governments' lack of staff capacity posed challenges to building more equitable processes.

"I get the sense talking with local jurisdictions that they have had a much harder time, especially right now during the pandemic, with a lot of loss of staffing. Some jurisdictions just don't have people anymore, and there's no one to do the work anymore. So that's really hard. And then it's hard for folks to get out there and actually put in the time, effort, and money to get communities' opinions."

"Local infrastructure has been weakened by decades of underinvestment, making it challenging to rapidly deploy dollars. I don't think [government] processes have been oriented towards equity. And so trying to build that in with this specific funding stream was a huge hurdle. And frankly, one that only a select few chose to take on."

Because it can take a long time to develop and implement new programs, it can be difficult to quickly complete the feedback loop among community voices, local government implementers, and federal government administrators needed to build trust and ensure equitable impact. When federal funds are directed at local government without the internal infrastructure needed to access funds, engage residents, conduct impact evaluations, and deliver equitable results – communities pay the price.

Leaders in many larger, better-resourced jurisdictions used existing strategic plans to inform and decide how to allocate funding. For example, Seattle looked to their ongoing "Equitable Communities Initiative" to leverage past community input to inform ARP implementation. Smaller local and Tribal governments may understand community priorities but often lack the capacity to contemplate and build out the innovative programming that ARP is supposed to encourage and resource. Additionally, some jurisdictions lack the network and information channels that could increase awareness and reduce uncertainties.

Without adequate capacity, clarity, and support, smaller local jurisdictions either miss out on the opportunities federal funding presents or do not have the guidance and support needed to spend dollars effectively and strategically.

"Some of these small towns and cities… with an annual budget of $40K or $50K don't have a certified audit, so they're not able to draw down their funds."

Other factors such as the "Great Resignation," overwhelming demands, and staff burnout have resulted in severe staff shortages among state agencies, community-based organizations, and direct services providers. Even when funding and ideas abound, there is rarely enough staff capacity to conduct robust evaluations and measure impact.

2

Anxieties about eligibility, reporting requirements and potential clawbacks prevented some local governments from making the big, bold investments communities have been asking for – and prevented community-based organizations from seeking and accessing funds

Some local governments slowed ARP implementation processes and decided against funding "riskier" projects due to anxieties about reporting requirements, eligibility, and fear of clawbacks. For example, knowing that FEMA funds have been clawed back in the past led some city and county managers to be risk averse and instead opt for explicitly eligible projects with simpler reporting requirements. As one interviewee put it:

"Whether it's finance directors or managers, they just remember this stuff. I remember hearing from people in the fall, that the reason they were waiting for the Final Rule was because of FEMA funds that they had gotten way back when that got clawed back once. And I'm like, Are you real? But these lessons just get stuck in folks' brains in this sort of generational way."

Anxieties among local governments centered around a few key areas:
- Changes in the rules from the Interim Final Rule to the Final Rule
- Time lag in templates and rules
- Auditing requirements and whether changes in Administration at the federal level would mean different requirements in the longer-term
- Possibility of clawback

Anxieties among community-based organizations centered around lack of experience in federal fund management, lack of evaluation expertise, and lack of relationships to navigate the process.

Interviewees saw information-flow challenges between the federal and local governments and between local governments and community-based organizations. The lack of clarity caused smaller local governments and community-based organizations without experience managing large amounts of federal funds to find the process convoluted and complex. Additionally, delays and "red tape" caused many community-based organizations to become frustrated by the lack of accessibility to federal funds.

"I think the other challenge was just information flows. You know, who had what information and who interpreted what which way meant that a lot of different people got different messages about what was possible. Then the default becomes, well, let's just not do anything. It's too risky. I would emphasize as the biggest challenge is just the connective tissue is also not there between community and government in a way that would make it seamless and possible to really move the dollars quickly."

"Groups on the ground are struggling to access this money on behalf of their constituents. Oftentimes there's no uniform process or help that takes them through the necessary application channels."

On the community-based organization side, interviewees said the result was legacy organizations with the experience, resources, and connections needed to influence funding decisions having greater power than smaller, grassroots organizations. Equity is compromised when the only organizations that can access federal funding and influence funding decisions are those that have managed federal funds before. This makes it harder for organizations with strong community connections but a weaker financial infrastructure to help direct funding toward historically underserved communities.

