ARPA State and Local Treasury Guidance Overview

Coronavirus State and Local Fiscal Recovery Funds are designed to deliver $350 billion to state, local, territorial, and Tribal governments to bolster their response to the COVID-19 emergency and its economic impacts.

Support public health expenditures
• Address a range of public health needs across COVID-19 mitigation

Address negative economic impacts caused by the public health emergency
• Individuals and households, including those hardest-hit communities
• Small businesses and impacted industries

Replace lost public sector revenue
• Support government services, including infrastructure, cybersecurity, and health services

Provide premium pay for essential workers
• Direct payment to essential critical infrastructure sectors

Invest in water, sewer, and broadband infrastructure
• Improvements to critical water and sewer infrastructure
• Projects that address impacts of climate change

<table>
<thead>
<tr>
<th>Allocation totals (in billions)</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>State &amp; District of Columbia</td>
<td>$195.3</td>
</tr>
<tr>
<td>Counties</td>
<td>$65.1</td>
</tr>
<tr>
<td>Cities</td>
<td>$45.6</td>
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<tr>
<td>Tribal entities</td>
<td>$20</td>
</tr>
<tr>
<td>Non-entitlement local governments</td>
<td>$19.5</td>
</tr>
<tr>
<td>Territories</td>
<td>$4.5</td>
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</tbody>
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Timing of the distribution of funds

**Payment Tranches to States & Territories**

- Up to 50% of the amount allocated may be withheld for up to 12 months based on unemployment rates
- Majority of States will be paid in two tranches
- No U.S. territory will be subject to withholding of its payment from the Fiscal Recovery Funds

**Payment Tranches to Localities**

- Two Tranches: second tranche paid 12 months after the first payment
- **Note**: funds for nonentitlement units will be provided to states for distribution

The following states that saw unemployment rates increase by more than 2% since February 2020 will be eligible to receive the full amount of federal coronavirus funding in one lump sum:

<table>
<thead>
<tr>
<th>California</th>
<th>Maryland</th>
<th>Oregon</th>
</tr>
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<tbody>
<tr>
<td>Colorado</td>
<td>Massachusetts</td>
<td>Pennsylvania</td>
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<tr>
<td>Connecticut</td>
<td>Nevada</td>
<td>Rhode Island</td>
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<td>Delaware</td>
<td>New Jersey</td>
<td>South Carolina</td>
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<tr>
<td>Illinois</td>
<td>New Mexico</td>
<td>Texas</td>
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<tr>
<td>Louisiana</td>
<td>New York</td>
<td>Virginia</td>
</tr>
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Overall reporting requirements

- Public information on uses of funds
- Need for “transparency and accountability”
- Provide quarterly reports on eligible uses
- Engage constituents and communities in developing plans
- Provide information on tax offsets on annual basis
- State may not impose stricter limitations than permitted by statute or Treasury
Summary & Examples

Recipients may use this funding to address a broad range of public health needs across COVID-19 mitigation, including medical expenses, behavioral healthcare, and public health resources. Among other services, these funds can help support:

- Vaccination programs
- Medical expenses
- Testing, contact tracing, and PPE
- Isolation or quarantine
- Support for vulnerable populations to access medical or public health services
- Public health surveillance (e.g., monitoring for variants)
- Enforcement of public health orders

- Public communication efforts
- Enhancement of public health data systems
- Capital investments in public facilities to meet pandemic operational needs
- Mental & other behavioral health services, including substance abuse
- Services or outreach to promote access to health and social services

Eligible Uses

- Must first identify a need or negative impact
- Must then identify how the program, service or another intervention addresses the identified need or impact

Technology

- Can be used “to improve public health programs addressing the COVID-19 pandemic, including through use of targeted consumer outreach, improvements to data or technology infrastructure, impact evaluations, and data analysis.” (Page 21)
### Summary & Examples

Supports **individuals and households**, including those **hardest-hit communities, small businesses**, and impacted industries, in addition to enabling governments to **rehire public sector staff** and rebuild capacity:

- Aid to unemployed workers and job training, aid to households facing food, housing, or other financial insecurity
- **Support and technical assistance** to small businesses, including loans, grant, in-kind assistance, and counseling programs
- Assistance to tourism, travel, and hospitality sectors
- Rebuilding public sector capacity, by rehiring public sector staff and **replenishing unemployment insurance (UI) trust funds**
- Recipients may also use this funding to build their internal capacity to successfully **implement economic relief programs**
- Address **health** and **educational disparities** and the **social determinants of health**
- Investments in housing and neighborhoods and promote healthy childhood environments

### Eligible Uses

- Must “respond to” the identified negative economic impact
- Responses must be **related and reasonably proportional** to the extent and type of harm experienced
- Proportional cash transfers to populations that experienced unemployment or increased food or housing insecurity or is low- or moderate-income is presumed to have experienced negative economic harm
- If in a **Qualified Census Tract** (a low-income area as designated by HUD) assumed eligible

