Equitable Recovery in Practice

BY MATTHEW STITT AND MICHAEL NADOL

Manage the tension between current financial shortfalls and historic underinvestment to emerge stronger for the years ahead.

Today, almost every city and county in America is facing a once-in-a-generation financial, public health, and economic crisis. Revenue losses from the COVID-19 recession have opened severe gaps in local government budgets, and ongoing pressures on key sectors of the economy raise the fundamental question of whether some cities and counties can fully recover and thrive. In the face of these fiscal challenges, many local governments are also working to address longstanding issues related to health care, poverty, access, policing, and criminal justice that disproportionately burden communities of color—including the disparate impact of the pandemic itself.

These challenges are compounded by the tension among many fiscal recovery initiatives, which often involve service reductions, increases in user charges, or the risk of additional shifts in tax burden on communities already experiencing underinvestment. For example, many governments cut summer recreational and youth employment programs deemed unsafe during the pandemic, achieving needed budget savings through health-conscious steps to reduce exposure to COVID-19. While these actions were prudent and reasonable, they also had the unavoidable side effect of eliminating positive youth opportunities in many disadvantaged communities and reducing supplemental income for seasonal staff, who are often part of middle-income working families.

In other communities, millage rates and imposed fees or fines have been increased to help offset revenue shortfalls. Again, these are pragmatic budget actions. But higher fees to access public services can be particularly challenging for less-affluent residents, especially in places hit hard by job cuts to the retail sector and other lower-wage occupations during the pandemic and its "K-shaped" recovery.

Similarly, many local governments have curtailed or even frozen new capital spending, seeking to manage scarce near-term resources by deferring costs wherever they can. However, such deferred investment can translate to declining conditions for neighborhood roads, parks, and facilities in lower-income communities already battling underinvestment.

There are no easy resolutions, and economic and fiscal conditions will likely remain strained for at least the next few years. Nonetheless, as state and local governments manage these tensions, it is critical to make equity central to the recovery process. Not only can such an approach help to better share the short-term burdens required to weather the storm, but it can also help position governments for long-term, more sustainable progress as communities emerge from this crisis.

First Do No Harm:

8 Steps for Building an Equity Perspective into Recovery

Strategies that stabilize the crisis while preserving equity

THE FIRST STAGE in equitable recovery is to "stop the bleeding" by stabilizing the crisis while preserving as many equitable priorities as possible. Historically, cost-cutting exercises have been focused largely on achieving fiscal balance without a strong equity perspective. This pandemic, however, has only exacerbated existing disparities in critical areas such as healthcare, economic opportunity, and education. While local governments focus on continuity of services and investment in economic recovery, they also need to minimize the negative (and too often disproportionate) impacts on vulnerable populations. This priority extends to populations at risk of becoming vulnerable in the absence of intervening measures.

The following steps will help local governments and public agencies prioritize equity in their current recovery efforts.

1 Commit to an equitable recovery with urgency.

Leadership must first declare equity a priority. Executive orders, ordinances, resolutions, and public hearings can all be used to set a strong tone. In addition, equity principles, goals, and guidelines should be codified, thereby increasing transparency and accountability. The city council in Alexandria, Virginia, for example, recently adopted the ALL Alexandria resolution, which requires all forthcoming planning, including the upcoming FY22-27 strategic plan, to be centered on race and social equity. The resolution also includes the use of a budget equity tool to guide resource allocation and commitments to develop new partnerships, formal plans, and metrics for accountability.

2 Align equitable priorities with overall strategies.

Leadership should next reevaluate and reset existing government-wide strategies to incorporate outcomes for recovery, including updates and amendments to reflect their community's evolving needs. For example, funding digital infrastructure may now be an even higher equity priority so all children can continue to learn, and all adults can continue to access information and build skills necessary for the new economy.

3 Conduct equity analysis of new spending and revenue-generation ideas.

Local governments should incorporate and codify equity guidelines into budget analyses, including revenue impact, racial equity impact, and fiscal and economic assessments. Consider recent action in the District of Columbia, which now mandates that all proposed new legislation include racial equity impact statements.[1]

4 Create an equity budgeting team.

Identifying equity concerns and opportunities requires diverse perspectives—not only in terms of the individual life experiences of the people involved in decision-making but also with regard to roles and functions. Finance and budget officers should form and empower broader working groups, including human resources, procurement, operational, and/or equity office professionals. These groups are then tasked to develop equity guidelines and metrics and to inform the review of impact analyses, including minority, women, and disadvantaged business enterprise (MBE/WBE/DBE), and diverse workforce capacity-building. Larger governments should consider subcommittees for major departments to ensure budget review at a more granular level. As part of establishing these teams, providing training on equity considerations and approaches can also support an effective approach.