"I can do some grant writing, but I'm not even trying to mess around with like an ARP grant or federal grant. That stuff is practically impossible. That particular barrier is probably a non-starter for low-income, Black and brown communities. They might have all the ideas to use that money as productively as humanly possible, but they probably don't have someone with that kind of experience that can literally work their way through that kind of bureaucratic steel curtain, if you will. So, I think,that number one is a problem…If you're going to look at who gets other federal grants in [our state], you're going to notice a trend. You're going to notice it in a lot of more populated areas. You're going to notice political subdivisions that have the budgets to hire someone who's familiar with the federal grant writing process."

3

Without transparency – engagement, equity, evaluation, and accountability are impossible

"In some places it's difficult to find out how this money is even being spent, making it impossible for residents to advocate for themselves."

Even when governments engage communities and prioritize equity, it can be difficult to see and analyze if there is a lack of required transparency. Several interviewees noted the drawbacks of simplified reporting for smaller jurisdictions. Without a prompt to report equity and engagement practices, even if optional, local governments are less likely to communicate those achievements and the public is less likely to be aware. Additionally, interviewees noted the standard allowance or revenue replacement option as a barrier to transparency on how ARP funding was spent and what outcomes resulted for which communities. This commonly used loophole allowed local governments to use up to $10 million of SLFRF money as revenue replacement by lumping it into general government spending, circumventing more rigorous reporting requirements, and making these dollars essentially untraceable. Without transparency, it is impossible to spread awareness about the positive impacts that result from federal funding.

"For example, the city is doing a lot of tremendous, really cool stuff with their ARP dollars, but their performance report does not reflect it because they put it all in recovery or revenue replacement, so they don't have to have that reporting requirement. And so that makes it easier for them, and they're still doing great things, but it's much much harder to then capture the full scope of what has been achieved across the country. And that's only one example. I'm positive that's happening all over the place, because why would you in a lot of places continue to report if you kind of don't have to."

4

For implementation, reliance on exclusionary systems and institutions means that access to funding will be inequitable

Interviewees noted a tension between the need to move funds quickly during the pandemic and the desire to reach all communities. The Paycheck Protection Program (PPP) was one example of this, as private sector banks serviced the loans. Due to a history of discrimination and a reliance on relationships to move funds, many banks excluded communities without connections, even when the need was apparent. Other systems like annual budgeting processes (i.e., putting federal funds into general funds that maintain the status quo) and competitive grant processes that require extensive expertise to navigate can also perpetuate inequities.

"Whenever there's an emergency response, whether it's to a natural disaster or in the pandemic, speed is always prioritized. And as long as you have inequitable systems through which we flush money, we're just going to preserve the inequities."

"The budget process right now is fundamentally not concerned with equity. It's primarily concerned about maintaining the status quo. Advocates are slowly chipping away to make inroads on having more say, having more transparency and accountability and better outcomes. So when you take that revenue, and dump it into this existing system, it just replicates those things."

"Smaller BIPOC [organizations] are often left out [of federal funding opportunities] due to lack of experience and expertise, as well as lack of funds to hire consultants. There needs to be more capacity building for smaller organizations and municipalities so they can access funds for needed programs."

APPLYING LESSONS LEARNED

Despite the ongoing need for technical assistance and support, the U.S. Treasury shut down a popular call center and email support system for state and local governments because Congress failed to extend funding for these vital supports. This research suggests that local governments need more, not less, assistance from the federal government to answer questions as they arise, advise on eligible and effective uses of funding, help facilitate more robust evaluations, and more transparent and accessible reporting.

Moving forward, there are opportunities to apply the lessons learned above and the recommendations below to ensure that the Bipartisan Infrastructure Law, Inflation Reduction Act, and future federal funding initiatives deliver equitable outcomes. For these recommendations to be adopted, Congress must provide the funding needed to staff federal agencies and support state and local administrators adequately. But funding alone is not enough. Without changes to federal funding implementation practices, simply pumping more money into the current system risks reinforcing, rather than combating, existing inequities.

How can we apply lessons learned and deliver the equitable outcomes communities need?

The participatory research gathered for this report suggests that an ecosystem of support is needed to ensure that federal funding implementation includes robust community engagement and delivers equitable outcomes. Governments, philanthropists, advocates, academics, membership organizations, direct service providers, community-based organizations, and residents each have an important role to play in the process.

Even with all of the progress made toward the "Advancing Equity Through The American Rescue Plan," some advocates still feel that local governments "had complete say over how the money was spent," without sufficient "mechanism for required community engagement to give input on how the funds are spent."

