

OVERVIEW: AMERICAN RESCUE PLAN ACT STATE and LOCAL FISCAL RECOVERY FUNDS

Developed by the City of Harrisonburg City Manager's Office and Finance Department

THE FINAL RULE

The U.S. Department of Treasury regulates and enforces the use of American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds (SLFRF). Treasury's Final Rule describes eligible and ineligible uses of funds as well as other program provisions. The Final Rule went into effect on April 1, 2022. Local governments additionally must comply with Treasury's Compliance and Reporting Guidance and meet compliance and reporting responsibilities defined in the Final Rule, which includes submitting mandatory periodic reports to Treasury.

CITY OF HARRISONBURG ARPA-SLFRF

Congress allocated Coronavirus State and Local Fiscal Recovery Funds to tens of thousands of eligible state, local, territorial, and Tribal governments. Local governments receive the funds in two tranches, with 50% provided beginning in May 2021 and the balance delivered approximately 12 months later.

**Amount of ARPA-SLFRF Funds
Harrisonburg Received**

\$23,834,094

GENERAL RESTRICTIONS

Many uses for the funds exist, but the Final Rule explicitly forbids ARPA-SLFRF funds to be used in any of the following ways:

| | |
|--|---|
| Offset a Reduction in Net Tax Revenue | To directly or indirectly offset a reduction in net tax revenue resulting from a change in law or regulation after March 3, 2021. |
| Deposits into Pension Funds | To deposit funds into a pension fund. |
| Debt Service or Replenishment of Financial Reserves | To pay debt service or the replenishment of financial reserves. |
| Settlements and Judgements | To satisfy the obligations of a settlement or judgement. |
| Additional Restrictions | In conflict with the purpose of ARPA-SLFRF or the Uniform Guidance. |

FOUR EXPENDITURE “BUCKETS”

ARPA-SLFRF funds may be allocated through four different expenditure categories or “buckets.”

REVENUE LOSS

Replace lost public sector revenue

PUBLIC HEALTH AND NEGATIVE ECONOMIC IMPACTS

Support the COVID-19 public health and economic response

PREMIUM PAY

Provide premium pay to eligible workers

WATER, SEWER, AND BROADBAND

Invest in water, sewer, and broadband infrastructure

IMPACTED AND DISPROPORTIONATELY IMPACTED POPULATIONS

The Treasury presumes certain populations are *impacted* or *disproportionately impacted* by the pandemic. The Final Rule has defined criteria for determining impacted or disproportionately impacted populations in a community. Many eligible uses in the expenditure buckets are exclusively allowed for impacted or disproportionately impacted populations. Some uses are not eligible for funding if provided to populations that are not considered impacted or disproportionately impacted.

Impacted Households and Communities

- ❖ Low- or moderate-income households or communities
- ❖ Households that experienced unemployment
- ❖ Households that experienced increased food or housing insecurity
- ❖ Households that qualify for CHIP, CCDF, or Medicaid
- ❖ Households that qualify for the National Housing Trust Fund and HOME (only applicable when providing affordable housing programs)

Disproportionately Impacted Households and Communities

- ❖ Low-income households and communities
- ❖ Households residing in Qualified Census tracts
- ❖ Households that qualify for TANF, SNAP, or a variety of other programs

ELIGIBLE INCOME LEVELS

(HOUSEHOLD OF 3)

Low-income:

Income \leq \$40,626

Moderate-income:

Income \leq \$65,880

The city may use the income threshold for a default household size of three if providing services for a general geographic area.

Local governments must follow a process outlined in the Final Rule to identify other classes of households, communities, small businesses, nonprofits, or populations outside of the Final Rule's definition that have experienced an impact or disproportionate impact. This process must be based on academic research or government research publications, through analysis of local government data, or through analysis of other existing data sources.¹

¹ Coronavirus State & Local Fiscal Recovery Funds: Overview of the Final Rule. U.S. Department of the Treasury. Page 45.