5 Engage the community.

Perspectives from outside of government can also inform equitable budget decisions. The City of Danville,

Case Study: Philadelphia

IN IMMEDIATE RESPONSE to the pandemic crisis, the City of Philadelphia, Pennsylvania formed the COVID-19 Recovery Office Steering Committee to help manage its state and federal relief funding, according to the city's COVID-19 Recovery Office. The Committee comprised a diverse group of internal, intergovernmental stakeholders whose main purpose was to ensure that relief funds and resources were being used effectively to drive maximum equitable impact while coordinating with internal and external stakeholders on reopening and recovery plans.

When it came to establishing a process to best allocate relief dollars, the city chose to maximize the utility of all funds by undertaking a replace-and-replenish-like methodology. This first replaced general fund dollars with COVID relief dollars where eligible to stop the bleeding and maintain current service levels at the extent possible—with the goal of reinvesting in prioritized areas once essential services are adequately funded. Once baseline essential funding levels were achieved, unallocated general fund dollars would then be reallocated to areas that reflect equitable priorities, such as increased emergency housing relief.

City leadership also made use of existing partnerships by creating a nonprofit fund called the Philadelphia Poverty Action Fund to administer their Poverty Action Plan with the goal of dedicating millions of dollars to fund anti-poverty efforts. The fund will be administered by the United Way of Greater Philadelphia and Southern New Jersey under a shared governance model. This should reduce costs and increase impact, as the fund will seek to leverage millions of private and philanthropic dollars, effectively driving more equity into communities.[1]

[1] Christian Hetrick, "Philadelphia City Council votes to create a nonprofit fund aimed at pulling 100,000 out of poverty," *The Philadelphia Enquirer*, November 12, 2020.

Virginia, for example, used a mix of virtual town halls, a community-wide survey, and guidance from a resident advisory committee to help develop a plan for using the revenues from a newly approved casino. Supported by equity mapping of city neighborhoods, the plan's recommendations included specific investments in home repair programs, parks and playgrounds, and food access in prioritized geographic areas.

6 Maximize tactics with minimal impacts.

Not every budget action directly involves equity, and local governments should maximize all available approaches to reduce costs or increase revenues without major equity impacts. Success with such initiatives can mitigate the need for more difficult choices. For example, can debt be refinanced cost-effectively? Can vendor contracts be rebid for savings (without adversely affecting small, MBE/WBE/DBE firms)? Is it possible to reduce utility costs through conservation and increased energy efficiency? Are there philanthropic partners who can meet a specific need, thus reducing the need for public funding?

Beyond such comparatively less-painful approaches, there may also be actions that make long-term sense—and have minimal impact on equity—but have previously stalled due to political stakeholder concerns. In some communities, for example, opportunities may exist to consolidate programs with duplicative or overlapping functions that have not advanced in more normal times because of organizational inertia. With the pandemic downturn driving new fiscal pressures, now is the time to revisit whether the range of what is possible might have expanded.

7 Be prepared to make tough choices.

In most communities, difficult choices will still be needed. This is where the strategic guidelines, equity impact analyses and mapping, and input from a range of internal and external perspectives will all need to be brought together to drive thoughtful prioritization. While not every need can be met, this will preserve a higher degree of equity and maintain a stronger foundation for eventual rebuilding.

8 Measure, monitor, and revise.

In addition to undertaking sound analysis before making budget decisions, governments also need to establish good metrics and to monitor impacts throughout the year. Given the uncertain public health, economic, and fiscal trajectory of a virus-driven recession, the likelihood of needing mid-course corrections is high. To set more targeted goals and track progress, local governments should also focus on better ways to disaggregate data by demographic categories.

All of the above steps should be undertaken in an effort to not only survive the fiscal year but also to adequately fund essential and prioritized services. Because many core government services should have existing high-equity priorities, this is where governments can start to ensure they are on a path to recovering equitably.