"We can't expect Treasury to carry all the water, so how can third parties work closely with them to understand what their restrictions and lines are? And then how can we help provide additional wraparound supports?"

In isolation, no individual stakeholder or group can deliver the equitable results communities need to recover and build resiliency. But through a highly connected ecosystem of support, stakeholders can contribute to the collaborative information and resource sharing needed to deliver equitable, sustainable impacts.

Nearly every stakeholder contributing to this research identified opportunities to make federal funding implementation more equitable and reflective of community priorities. Each stakeholder, in and outside government, has a role to play in ensuring that dollars reach the most vulnerable residents.

The following recommendations aim to support equitable results throughout federal funding lifecycles.

ONE

Mandate equitable allocations and processes - Funding formulas, stakeholder engagement opportunities, and data collection and reporting processes will fail to deliver equitable outcomes if equity is merely a suggestion rather than a mandate. Mandates are important because they help administrators differentiate between recommendations and requirements. Suggestions are often deprioritized in environments with limited resources and capacity, but mandates require more intentional implementation.

> ***"[Engagement] has to be a requirement across the board, because government [administrators] won't do it if it's not a requirement."***

TWO

Provide wraparound supports - Additional support is needed for implementation to deliver the equitable results communities deserve. Collaboration among regional, state and local partners should be incentivized. Dedicated funding for convenings and networking can help connect various stakeholder groups to share ideas and amplify promising practices.

> ***“The biggest challenge is there isn’t connective tissue between community and government in the way that is needed.”***

THREE

Invest in regional infrastructure - Community Development Financial Institutions (CDFIs), regional Councils of Governments (COGs), and networks and associations of cities and counties can and should play a critical role in the "last mile" facilitation of the dollars. These regional bodies can serve as a bridge between federal administrators and local implementors. Still, without additional capacity, they are currently unable to provide the level of support that is needed. Investing in regional infrastructure will help ensure that federal dollars reach people who need them most.

"ARPA money is/was wonderfully flexible - but... It would have been good to push out more (many more) stories, case studies, and specific ideas about how the money COULD be used."

FOUR

Require robust evaluations - Collecting actionable data on an ongoing basis is essential for accountability and equitable allocation. Data should be connected and disaggregated, from the national to local level, to help big picture and local analysis.

"Build the muscle of evaluation so that we know what is working and we're not just spending dollars on what sounds good."

FEDERAL GOVERNMENT

Federal agencies should consider which funding guidelines are "suggestions" and which are "mandates." Building staff capacity and regional support networks will help ensure state and local implementation includes more equitable engagement and allocation strategies.

- **Provide funding for effective implementation, not just programs:** Local governments and community-based organizations need funding for evaluations, technical assistance, community navigators, community organizing, and data collection. Staffing shortages impact implementation throughout the ecosystem. Contributors recommended additional federal staffing at the regional/local level, additional funding for state and local government implementation staff (e.g., evaluators, outreach coordinators), and added capacity for community-based organizations. One suggestion was to dedicate dollars specifically for intermediaries that could assist with the implementation and navigation of systems, such as legal aid offices throughout the states.

"It didn't seem that federal agencies received extra staff to handle the additional resources. To ensure community engagement, you must have people in those communities talking to all stakeholders, not just the established government and community leaders."

"The federal government, as part of these initiatives and investments, should support organizing work. You should actually support infrastructure to make sure that underserved communities can show up at the table."

- **Mandate equity, engagement, and transparency:** As noted throughout, mandates and incentives would increase the spread of these practices. Going forward, scoring practices in federal funds could better define and incentivize equity and engagement practices. State and local governments could be required to publish plans with a period for public feedback before submission to the federal government. In reporting templates, federal agencies should prompt smaller jurisdictions to report on equity and engagement, even if it is optional. Additional suggestions included federal equity standards, better deadlines and milestones for showing forward-looking plans (rather than after-the-fact expenditures), and requirements for public-facing dashboards.

"And if you don't give them like a box to speak to those things, then you've missed the chance for them to communicate."

FEDERAL GOVERNMENT

“We would want federal programs to incorporate an element of data collection and transparency that would allow us to see how well the program's performing in communities of color. An example would be not just racial and ethnic, demographic information, but also geographic information.”

