FEDERAL UPDATE

Coronavirus State and Local Fiscal Recovery Funds: GFOA Guiding Principles

BY MEHREEN HAROON

A year and a half into the COVID-19 pandemic, the devastating public health and economic impact has been felt nationwide. While the CARES Act launched the Coronavirus Relief Fund (CRF) in early 2020 to provide immediate assistance for state and local governments in responding to the growing emergency, the American Rescue Plan Act of 2021 (the ARPA, passed in March 2021) contained the important Coronavirus State and Local Fiscal Recovery Fund (CSLFRF), which shifted the focus of the federal funds toward providing response and recovery efforts. GFOA has provided some guiding principles for recipients to consider in using the new CSLFRF funds.

It's temporary

While the covered period for using the CSLFRF funds goes far beyond the strict timeframe that had been set for the CRF, it's still a temporary measure. The funds are non-recurring and would be best used for expenditures that are also primarily non-recurring and for areas that require urgent assistance because of the pandemic. Examples include stabilizing households and businesses or providing immediate assistance to hard-hit industries such as travel, tourism, and hospitality.

Recipients that are considering creating new programs or adding to existing programs that require an ongoing financial commitment need to determine in advance how the program will be funded when the CSLFRF expires. This doesn't mean, however, that governments shouldn't consider investments in long-term projects. Investments in critical infrastructure (as permitted within the eligible uses) should be given high priority because they would provide an ongoing benefit, especially when aligned with any pre-existing objectives. Recipients just need to keep the ongoing operating costs in mind.

You might want to find a partner

Communication at the state and local level is critical when applying federal funds toward services shared by residents. The glaring disconnect across different levels of governments stands as a crucial lesson to learn from as the public health emergency comes closer to the end, and partnership efforts can greatly assist in alleviating much of the existing burden.

The rollout of the CSLFRF is a new opportunity for finance officials to take advantage of the additional flexibility added to the program's eligible expenditures. Examples include a broad use of allowable spending on government service (to the extent of revenue loss) and planning for taking on larger infrastructure projects. Recipients have a range of areas with the potential to overlap in community efforts; therefore, governments should check for plans that include CSLFRF funds at all levels within the state, especially infrastructure projects. The Treasury encourages such collaborations in certain contexts, as stated in the Interim Final Rule on broadband infrastructure: "Treasury also encourages recipients to prioritize support for broadband networks owned, operated by, or affiliated with local governments, nonprofits, and co-operatives—providers with less pressure to turn profits and with a commitment to serving entire communities" (IFR, p. 21).

Allowing for greater access to critical services is essential during this time of economic recovery. The IFR takes special note of aiding low-income and socially vulnerable communities; partnering with neighboring recipients could elevate the quantity and overall reach of services across communities. For example, an eligible use of funds noted in the IFR includes "housing navigation assistance to facilitate household moves to neighborhoods with high levels of economic opportunity and mobility for low-income residents, to help residents increase their economic opportunity and reduce concentrated areas of low economic opportunity" (IFR, p. 37). Recipients partnering for specific causes such as increasing opportunities for their lower-income populations could do more for their jurisdiction's economic development than the entities could do separately.

Don't rush your decisions

CSLFRF funding is divided into two tranches over the covered period of the program, which, with a few exceptions, runs from March 3, 2021, through December 31, 2024. Spending plans must be created and executed within this timeframe to enhance their overall budgetary and financial stability.

Recipients should avoid rushed decisions about using the funds and, if possible, use alternate sources of funding first. This would save the federal funding for recovery initiatives that might be more relevant to the CSLFRF and would typically be ineligible under other assistance programs.

Guiding principles of other ARPA programs

Emergency Rental Assistance Program (ERA). The ARPA established a number of other programs to help state and local governments, and GFOA's guiding principles can be of benefit with them as well. The ERA, which received an additional $25.55 billion under the ARPA, provides funding to support households that are unable to pay rent or utilities. This is also a limited-term program—ending September 30, 2025—and using ERA funding requires the same timing and careful consideration as the CSLFRF funds because the program gives priority to programs that would assist vulnerable households with rent and utility costs.

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The Treasury also encourages partnership opportunities for the ERA that align with the guiding principle on partnering efforts. According to the program's frequently asked questions section, recipients are encouraged to "develop partnerships with courts in their jurisdiction that adjudicate evictions for nonpayment of rent to help prevent evictions and develop eviction diversion programs." Expanding outreach information about the ERA assistance program with court officials, legal services, and other housing stability services are steps grantees of the program can take to prevent evictions for nonpayment of rent.

The Low-Income Housing Water Assistance Program (LIHWAP). The LIHWAP received an additional $500 million in emergency funding under the ARPA. The deadline for obligating funds is September 30, 2023, and they are to be expended by December 31. Grantees of the program—primarily states, territories, and tribes—may take their time and consider carefully when obligating the funding, particularly because LIHWAP funds give high priority to households that have the lowest incomes and pay a high proportion of household income for drinking water and wastewater services. As funding will flow through state, territorial, and tribal governments to local housing and community services departments, enhancing partnership efforts is strongly recommended as it will encourage a more collaborative approach between the grantees and subrecipients when funds are distributed throughout vulnerable communities.

Conclusion

As finance officials develop their spending plans, the CSLFRF, ERA, and LIHWAP funds will generate some important assessments and choices. The federally funded programs provide a great opportunity to recover from the public health emergency and to rebuild economic stability within communities. GFOA's guiding principles lay out a broad framework to help you strengthen your strategic decision-making for short-term and long-term investments.

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[1] Department of the Treasury, 31 CFR Part 35, the "Interim Final Rule" for Coronavirus State and Local Fiscal Recovery Funds. (govinfo.gov)