Dual Impact

Opportunities to jointly improve budgets and equity

WHILE RECOVERY recovery will require tough choices in most communities—supported by the type of evaluation and prioritization process outlined above—budget decisions don't need to be viewed as a zero-sum game. Some approaches provide an opportunity to advance both budget recovery and improved equity, jointly. Following are ideas and some existing examples to consider.

Reviewing tax incentives

Economic development incentives and abatement programs often expand and accrete over many years and may no longer be achieving their original policy goals (if they ever did). At both the state and local level, a comprehensive policy evaluation can ensure that such programs are well-designed for the current economy and still delivering a positive return on investment. In turn, eliminating or restructuring underperforming incentives can improve net revenues in future years and yield a more equitable revenue structure by sharing tax burdens more broadly.

In the City of St. Louis, Missouri, for example, tax abatement policies have been revised to focus on incentives based on the housing market in which the project is located. Using market indicators such as median home prices, mortgage activity, and resident income, the city defines seven market types and matches an abatement term and maximum abated value to each. Terms range from five years at 50 percent of market value in strong markets to 10 years at 100 percent of market value, or 15 years at 50 percent of market value in the weakest markets—with no abatements at all in the strongest markets. These policies both reduce the overall revenue loss due to abatements and ensure that the city's tax expenditures reflect a more equitable approach.

Reforming the criminal justice system

Excessive incarceration is not only damaging to communities but also expensive. Changes to criminal justice policies have clearly demonstrated the potential for financial benefits from social change. Take the City of Philadelphia, Pennsylvania, where improvements to case processing, pretrial detention and probation practices, and other reforms helped reduce the jail population by approximately 55 percent since FY 2010. As a result, the Department of Prisons budget in FY 2021 is approximately $20 million less than it was a decade earlier, even without adjusting for inflation—and with potential to go even further.

Reviewing bail requirements, juvenile justice approaches, and criminal court fees and fines can all yield both fiscal and equity benefits. Acknowledging the high cost and low return of fine and fee revenue collections, officials in Ramsey County, Minnesota, passed a comprehensive reform package in April 2020, eliminating nearly a dozen fines levied that had a disproportionate impact on low-income families and people of color.

Rethinking public safety

Following the 2020 police killing of George Floyd, longstanding calls to rethink the allocation of resources for law enforcement have gained new and much-needed momentum. While these are complex issues, and the approach for each community should address localized safety and justice needs, goals and priorities, local governments can and should undertake comprehensive examinations of the cost of policing to identify opportunities to both spend less and to reinvest in prevention-first strategies. The City of Providence, Rhode Island is taking such an approach, currently working to create a data-driven plan to evaluate how public resources can best be applied to increase justice and safety without regard to whether those dollars are spent on housing, health, schools, or police.

Recognizing that a prevention-first approach may be a better investment, many local governments have expanded partnerships between sworn police and well-trained civilians who have complementary skills and expertise. In some areas of law enforcement operations, "civilianization" can be largely a budget-savings opportunity that relies more on lower-cost civilians for back office and support functions such as records management or traffic control. In other service areas, however, partnerships between sworn officers and civilians may also bring new skills and perspectives into emergency response that can help achieve better outcomes. For example, the City of Los Angeles Police Department and Los Angeles County Department of Mental Health have a well-established co-responder and triage desk program for handling mental-health related calls for service.

Delivering services online while closing the digital divide

One of the silver linings of social distancing restrictions in the COVID-19 era has been a significant acceleration of online service delivery across the public sector. Applications have been widespread, including business licensing and permitting; small claims and traffic dispute resolution; tax sales; development plan reviews; processing wills and marriage licenses; vendor bidding; and human services and benefits casework.

In many cases, these changes have increased access and convenience for the public, while reducing costs for government agencies and ensuring that government employees can also work remotely in safety. At the same time, however, technology access can be a barrier for some communities and individuals. Cost-effective steps to address the digital divide can include:

- Ensuring that public libraries have sufficient Internet access, hours of operation, and confidential spaces.
- Developing cell phone-friendly access for services.
- Providing free or low-cost Internet or subsidies (potentially in partnership with private-sector providers and philanthropy.

Building for the Future

Recommendations for long-term positioning

City officials in Austin, Texas included $300 million within their $7 billion transit expansion plan for anti-displacement efforts to prevent low-income residents from being forced out of their homes.