- **Maintain flexibility:** To ensure that all sizes of communities and organizations can participate, create appropriate guidelines that vary by size and context. "Lower income people don't have, by and large, the resources to fill out a 15-page grant application for some ARPA money. And that, to me, is very structural inequality.”

- **Enhance clarity and uniformity in rules across funds:** Lack of clarity and uniformity prevents state and local implementation administrators from moving more quickly and confidently. Implementation would be strengthened and streamlined by uniform definitions and standards across federal funds and better clarity for the subgranting process.

“Each time there's a disaster, a few months later, we'll appropriate this money for long-term recovery, but they put different sorts of conditions on it and different programs on it each time. Every time the local governments have to kind of reinvent the wheel.”

“Standardizing eligibility criteria across federal programs would be amazing.”

- **Engage regionally:** Regional webinars with more time for Q&A would assist groups, as would more federal liaisons that work deeply in communities.

- **Recognize the variations across states to implement, and find intermediaries if necessary:** Transparency, speed, capacity, and interest in equity and engagement vary by state. The federal government should seek intermediaries that have established connections deep in communities, such as CDFIs, to assist in implementation. If relying on the private sector to help with implementation (like PPP), then the funds need to include incentives and design aspects that promote inclusion and equity.

- **Remove barriers to grant applications through the grant:** Audits and other documentation can be a barrier to grant application and receipt. A recommendation is to allow a portion of the grant money to address the barrier up front. For example, if a local government needs an audit to receive a $400,000 grant and does not have an audit, then allow the first $50,000 of the grant to be used for an audit to remove that barrier.

STATE & LOCAL GOVERNMENTS

State and local implementation should prioritize the needs of their most vulnerable residents and invest dollars in technical assistance and capacity building for long-term, sustainable impact.

- **Prioritize equity:** Many contributors agreed that federal funding should be used to respond to the needs of vulnerable community members. These funds should address longstanding and urgent needs: ***"Ensure geographies are getting a fair share based on resident needs" and support "state-level incentive programs for critical issues, like ensuring equitable access to fresh food and housing."***

- **Expand engagement & transparency:** Recommendations to increase engagement and transparency included convening a working group to provide input and feedback on fund allocation and holding weekly calls with key agencies to discuss updates and processes.

- **Invest resources in regional infrastructure:** Many participants recommended greater investment in regional infrastructure to support local implementation. Suggestions included strengthening COGs to provide technical assistance, acting as federal grant liaisons, and investing in regional data collection and visualization to help smaller governments. Additionally, jurisdictions can combine funds for projects and combine efforts around community engagement to understand priorities.

- **Build capacity in local organizations:** Local governments should look for opportunities to invest federal dollars in building the capacity of organizations that provide critical services but may not have the financial backing needed to comply with federal reporting requirements.

- **Hire and promote leaders with strong connections to key communities:** State and local governments should invest in people with the personal experience and community connections government leaders often lack. Learning from states like New Mexico, which has staff dedicated to Native American and tribal communities, governments should look to locally grown models for providing language access and culturally responsive programming.

INTERMEDIARIES & NATIONAL/REGIONAL INSTITUTIONS

Membership associations, community development financial institutions (CDFIs), think tanks, and other intermediaries and institutions have played a critical role in providing technical assistance and knowledge-sharing. The following recommendations will help strengthen their ability to support future federal funding implementation.

- **Provide expertise, especially for smaller organizations that lack in-house capacity:** Smaller organizations, in particular, need an expert to call for complex federal grant opportunities. One interviewee noted the importance of being able to call about Davis Bacon rules in a recent grant process. Similarly, smaller local governments need more intensive technical assistance. For example, Hope Credit Union provides advisory services to communities on federal grant opportunities. Intermediaries can provide templates and guides that walk organizations and governments through federal grant processes across agencies.

- **Support knowledge building and sharing among civil servants, not just elected and appointed officials:** Budget managers, agency directors, and other local government staff are tasked with implementation, outreach, and reporting. Building professional development opportunities and fellowships that increase the skills of mid-level and lower-level staff members around equity and engagement can spread these concepts more deeply into the systems of local governments.

- **Design products tailored to small local governments and organizations:** Smaller cities and towns have the greatest capacity gaps and needs for support. When designing a product or service, consider how it could be useful for towns or organizations with just a couple of staff members.

COMMUNITY-BASED ORGANIZATIONS & DIRECT SERVICE PROVIDERS

Community-based organizations and direct service providers should focus on investing in training to comply with federal requirements, evaluation methods and tools, and collaborating with ecosystem partners to help fill capacity gaps.

