Strengthening State and Local Economies in Partnership with Nonprofits:

Principles, Recommendations, and Models for Investing Coronavirus State and Local Fiscal Recovery Funds

Executive Summary

Congress expressly declared in the American Rescue Plan Act (ARPA) that state, local, Tribal, and territorial governments may use their allocations of the $350 billion in ARPA's Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) program to provide "assistance to households, small businesses, ***and nonprofits***, or to aid impacted industries" (emphasis added).[1] To implement the CSLFRF program, the Treasury Department issued its Final Rule (effective April 1, 2022), along with an Overview of the Final Rule. Both go to extraordinary lengths to reinforce that Congress authorized state and local governments to use their CSLFRF allocations on charitable nonprofits in two distinct ways: (1) to give direct assistance to nonprofits as ***beneficiaries*** trying to recover from the pandemic's impact on their organizations, and (2) to hire nonprofits as ***providers*** of services to others on behalf of those governments.

Nationwide and in every community in America, charitable nonprofits provide vital services and are a key part of the economy, employing before the pandemic more than 12.5 million people, which is more than the construction, finance, and manufacturing industries.[2] During the pandemic, tens of millions more Americans than usual turned to charitable organizations for help – and nonprofits delivered. Yet resources declined for tens of thousands of nonprofits, resulting in the loss of more than 1.6 million jobs during the first three months of COVID-19, shrinking the nonprofit workforce by 13.2%.[3] Some nonprofits have recovered, but many have not, with the latest estimate of lost jobs still remaining close to half a million (450,000) – meaning reduced capacity to deliver services to a public with substantial continuing needs. For communities and local economies to recover, governments need to invest in the work of nonprofits.

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[1] Unless otherwise noted, the entire Special Report uses the acronym "ARPA" when referring to the full American Rescue Plan Act ($1.9 trillion) and the acronym "CSLFRF" as shorthand for the portion of ARPA that allocates $350 billion in funding to states, localities, Tribes, and territories through the Coronavirus State and Local Fiscal Recovery Funds program.

[2] The 2020 Nonprofit Employment Report, Johns Hopkins University Center for Civil Society Studies, June 2020.

[3] COVID-19 Jobs Update, December 2021, Johns Hopkins University Center for Civil Society Studies, Dec. 12, 2021.

Serving Those Who Need It Most

The COVID-19 pandemic resurfaced an undeniable truth: charitable nonprofits and governments are natural partners, serving the same constituents in the same communities. The challenges of one are the challenges of all. Partnerships between the sectors allow for leveraging of resources, relationships, and strengths to serve communities even better.

Nonprofits, with their deep knowledge of community needs and existing relationships, are perfectly positioned to maximize public benefits, particularly in low-income and underserved or hard-to-reach populations. Similarly, philanthropic organizations are well situated to help communities by leveraging their financial and other resources, including their grantmaking expertise and their power of convening. Communities benefit when governments, nonprofits, and foundations work together; the allocation of CSFRF dollars provides an ideal opportunity to strengthen these natural partnerships and secure relief, recovery, and greater impact for the public good.

Guiding Principles for Identifying the Best Use of the Funds

Governments need to adopt reasonable selection criteria to ensure they apply fair guiding principles for spending the money to secure the greatest impact for the public good.

1. Governments should **prioritize equity from the outset** to end the many inequities in access to and delivery of health and human services in our country that were more fully exposed by the pandemic.
2. To promote healthy local economies, governments should **invest in economic multipliers**, like nonprofits, that can rehire people and promote other employment by providing services like childcare and job training. Nonprofits do so all while also stimulating economic activities, such as by people spending money at restaurants and retail stores near the arts and cultural institutions they visit.
3. It is in everyone's interest for governments to **push the funding out quickly** to meet urgent needs, yet doing so **fairly and equitably** by spreading opportunities beyond the usual recipients.
4. Governments should **promote accountability** in the use of the funds through reasonable documentation and transparency.