FULL RECOVERY from a systemic economic and financial shock like COVID-19 requires more than just a single-year effort. It will take a multiyear, sustained commitment—again, with mid-course adjustments still ahead for most governments as uncertainty persists. Likewise, achieving equity requires sustained commitment, with some gains made only across generations. Although short-term progress is imperative for equitable recovery, many of the most meaningful actions will be those with longer-term horizons. Following are some ideas to consider.

Strategic capital investment

While capital budget allocations often receive less public attention than operating budget decisions, the dollars invested in roads, facilities, parks, and other infrastructure and development initiatives are large in scale and can have long-lasting impacts on equity within a community. Accordingly, structured, equity-focused budgeting approaches are just as important for capital programs as they are for operations. For example, Harris County, Texas historically prioritized flood control projects based on the dollar value of the property protected. While this approach made good economic sense for the tax base, it also meant that many lower-income communities with lower property values fell to the bottom of the list. Through a new equity-focused approach, a broader range of Harris County neighborhoods are now receiving this investment. Along with ensuring that equity is a factor within project prioritization frameworks, individual proposed investments can also be evaluated under a "triple bottom line" approach that, along with economics, takes environmental and social impacts into account.

Dedicated funding for equity investment

Some communities are carving out dedicated resources or sometimes creating new revenue streams focused specifically on equity goals. For example, the City of Baltimore, Maryland, established a beverage container tax in 2010, with proceeds dedicated to renovating aging public-school facilities—many in economically challenged neighborhoods.

Along with dedicated new revenue streams, local governments can consider linking investments in growth to additional investment in equity-based projects. Already, many have a "1 Percent for Art" requirement associated with larger public construction projects. In parallel, a specific "X Percent for Equity" commitment might be considered. Consider efforts in Austin, Texas, where city officials included $300 million within their $7 billion transit expansion plan dedicated toward anti-displacement efforts like building affordable housing and land banking on transit corridors for future affordable housing production.

Linking capital programs and workforce development

Capital programs can promote equity by investing in historically disadvantaged communities, along with providing significant business and career opportunities. Where major capital investments are advancing, local governments can look for opportunities to connect the dots to workforce development programs, making sure that trade apprenticeships and other opportunities for local and diverse residents are included in project plans.

Public employment as a strategy

While state and local governments have a responsibility to deliver services efficiently—without excessive payrolls—many public agencies carry unwanted vacancies in hard-to-fill jobs such as the skilled trades, fleet maintenance, information technology support, and public safety. In turn, these vacancies can lead to service challenges, overtime, and outside contracting that may not always be cost-effective. Further, many of these jobs do not require a four-year degree and would provide good-paying careers for many public-school graduates within those same communities.

School-to-work programs, targeted community college programs, and other career-training initiatives can all provide pathways into family-sustaining public service jobs for local students and other residents. These programs can potentially be developed in partnerships across public-sector agencies. For example, Philadelphia's Office of Fleet Management has conducted an automotive apprenticeship program in tandem with the School District of Philadelphia for more than 25 years, training more than 125 students, many of whom have moved into civil service careers.

Intentional tax policy

Many local government tax portfolios are substantially influenced by the type(s) of taxes their state allows and what taxing measures have historically been feasible to adopt. Given the impact of the COVID-19 recession, governments will need to rethink whether their current mix of tax and revenue sources is both sustainable and equitable over the long term. For instance, jurisdictions that rely heavily on income or sales tax revenues have seen greater disruption because of work-from-home practices, some of which may continue for certain urban hubs. When determining how to make up for lower revenues from a diminishing base, governments should think with intention about the direction any changes may take them, as far as becoming less volatile and more equitable.

As one example, a greater shift toward property taxes is likely to improve revenue stability (even with threats to commercial property values in some communities) but may require "circuit breakers" or other buffers to protect homeowners with fixed and/or lower incomes. Similarly, when thinking about potential new taxes, it is important to consider which options are most likely to remain stable, not further erode the local tax

Fast Facts

The Disparate Impact of COVID-19

The COVID-19 death rate for Black, Hispanic, and Native Americans is nearly three times the death rate for white Americans, according to the CDC.