- **Develop and disseminate information on government processes:** Residents and community advocates need access to accessible information that helps demystify complex government funding processes and constraints. Community-based organizations have an opportunity to translate materials from government administrators and academics and serve as trusted messengers to residents.

- **Collaborate locally and regionally:** Many interviewees acknowledged that community-based organizations could not be expected to solve problems in isolation. Building stronger relationships with CDFIs, COGs and local government will help to fill gaps in understanding and capacity. Connecting with and learning from organizations that have successfully managed government grants will provide the advice and mentorship smaller and/or new organizations need. Hiring a professional grant writer is a luxury some organizations cannot afford, but it can determine who gets access to funding and who does not.

RECOMMENDATIONS FOR

PHILANTHROPY

To maximize the impact of federal funding programs, philanthropic partners should focus on matching grants, regional infrastructure development, and evaluations as opportunities to promote equity.

- **Support engagement, creativity, and collaboration:** Philanthropists should focus on root causes and seek to include people most impacted by injustices within decision-making processes. Convening stakeholders and strengthening information flows across geographies and sectors will help facilitate more collective decision-making and stimulate ideas for more creative uses for funding.

PHILANTHROPY

- **Don’t pull back:** One interviewee recounted: “I have seen this shift in our conversations with private foundations where they are saying, well, what are you doing to tap into government money because there's just so much money coming out of the federal government right now. So it's almost like the federal government putting so much money out has given private foundations an excuse to pull back, which I think is really dangerous.” Rather than pulling back, philanthropy can amplify the impact of federal dollars. Philanthropic dollars can serve as a match, assist more organizations in having the capacity to apply for funds, and create ecosystems of support and technical assistance.

“See the potential for being the match provider. For grassroots organizations, federal grants are often unattainable because of match requirements, but philanthropy is well positioned to provide that critical funding.”

- **Fill the gap, but also work to fix the policy or design flaw that caused that gap:** Reimbursement models require upfront capital to unlock federal funding. Black Belt Community Foundation and Hope Credit Union stepped in to help small governments access CARES Act dollars when reimbursement was a barrier. They filled the gap and reported this troubling design flaw to the federal government so that future funds would avoid it. (See full story in the Community Contributions below)

- **Provide funding for evaluations:** Community-based organizations and local governments often lack the dedicated funding and staff to conduct the high-quality evaluations that are needed to comply with federal funding guidelines and provide transparent reporting findings. Investing in evaluations will help demonstrate program results and build evidence for ongoing investments.

A collection of research from the field

Of the tens of thousands of state, local, and Tribal governments throughout the United States, it is difficult to point directly to the “best practices.” This section aims to highlight some examples as inspiration for what is possible when engagement and equity are prioritized in federal funding implementation.

SEAP has identified four phases of how governments have incorporated equity into their federal recovery funds processes: equity frameworks to set the stage (what are our goals), equity in engagement (whom do we need to hear from), equity in implementation (how are we deciding on projects), and equity in accountability (how are we letting the public know the impacts).

The SEAP Good Examples Report outlines the following notable examples of ARP outreach and equity plans.

- Charleston, WV, which created an ARP Advisory Committee to keep residents informed about planning efforts and ARP fund usage, conducted public outreach to gather community feedback, and a proposal process for community-based organizations to submit project ideas and apply for funding for project development.

- Louisville, KY which used existing plans for advancing racial equity, developed using community input, to inform their ARP allocation strategy. Through a combination of in-person meetings and an online survey, residents identified which priority areas were most important to them.

- Denver, CO leveraged community input from past outreach efforts to design town halls, surveys, and forums. Responses are shared on an interactive dashboard on the City’s website.

- Los Angeles County developed an equity-focused formula to help designate its share of ARP funds.

The following organizations have analyzed and compiled information about how various jurisdictions approach federal funding implementation.

- The Pandemic Response Accountability Committee (PRAC) created several interactive dashboards and data stories to shed light on how over $5 trillion in pandemic response money is spent. Good Jobs First has suggested ways to make this data even more transparent and accessible.

- The White House produced an ARP Equity Report, and the U.S. Treasury provided an Equity and Outcomes Resource Guide, ARP equity blogs from October 2021 and March 2022, and an SLFRF summary dashboard. USASpending.gov also has detailed information about the federal response to COVID-19.

