NLC DELIVERS

Leveraging ARPA Fiscal Recovery Funds to Support Small Businesses

Background

Small businesses are the lifeblood of the American economy, employing almost half of the nation's workforce in recent years and comprising over 99% of all firms. The unprecedented public health measures and altered consumer habits prompted by the COVID-19 pandemic have had an acute effect on these businesses. Establishments closed at a rate 25%-33% above normal levels during the pandemic's first year, with especially concentrated losses in high-contact industries like full-service dining and personal care, and small firms in general faced higher closure rates than large firms.

An average 25% of firms across states and sectors reported in July 2021 that the pandemic had a large negative effect on their business, while just 32% experienced little to no negative impact. Anecdotal and early statistical evidence suggest COVID-19 has been particularly burdensome for minority-owned businesses that faced greater difficulty accessing early rounds of aid in 2020 and suffered disproportionately severe losses through the end of last year. Given the role of small businesses as major employers and generators of economic mobility, their recovery must be at the heart of communities' equitable recovery strategies.

Fortunately, the American Rescue Plan Act of 2021 (ARPA) offers leaders the resources they need to meet this challenge. In addition to aid made directly available to businesses like the Restaurant Revitalization Grant Fund, the federal government has appropriated local fiscal recovery funds that cities, towns and villages can use for an array of measures.[2] Several common policy approaches have emerged across plans adopted by municipal governments, offering a blueprint for those still deliberating how to effectively leverage this historic investment in support of small businesses. These categories of support are addressed in each of the sections that follow. Review NLC's Principles for ARPA Implementation.

Direct Financial Assistance

ARPA provides local governments with the flexibility to directly disburse funds to firms in response to public health needs and the negative economic effects of the pandemic. For many municipalities, this has come in the form of grants to cover COVID-19 mitigation costs or help recover from income loss. Some argue that at this phase in the pandemic, large direct transfers are less helpful than smaller grants that helps connect firms with navigators and other sources of support. Nonetheless, leaders have found grants to be a helpful lifeline for businesses in immediate need, a concern of potentially renewed salience with the rise of the delta variant. In Hinesville, Georgia, for example, leaders allocated $250,000 to help impacted businesses with diverse needs like paying rent or mortgages, meeting payroll obligations, and reducing risk of infection in their establishments.

Some cities have offered industry-specific aid by setting aside funds for businesses uniquely disadvantaged by COVID-19 protocols, such as those in the tourism, travel, and hospitality sectors which are specifically referenced in Treasury's Interim Final Rule. Cincinnati has demonstrated such an approach with its commitment of $4 million in stimulus for bars and restaurants. This was paired with $2 million to support the establishment of "streateries" that allow for socially distanced outdoor dining on roadways, simultaneously enriching the urban pedestrian experience.

Lending is an alternative that some municipalities have adopted in addition to, or in place of, grants.[3] Benton Harbor, Michigan, planned a two-pronged approach that complements over $110,000 in grants with $70,000 in loans from its ARPA allocation to help businesses persist through the pandemic. Local leaders can also choose to lend in a way that meets longer-term strategic economic development goals. Duluth, Minnesota, invested $1.5 million in a local fund that provides loans to incentivize business expansions and relocations, helping reduce barriers to new entrepreneurial activity and growth.

While the interventions addressed thus far are forward-looking, municipalities are also able to help alleviate public-sector-related expenses businesses have incurred over the course of the pandemic. Pittsburgh chose to forgive $3.5 million in loans previously granted by a public agency, while Minneapolis established a fund to reimburse license fees owed since last March and reduce fees for closed businesses trying to reopen.

Generating Demand for Small Businesses

In addition to providing businesses with funding via loans or grants, municipalities can help firms meet their bottom line by generating demand for their goods and services. This demand can come from within government, as leaders can be more intentional about contracting with local entrepreneurs when delivering services and building supply chains. In Phoenix, officials dedicated nearly $10 million toward bolstering the Feed Phoenix Initiative. Food producers and meal preparers are reimbursed for locally sourced meals which are then distributed to Phoenix families, helping sustain small businesses' payroll while meeting the community's social needs.