9.9% of Black workers and 9.3% of Latinx workers nationwide were unemployed at year-end 2020, compared to 6% of white workers, according to the Center of Budget and Policy Priorities.

During the first months of the pandemic, Black-owned businesses shuttered at a much higher rate than White-owned businesses—41% versus 17%—according to the National Bureau of Economic Research.

During the early weeks of the vaccine rollout, White residents were vaccinated at significantly higher rates than Black residents—two to three times higher, in many states, according to the Kaiser Family Foundation.

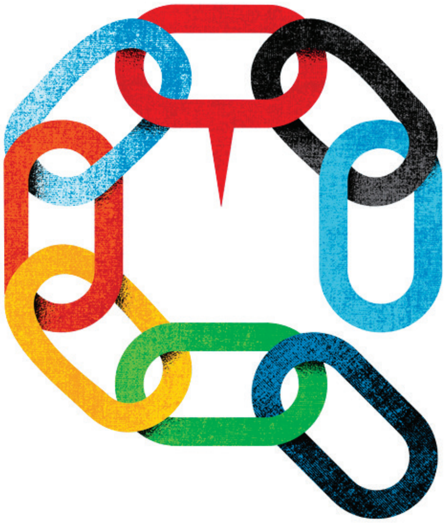
base, and allocate new tax burdens as equitably as possible. For instance, emerging "sharing economy" taxes (for example, for rideshares and Airbnb) will generally address growing sectors of the new economy without strong regressive effects on lower- and middle-income taxpayers.

Small business recovery and regeneration

The COVID-19 recession has highlighted the importance of small businesses and the opportunities they generate—driving neighborhood economies, creating jobs, and building wealth across diverse communities. In turn, state and local economic development programs can incorporate an equity dimension in their programs to support small businesses. Strategies might include greater access to capital and expanded purchasing from minority-owned enterprises. In addition, increased training and technical support for small business development and entrepreneurship is particularly important to spark and cultivate a broader and deeper pool of qualified diverse businesses that can strengthen the overall local economy, rather than remaining bounded solely by percentage-based "set asides."

Overall, economic growth and social justice are not either/or budget choices. Achieving equity and growth requires a both/and mindset. Economic opportunity to move out of poverty requires having good schools; strong and expanding employers; more diverse, locally owned businesses; and more family-sustaining jobs. Neighborhood stability means that cities, counties, and towns must be places of choice to live and raise a family, and to grow a successful small business. Shared prosperity, more opportunity for start-up enterprise, and stronger labor markets and pathways into them are important for all—and a common pro-jobs and pro-inclusion agenda makes them more achievable.

Changing Processes, Changing Values



The importance of collaboration, coordination, and communication

DURING TIMES OF CRISIS, an organization's capacity is often stretched thin. Implementing any new process will add yet another layer of difficulty in an already stressful environment, particularly with the volatility of the pandemic economy and shifting responses from other, overlapping levels of government.

Therefore, it is essential to build equitable recovery frameworks around coordination, collaboration, and communication. This includes the type of committee structures and reporting on budget, service, and equity metrics outlined earlier in this article, but it also extends to more general communication across the enterprise. Effective action requires frequent and inclusive communication and coordination inside and outside of the government, especially as conditions remain volatile and uncertain.

Further, while heightened communication, collaboration, and coordination are crucial for recovery today, they should not have an expiration date. Long-term changes in mindset and culture that prioritize equity will require that collaboration, coordination, and communication are incorporated and included throughout local government, even after the crisis has passed. Changing these processes can result in a long-overdue change in the values of an organization. At the end of the day, equitable budgeting can and should become the norm in local government. Starting now—with equitable recovery—is the best way to emerge out of the COVID-19 crisis with stronger, more resilient, and increasingly connected communities to call home.

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1 Martin Austermuhle, "All Legislation in D.C. Will Now Be Assessed for Racial Equity," DCist, January 27, 2021.
2 See, for example, The Pew Charitable Trusts report "How States Are Improving Tax Incentives for Jobs and Growth" (May 2017).
3 Shannon Prather, "Ramsey County eliminates nearly $700,000 in criminal fines and fees," *Minneapolis Star Tribune*, April 14, 2020.
4 See "The Debate Over Defunding the Police" by Seth A. Williams and David R. Eichenthal in the October 2020 issue of *Government Finance Review* for a more comprehensive review of these issues and opportunities.