- Brookings released early analysis indicating that cities were taking it slow, making decisions about how to direct ARP Fiscal Recovery Funds. Subsequently, Brookings teamed up with the National League of Cities and the National Association of Counties to track funds via a Local Government ARPA Investment Tracker.

- Results for America lists 16 places in their Exemplary Examples of Data-and-Evidence-Driven State and Local ARP Implementation. They also worked with Mathematica to create an ARP Data and Evidence Dashboard.

- In May 2021, PolicyLink released 10 Priorities for Advancing Racial Equity Through the American Rescue Plan Act: A Guide for City and County Policymakers. In July 2022, PolicyLink released joint research with The New School, Will ARPA's Local Fiscal Recovery Funds Advance Racial Equity?

- Earlier this year, a diverse coalition of organizations released Lead Together, a website and hub that compiles resources and case studies documenting how local communities work to promote economic and racial equity through American Rescue Plan Act funds.

- The U.S. Conference of Mayors, in partnership with the Kresge Foundation, published Promoting Equity through ARPA Implementation to highlight cities engaging in equity principles around ARP and their lessons learned.

BLACK BELT COMMUNITY FOUNDATION COVID-19 ACCESS PROGRAM

Early in the pandemic, it became clear that rural communities and those of color were being threatened disproportionately. This was demonstrated under the federal CARES Act when Alabama required cities and counties to seek reimbursement for COVID-related expenses to access their share of a $250 million allocation. This requirement was a challenge for many cities and counties in the Black Belt because they did not have the funds to make the needed purchases up front and wait for reimbursement. In many cases, the state's allocation exceeded its annual budget.

The Black Belt Community Foundation (BBCF), Hope Credit Union (HOPE) and several private and institutional foundations partnered to create a novel program that gave the Black Belt Community Foundation service area immediate access to capital for COVID-19 response needs, such as face masks, disinfectant, computers for staff to work virtually, etc. This program became known as The COVID-19 Access Program.

This BBCF-HOPE alliance provided zero-interest financing to local Black Belt government entities to unlock the reimbursable funds allocated for them. Under the program, a $1.7 million dollar line of credit allowed BBCF to make a total of $951,431 in recoverable grants to 23 entities: 18 municipalities, 4 county governments and 1 educational institution located in the Black Belt. In addition to the 12 Counties (Bullock, Butler, Choctaw, Clarke, Conecuh, Dallas, Greene, Hale, Lowndes, Macon, Marengo, Monroe, Perry, Pickens, Sumter, and Wilcox) that BBCF serves, this program included an additional 4 Counties, (Butler, Clark, Conecuh and Monroe) due the dire circumstances of the pandemic. Outreach to 81 government entities via email, telephone and Zoom meetings was conducted over a 4-month span.

To ensure repayment of the line of credit, BBCF provided critical technical assistance to the entities to apply for state reimbursement and receive confirmation from the State that the expenditures were reimbursable before the recoverable grant was approved. BBCF repaid the HOPE line of credit in full, which then released the funds back to the "investors," and then, some of that investment became unrestricted grants to HOPE and BBCF. Only 1 of 23 recoverable grantees required a monthly repayment plan to BBCF.

It is estimated that this program positively impacted a total population of 61,765, self-reported by the entities. HOPE & BBCF received national recognition for the development and launch of the COVID-19 Access Program, as it provided an innovative tool for municipalities to combat the pandemic through the state's Coronavirus Relief Fund. It demonstrated what is possible when philanthropy, the private sector, government, and the community work together.

THE INDUSTRIAL COMMONS

The Industrial Commons (TIC) is a 501(c)(3) located in western North Carolina that was founded in 2015. We support manufacturing businesses and frontline workers to create a thriving, more resilient economy and to eliminate generational poverty. We were fortunate to develop our capacity around federal grant writing early and quickly because we had support from our LDD (Western Piedmont Council of Governments) and their experienced grant writers. Writing federal grants is an art that can take years to perfect. Still, there is a tremendous opportunity to assist small or new nonprofit organizations with grant writing support and technical assistance. To help more small and diverse nonprofits apply for federal grants, there will need to be more technical assistance and services provided to assist them in preparing the grants and also preparing for the reporting expectations. The LDDs are a good example of an institution where additional technical assistance providers could be housed because they are already embedded in communities, they are already the point of contact for many federal resources, and they often house critical functions like data collection and analysis, that are helpful in the grant writing process.