BUCKET 1: REVENUE LOSS

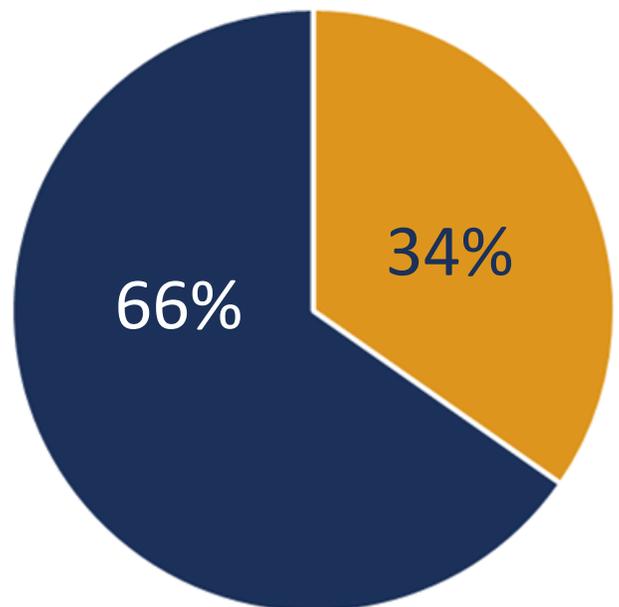
Local governments may expend ARPA-SLFRF funds on government services up to its revenue loss amount. *Government services generally include any service traditionally provided by a government unless Treasury has stated otherwise.* Services not traditionally provided by a government cannot be funded through the revenue loss category. Revenue Loss is the most flexible eligible use category.

Calculating the City’s revenue loss amount is a complex process using a formula provided by Treasury. It requires analyzing numerous streams of revenue, several years of financial information, and the determination and application of average growth rates. Revenue loss calculations are ongoing, and the City’s revenue loss amount may increase as soon as December 2022 following the annual audit.

Harrisonburg Revenue Loss Calculations

| | FY 2019 (Base Year) | FY 2020 | FY 2021 |
|-------------------|------------------------|---------------|---------------|
| Expected Revenue* | | \$201,123,784 | \$211,582,221 |
| Actual Revenue | \$191,182,304 | \$194,248,463 | \$202,723,910 |
| Revenue Loss | | \$6,875,321 | \$8,858,311 |

*Expected Revenue calculated by multiplying previous year’s revenue by the Average Growth Rate of 5.2%



\$23,834,094

Total Harrisonburg
ARPA-SLFRF Funds

BUCKET 2: PUBLIC HEALTH AND NEGATIVE ECONOMIC IMPACTS

Local governments may use ARPA-SLFRF funds to meet the public health and economic needs of community members impacted by the pandemic, as well as to address longstanding health and economic disparities, which served to amplify the pandemic’s impact on disproportionately impacted communities.²

Responses to public health and negative economic impacts must fall into one of the following categories:

- 1) Public Health
- 2) Negative Economic Impacts
 - a. Assistance to Households
 - b. Assistance to Small Business
 - c. Assistance to Nonprofits
 - d. Aid to Impacted Industries
- 3) Public Sector Capacity

Identifying Eligible Uses

Step 1. Identify a health or economic impact on an individual or group

Step 2. Design a related, reasonably proportional response

Public Health

Any funded program under Public Health must fall into one of the following subcategories. Each category has its own purpose and eligibility rules.

| | |
|---|--|
| 1. COVID-19 Mitigation and Prevention | All members of the general public are deemed to be impacted and are eligible for services. |
| 2. Medical Expenses | Means-tested. Limited to those who incurred medical costs due to COVID-19. |
| 3. Behavioral Health Care | All members of the general public are deemed to be impacted and are eligible for services. |
| 4. Preventing and Responding to Violence | All communities are eligible for violence intervention programs. |



² Coronavirus State & Local Fiscal Recovery Funds: Overview of the Final Rule. U.S. Department of the Treasury. Page 12.

Negative Economic Impacts

a. Assistance to Households

Local governments may use ARPA-SLFRF to fund a variety of services to residents under the Negative Economic Impacts expenditure category. The eligibility of services varies drastically depending on whether the recipients of the services are **impacted** or **disproportionately impacted**. Generally, disproportionately impacted households and communities are eligible for more types of services and programs than are impacted households and communities.³

Examples of Services for Impacted Individuals and Communities

Food Assistance

Homeless Services

Childcare

Affordable Housing Development

Cash Assistance

Digital Literacy Programs

Examples of Services for Disproportionately Impacted Individuals and Communities

Housing Vouchers

Improvements to Vacant and Abandoned Properties

Schools and Other Educational Equipment

Neighborhood Investments (Parks, Sidewalks, Streetlights, Crosswalks, etc.)

In order for a local government to provide ARPA-SLFRF funding for a service or program not enumerated as eligible, the Treasury requires the local government to first identify the impact of the pandemic on the eligible population and then identify an appropriate program or service response based on data or research. Survey data on levels of resident support for various potential responses is not an allowable substitute.

³ Coronavirus State & Local Fiscal Recovery Funds: Overview of the Final Rule. U.S. Department of the Treasury. Page 16.

b. Assistance to Small Business

Local governments may identify small businesses impacted by the pandemic and design measures to respond.