### Technology

- Can be used to “improve the efficacy of programs addressing negative economic impacts, including through use of data analysis, targeted consumer outreach, improvements to data or technology infrastructure, and impact evaluations.” (Page 34)

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“Where there has been negative economic impact resulting from public health emergency, States, local and Tribal governments have broad latitude to choose whether and how to use the FRF to respond to and address the negative economic impact.” (Page 31)

“Treasury encourages recipients to consider funding uses that foster a strong, inclusive and equitable recovery, especially uses with long-term benefits for health and economic outcomes.” (Page 41)
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Replacing lost public sector revenue

Eligible Uses

- Replace lost funds by **computing the reduction in revenue**: compare actual revenues to an alternative representing what could have been expected to occur in the absence of the pandemic.
- Can re-calculate revenue loss at several points through the program, supporting those entities that experience a lagged impact of the crisis on revenues.
- Broadly writes that public sector entities “will have **broad latitude to use this funding to support government services**, up to this amount of lost revenue.”
- Government services can include, but are not limited to, maintenance or pay-go funded **building of infrastructure**, including roads; **modernization of cybersecurity**, including hardware, software, and protection of critical infrastructure; **health services**; environmental remediation; school or educational services; and the provision of police, fire, and other public safety services.

Signal Group writes, “This includes **significant opportunity for IT modernization and digital advancement** activities for state and local units of government.” (Page 60)
Summary & Examples
The rule incorporates the definition of essential worker and provides a list of industries recognized as essential critical infrastructure sectors.

Recipients may use this funding to provide premium pay directly, or through grants to private employers, to a broad range of essential workers who must be physically present at their jobs including, among others:

- Staff at nursing homes, hospitals, and home-care settings
- Workers at farms, food production facilities, grocery stores, and restaurants
- Janitors and sanitation workers
- Public health and safety staff
- Truck drivers, transit staff, and warehouse workers
- Childcare workers, educators, and school staff
- Social service and human services staff

Eligible Uses
Essential work means work that:

- (1) Is not performed while teleworking from a residence; and
- (2) Involves: (i) Regular in-person interactions with patients, the public, or coworkers of the individual that is performing the work; or regular physical handling of items that were handled by, or are to be handled by patients, the public, or coworkers of the individual that is performing the work.
**Summary & Examples**

Funding for necessary improvements to water and sewer infrastructure, including projects that address the **impacts of climate change:**

- Ensure that water, sewer, and broadband projects **use strong labor standards**, including project labor agreements and community benefits agreements that offer wages at or above the prevailing rate and include local hire provisions.
- **Drinking water infrastructure projects**, such as building or upgrading facilities and transmission, distribution, and storage systems, including the replacement of lead service lines.
- **Wastewater infrastructure projects**, including constructing publicly-owned treatment infrastructure, managing and treating stormwater or subsurface drainage water, facilitating water reuse, and securing publicly-owned treatment works.

**Eligible Uses**

- Projects that would be eligible to receive financial assistance through the Environmental Protection Agency’s (EPA) Clean Water State Revolving Fund (CWSRF) or Drinking Water State Revolving Fund (DWSRF).
- **Cybersecurity improvements** to protect water or sewer infrastructure.
- Deliver service that reliably meets or exceeds symmetrical upload and download speeds of 100 Mbps.
- Focus on locations that are unserved or underserved.

**Technology**

- Encourages states and localities to build **broadband infrastructure** with modern technologies in mind.
- The guidance broadens this applicable use to include any function that gives assistance to “households to support internet access or digital literacy.” (Page 77)
The American Rescue Plan Act specifies **two ineligible uses of funds**:

- States and territories may not use this funding to **offset a reduction in net tax revenue** due to a change in law from March 3, 2021 through the last day of the fiscal year
- No recipient may use this funding to make a deposit to a **pension fund**

Treasury’s Interim Final Rule also identifies **other ineligible uses**, including:

- Debt service
- Legal settlements or judgments
- Deposits to rainy day funds or financial reserves
- Further, general infrastructure spending is not covered as an eligible use **outside of water, sewer, and broadband investments** or **above the amount allocated under the revenue loss provision**
Treasury is interpreting the requirement in section 602 and section 603 that costs be incurred by December 31, 2024, to require only that recipients have obligated the Fiscal Recovery Funds by such date. The Interim Final Rule adopts a definition of “obligation” that is based on the definition used for purposes of the Uniform Guidance, which will allow for uniform administration of this requirement and is a definition with which most recipients will be familiar.

The Interim Final Rule permits funds to be used to cover costs incurred beginning on March 3, 2021. This aligns the period for use of Fiscal Recovery Funds with the period during which these funds may not be used to offset reductions in net tax revenue.

As set forth in the award terms, the period of performance will run until December 31, 2026, which will provide recipients a reasonable amount of time to complete projects funded with payments from the Fiscal Recovery Funds.