In our experience, individuals (particularly in rural areas) who are knowledgeable in federal grant writing often collaborate and reach out to others for support and questions. These informal networks could be formalized, perhaps using a technology platform to create opportunities for more regular communication and learning. This could also potentially lead to more collaboration amongst organizations applying. This is an interesting moment because as the federal government encourages a greater focus on DEI in federal grant applications, institutions typically receiving these funds are encouraged to reach out to more diverse groups for partnerships. These are the same groups that could use technical assistance around federal grants. Hence, there is an opportunity for mutual benefit and reciprocity in partnering on these opportunities - creating structures and systems during this unprecedented time that could last well into the future.

Additional recommendations to the federal government for competitive grant processes include:

- Provide scores to applicants, so they understand their strengths and weaknesses. Certain federal agencies do this already. Publish scores of other applicants, full applications of successful applicants, and members of the review panels.
- Help organizations understand how bold; special competitive grants overlap timelines with regular grants so that organizations know what to pursue.
- Develop a brief pre-application to shrink the pool and protect applicants from spending time on unlikely grant opportunities. Define the odds so that groups do not spend valuable time on long-shot opportunities.
- Ensure rural grants and requirements reach and impact rural organizations.
- Define worker voice, equity, and engagement concepts and demonstrate how they will be scored.

HOPE POLICY INSTITUTE

The Paycheck Protection Program (PPP) was an unprecedented $800 billion response to the economic impact of COVID-19. The program offered eligible businesses forgivable loans to sustain payroll and operations; however, it failed to deliver equitable access to businesses owned by people of color due to certain design elements. One of the key design elements is that it was administered through the financial system, which is already rife with racial inequities. PPP's failure is particularly striking in the Deep South, a region with the largest proportions of Black populations in the country. It is home to a third of the nation's persistent poverty counties. Black communities and persistent poverty counties have been linked to disparate outcomes, and in the Deep South, we see that race, place, and prosperity are inextricably linked.

For example, of the 55 Deep South counties with unbanked and underbanked rates 1.5x the national average, 52 (94%) counties are in persistent poverty. Of those persistent poverty counties, 41 (78%) are also majority persons of color counties. PPP access was, in part, determined by access to a financial institution, particularly whether a business owner had a pre-existing relationship with a bank. The Federal Reserve finds in their Small Business Credit Survey that minority-owned businesses are less likely to have a relationship with mainstream financial institutions like banks when compared to white-owned businesses. They show that less than a quarter (23%) of black-owned businesses have accessed credit from a bank in the five years before 2020. White-owned businesses, however, report greater access to credit. 46% have accessed credit through a bank over the same period. Furthermore, many communities throughout the Deep South are considered bank deserts.

Despite the challenges, small businesses of color faced, Community Development Financial Institutions (CDFIs), especially minority–led CDFIs, were well-positioned to meet their needs when other institutions could not. CDFIs in MS and LA, for example, two states with the largest Black population in the country, made over seven times the number of PPP loans compared to the five largest banks in the United States.

HOPE, like many CDFIs and Minority Depository Institutions (MDIs), has a business model that's rooted in community perspective and experience. We have financial inclusion officers who work closely with community partners to offer our consumer products and get insight into how they are hearing about developments and what they need. We worked with internal networks to create a team on the COVID-19 response. Additionally, we worked with our community liaisons and local media channels, such as Black-owned radio stations and churches, to gauge what was happening in the community around pandemic challenges and solutions, whether that be concerning the Paycheck Protection Program or, more broadly, with CARES Act funds such as the reimbursement model of state relief in Alabama for municipalities and counties.

HOPE POLICY INSTITUTE

Deep relationships and organizing created a two-way street of information gathering and sharing, ultimately flowing critical capital into communities historically underserved by mainstream financial institutions.

Consider, again, PPP. Overall, CDFIs and MDIs outperformed non-CDFIs and MDIs in PPP lending to underserved communities such as low- and moderate-income areas and small businesses. Only 28% of total PPP loans were directed to businesses located in low- and moderate-income areas, whereas 40% of loans deployed by CDFIs and MDIs were directed to the same population. Over two-thirds of CDFI and MDI PPP loans were to small businesses with loan requests of less than $150,000, significantly greater than the program overall (50%).