Impacted Small Businesses

- ❖ Decreased revenue of gross receipts
- ❖ Financial insecurity
- ❖ Increased costs
- ❖ Capacity to weather financial hardships
- ❖ Challenges covering payroll, rent or mortgage, and other operating costs



Disproportionately Impacted Small Businesses

- ❖ Small businesses operating in a QCT

c. Assistance to Nonprofits

Local governments may identify nonprofits impacted by the pandemic and design measures to respond.

Impacted Nonprofits

- ❖ Decreased revenue (e.g., from donations and fees)
- ❖ Financial insecurity
- ❖ Increased costs
- ❖ Capacity to weather financial hardships
- ❖ Challenges covering payroll, rent or mortgage, and other operating costs



Disproportionately Impacted Nonprofits

- ❖ Nonprofits operating in a QCT

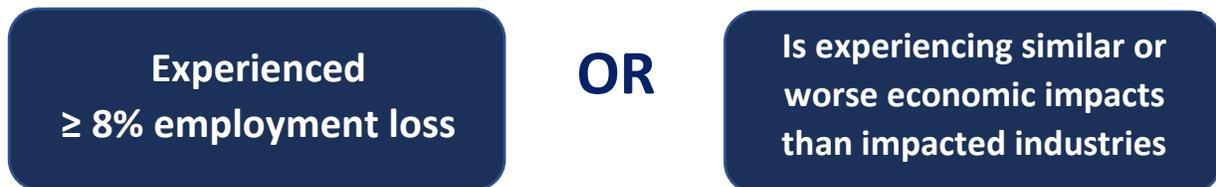
d. Aid to Impacted Industries

Local governments may use ARPA-SLFRF funds to aid industries impacted by COVID-19 by first designating an impacted industry and then providing aid that addresses negative economic impacts.

Industries in the following sectors are presumed to be impacted:



If the industry is outside the travel, tourism, or hospitality sectors, it is impacted if it:



Public Sector Capacity

Local governments may use ARPA-SLFRF funds to bolster public sector capacity and workforce in several areas:

Public Safety, Public Health, and Human Services

Funding may be used for payroll and covered benefits for public safety, public health, health care, human services and similar employees, only for the portion of the employee's time spent responding to COVID-19.

Government Employment and Rehiring Public Sector Staff

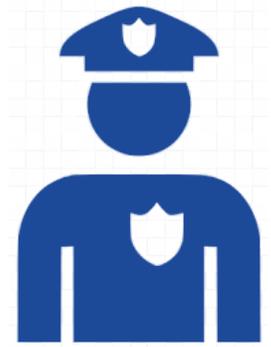
Funding may be used for the restoration of and support of public sector employment through many means, including hiring up to a pre-pandemic baseline, providing funds for laid-off workers, avoiding layoffs, providing worker retention incentives, and covering additional administrative costs related to hiring, support, and retention.

Effective Service Delivery

Funding may be used to improve the efficacy of public health and economic programs through tools like program evaluation, data, and outreach, as well as to address administrative needs caused or exacerbated by the pandemic.

BUCKET 3: PREMIUM PAY

Local governments may use ARPA-SLFRF funds to provide premium pay to eligible workers performing essential work during the pandemic. Premium pay may be paid retrospectively but may not be used to reimburse the city for premium pay or hazard pay covered by other revenue sources that the worker has already received.



BUCKET 4: WATER, SEWER, and BROADBAND

Water and Sewer

Eligible Projects:

- ❖ Projects eligible under the EPA’s Clean Water State Revolving Fund (CWSRF)
- ❖ Projects eligible under the EPA’s Drinking Water State Revolving Fund (DWSRF)
- ❖ Projects outside the CWSRF and DWSRF that are a “necessary” investment

Broadband

Broadband infrastructure is an eligible use of funding. However, Harrisonburg does not meet the eligibility criteria because there are two existing broadband providers already meeting the service minimums, and one provider offers access to the FCC’s Affordable Connectivity Program.

A NECESSARY INVESTMENT...

- ❖ Provides an adequate minimum level of service
- ❖ Is a cost-effective means of meeting need
- ❖ Is sustainable (for drinking water projects intended to meet population growth)

ARPA-SLFRF funds could possibly be used to create or enhance public education about existing affordable broadband programs.

CAPITAL EXPENDITURES

Local governments may use funds for capital expenditures that respond to the public health and negative economic impacts of the pandemic. The Final Rule enumerates examples of eligible capital expenditures in these categories. The expenditures must be related and reasonably proportional to the pandemic impact identified and reasonably designed to benefit the impacted population or class. Any capital expenditure exceeding \$1 million requires completion of a written justification.

Capital Expenditures funded through the Revenue Loss category are not subject to the Capital Expenditures regulations in the Final Rule.

More information on the American Rescue Plan Act State and Local Fiscal Recovery Funds and the Final Rule is available online at

<https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>