Localities can also build consumer demand by incentivizing support for local businesses with ARPA funds. Oswego, New York, pursued such a model with a "Buy One, Get One" program in which residents could pay $25 to receive a $50 gift card valid at local restaurants and retailers. Those businesses were not charged participation fees, making the city's investment a no-cost opportunity for entrepreneurs to increase foot-traffic and even attract new customers for the long-term.

Funding Third-party Intermediaries

Ensuring businesses are well-positioned to access the aid available to them and prepare for the future will help foster more resilient local economies. The Brookings Institution identifies technical assistance as a particularly valuable use of funds. In fact, it may even be advisable for local governments to focus on connecting firms to resources more than disbursing outright aid, although many cities have paired assistance with funding in a "both/and" approach to recovery. Anchorage, for instance, allocated $195,000 to a local non-profit to hire full-time outreach and technical assistance staff, while also sustaining several grant programs. Municipalities that enlist intermediaries in such efforts should be careful to select trusted, established local navigators, especially when trying to reach underserved entrepreneurs who may have been disproportionately impacted by the pandemic and long-term disinvestment. Buffalo turned to a well-regarded, minority-focused small business resource center when developing its strategy to ensure a more inclusive response to COVID-19. The city's $3.5 million grant will help the center not only provide technical assistance but also develop innovative concepts like a start-up incubator.

Building Business Infrastructure

A final major area of focus for many local leaders is strengthening the infrastructure necessary for small businesses to thrive. One of the most common interventions that can benefit entrepreneurs, especially the underserved, is the deployment of broadband.[4] Changes in consumer habits preceded COVID-19, but adaptation to hybrid business practices became even more pressing given public health measures.

Brownsville, Texas, is devoting $19.5 million toward middle mile broadband[5] to meet this need, which it plans to complement with $250,000 in "digital inclusion" efforts that ensure businesses not only have Internet access but are also well-equipped to use it to their advantage.

An increasingly digital commercial landscape has not made brick-and-mortar establishments obsolete, however, and businesses can still benefit from help accessing and improving physical space. ARPA can be leveraged to provide businesses with capital to grow, from assisting individual firms with acquiring storefronts to redeveloping city-bought properties to serve as incubators for a range of firms. In Seattle, for example, officials will spend $2 million to support the purchase of affordable commercial space, reducing barriers for entrepreneurs who may otherwise lack the means to rent from private landlords in an expensive market.

Municipalities may also seek to improve the safety and aesthetics of the environments in which firms do business. In the most fundamental sense, this can involve physical rehabilitation of commercial spaces and corridors. Madison, Wisconsin, will dedicate $500,000 of its ARPA allocation to retail building improvement grants, helping businesses meet basic needs while devoting more of their revenue to other pressing priorities, like ongoing COVID-19 mitigation efforts and employee payroll.

At the neighborhood level, local leaders can bolster business districts that create a sense of place and provide a valuable entrepreneurial network. While Treasury specifies that aid should go to business districts that existed before COVID-19 and can demonstrate pandemic-related effects, investments in short-term recovery can pave the way for future initiatives. Alexandria, Virginia, is offering $560,000 in matching funds for business associations to facilitate efforts that may substantiate the formation of districts in the future, advancing the city's long-term economic development.

Plans for neighborhood improvements should anticipate and redress potential disparities that may arise from ensuing changes in property values and prices for goods and services. Proactive policy solutions are necessary to protect long-established communities so that they can also benefit from ARPA-funded investments in their neighborhoods.

NLC Delivers for Cities, Towns and Villages

NLC has proudly advocated for municipal relief throughout the COVID-19 pandemic and continues working with federal officials to ensure localities have sufficient guidance and flexibility to effectively deploy ARPA funds.

Visit NLC.org/Recovery for additional ARPA information and resources, including a Local Action Tracker compiling the innovative approaches leaders are taking to build more prosperous and inclusive futures.

If you have general questions about the Coronavirus State and Local Fiscal Recovery Funds, please email the U.S. Department of Treasury at SLFRP@treasury.gov or call 844-529-9527.

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