CDFIs and MDIs provided access to PPP for businesses that did not receive assistance elsewhere. In a December survey of HOPE Credit Union PPP borrowers, which HOPE cited in its April testimony before the U.S. Senate Committee on Banking, Housing and Urban Affairs, 36% of borrowers were declined by a bank or did not have another option but ultimately accessed relief through HOPE. Like other CDFIs and MDIs, HOPE was the channel by which small businesses and businesses of color could access necessary relief. For example, 61% of HOPE's PPP loans in Memphis were made to Black-owned businesses. Across HOPE's five-state footprint, it deployed over $140 million to support over 5,000 businesses, the majority of which were sole proprietors (68%) with a median loan size of just over $14,000. Nearly all (98%) of the loans were for less than $150,000.

Small businesses are the backbone of local economies across this country – they account for 44% of U.S. economic activity. Small businesses of color are equally important for job growth and economic opportunity. Black and Latino-owned businesses employed over 7 million people before the pandemic. However, for many minority-owned businesses, their impact is greatly stifled by challenges in access to capital and affordable financial services. This lack and disparity in access translate to issues creating capital reserves to sustain an economic downtown.

In a survey of a sample of our PPP borrowers, we see the impact of financial exclusion. Most businesses were unprepared for the challenges of the pandemic, and yet the depth of preparedness, unsurprisingly, differs by race. 71% of black-owned businesses that received a PPP loan were unprepared compared to 47% of white-owned businesses. Historically, businesses of color have been excluded from financial institutions, so we see that these businesses are less well-positioned to confront the challenges of the pandemic.

GLOSSARY

Federal Funding - financial assistance received from a federal agency in the form of a grant or loan.

Implementation - the process used to determine programmatic priorities, eligibility and administer federal funding.

Engagement - the process of communicating with residents to understand their needs and priorities in ways that build trusting relationships and inform public policy decisions and implementation.

Clawback - the authorization for a funding entity to take back the money if it is unspent or recapture funds if a grantee/beneficiary fails to deliver on promised activities.

Allocation - the process after funding has been authorized of deciding how funding will be distributed and administered.

Reporting - the process that is used to evaluate funding compliance and impact.

Equity - just and fair inclusion such that all people have the information and access needed to participate in public processes and programs.

Council of Governments (COGs) - federally designated, multi-county, and nonprofit entities also known as Local Development Districts (LDD), Council of Governments, Regional Planning and Development Commissions, or Area Development Districts that aim to facilitate community-based, regionally driven economic development.

Community Development Financial Institutions (CDFI) - financial lenders, including community development banks, credit unions, loan funds, and venture capital funds that specialize in lending to individuals, organizations, and businesses in under-resourced communities without access to traditional banking and capital.

ACKNOWLEDGEMENTS

The participatory research conducted for this report includes interviews with stakeholders in academia, direct service, government, and advocacy. Additionally, a survey was distributed, and results were analyzed, capturing a broad array of perspectives. In total, more than 50 individuals provided insights for this report.

- Alexandra Forter Sirota, North Carolina Budget & Tax Center
- Bill Kopsky, Arkansas Public Policy Panel
- Brennan Griffin, Texas Appleseed
- Chris Spencer, Black Belt Community Foundation
- Daniel Kanso, Georgia Budget & Policy Institute
- Edgar Beltrán, PowerSwitch Action
- Jacob Vigil, New Mexico Voices for Children
- Jen Tolentino, Results for America
- Kiyadh Burt & Ed Sivak, HOPE Policy Institute
- Leah Tennille, Strategic Funding Group
- LiJia Gong, Local Progress
- Michelle Maziar, Open Society Foundations Leadership in Government Fellow
- Rich Huddleston, Arkansas Advocates for Children and Families
- Sara Chester, The Industrial Commons
- Seth DiStefano, West Virginia Center on Budget and Policy
- William Chen, City of Seattle
- Center on Budget & Policy Priorities (CBPP)
- Economic Analysis and Research Network (EARN)
- Good Jobs First
- Groundwork Collaborative
- Local Progress
- National Association of Counties (NACo)
- People’s Action
- ProsperUS

The quotes above came directly from interviewees and survey participants who have experience with federal funding programs. Some quotes have been edited slightly for grammar and/or clarity. Each contributor listed above had the opportunity to review and provide feedback prior to publication.

*Special thanks to Sarah Beth Gehl, Maria Filippelli, Morgan Smith, and Kate Naranjo for their substantive contributions to this research and report.

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