Recommendations for Designing Programs with Integrity

Governments can benefit from recent lessons learned about designing and managing relief and grant programs in connection with programs created and funded under the 2020 CARES Act and the first round of ARPA funds. Rather than reinventing the wheel, governments can recognize some universal factors related to grant programs – eligibility criteria, allowable uses, program administration, application requirements, prioritization, grant amounts, budget surpluses, and communication of opportunities – and utilize these recommendations that are informed by recent experiences on how to proceed.

Successful Models of Nonprofit Relief from Around the Country

In 2020, more than half the states and the District of Columbia made sure that nonprofits were eligible for CARES Act monies when those governments created more than 50 relief funds and grant programs. Importantly, the $350 billion in CSLFRF under the ARPA of 2021 allow *even more* flexibility than the CARES Act did. Therefore, governments can be more creative with the CSLFRF dollars than they were in 2020 with their many successful programs investing CARES Act monies in their communities to and through nonprofits. This Special Report[4] presents prime opportunities for partnerships between governments and nonprofits using the federal funds. Examples are categorized by:

(1) Lifting unemployment insurance burdens off employers

(2) Creating relief and recovery funds and grants for nonprofits to use in their communities

(3) Improving the process and other aspects of government grants and contracts with nonprofits

(4) Expanding and replicating innovative nonprofit programs to help communities respond, adapt, and recover

The Role of Nonprofit Advocacy

Congress ***authorized*** state, local, Tribal, and territorial governments to use the funds for "assistance to households, small businesses, ***and nonprofits***, or to aid impacted industries," but it did not mandate that governments set any specific dollar amounts or percentages for nonprofits. Governments have other options, such as allocating these resources to their own initiatives, including covering government's lost revenue during the pandemic and providing pay raises to certain categories of public employees, to name a few. Small businesses and impacted industries, also eligible for CSLFRF dollars, will have their own ideas, and they have the experience, contacts, resources, and systems already in place to advocate for public funds for themselves.

Therefore, nonprofits needing help to recover from the effects of the pandemic and those wanting to advance their missions by delivering services to more people must accept reality: while nonprofits are ***eligible*** for CSLFRF funds, they are not automatically ***entitled*** to the funds. Government officials facing multiple options and requests will not create grant

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[4] This April 2022 update includes recent examples of governments investing CSLFRF funds in the work of charitable nonprofits. For ease of reference, new examples added to the previous editions for the Special Report are marked with the ☆ symbol.

program for nonprofits just to be nice. Nonprofits must advocate to make the case for why investing in charitable organizations is the best use of a government's allocation.

Roles for Philanthropy

This expanded edition of the Special Report adds a section highlighting numerous ways foundations have been helping their grantees and communities approach and implement the CSLFRF program. It presents examples in three broad categories of foundation actions:

1. **Using their own resources in creative ways**, ranging from *direct financial support*, such as matching funds to leverage public-private initiatives, to *indirect support* in the form of capacity building grants to help nonprofits access and effectively manage programs using the federal funds.
2. **Providing their grantmaking expertise** to help *distribute* and *administer* the ARPA funds in their communities.
3. **Convening groups** – governments, nonprofits, foundations, and the public – to collect and disseminate information about ARPA opportunities and how they can be used to address local challenges.

Federal Allocations of CSLFRF Dollars Per State

State, local, Tribal, and territorial governments must obligate (commit to how they plan to spend) their specific allocations of the CSLFRF funds by the end of 2024 and spend them by the end of 2026. CSLFRF funds were distributed in 2021 based on unemployment rates in the states. Twenty states and the District of Columbia received their full allocation last year due to higher unemployment rates (defined as 2.0 or more above its pre-pandemic level). The other thirty states received half of their allocation last year and are scheduled to receive the second equal tranche in May 2022.[5]

The proverbial bottom-line: there is still a lot of funding available that state and local governments have not yet obligated.

[5] Coronavirus State Fiscal Recovery Fund Split Payments to State Governments, U.S. Treasury Dec. 16, 2021.