



Government Finance Officers Association

JANUARY 2023

STATE AND LOCAL FISCAL RECOVERY FUNDS

| SPENDING UPDATE



ABOUT GFOA

The Government Finance Officers Association represents over 21,000 public finance officers throughout the United States and Canada. GFOA's mission is to promote excellence in state and local government financial management.

GFOA views its role as a resource, educator, facilitator, and advocate for both its members and the governments they serve and provides best practice guidance, leadership, professional development, resources and tools, networking opportunities, award programs, and advisory services.



The Coronavirus pandemic persisted into 2021, creating a need for further resources for state and local governments to adequately respond—to keep their jurisdictions running and keep their residents safe. In response to the continued need, the American Rescue Plan Act of 2021 (ARPA) included the Coronavirus State and Local Fiscal Recovery Fund (SLFRF). ARPA was signed into law on March 11, 2021. The program “is intended to provide support to State, territorial, local, and Tribal governments in responding to the economic and public health impacts of COVID-19 and in their efforts to contain impacts on their communities, residents, and businesses.”¹

This report, in part, addresses concerns included in a letter from the Senate Finance Committee Republicans to the Comptroller General at the Government Accountability Office (GAO), sent on June 6, 2022. In the letter, they request “Clarity and oversight of how” ARPA “funds are being expended, obligated, and administered by the Department of Treasury.”² And understandably so—the tracking of the spending of \$350B is in the best interest of all stakeholders. We hope to quell any concern in this report and show how state and local governments are carefully considering the budgeting, obligation and spend of ARPA funds.

State and local governments are good and capable stewards of Federal funds and deserve continued flexibility in their use of SLFRF funds (and should be trusted to spend dollars wisely), as first responders and boots on the ground of an international pandemic response. Additionally, unused funds that have already been distributed deserve careful and deliberate local policy considerations in order to effectuate change and maximum response. Not all jurisdictions have the means to obligate or spend funds at the same speed, but this does not mean they do not have use for the funds and should be given enough time to utilize the dollars.

This report will discuss the SLFRF funding and allocations, guidance, and conditions, define the term “obligation,” then dive deeper into the government services expenditure category, before illustrating the results of a survey that was filled out by nearly 400 recipients of SLFRF funds.



SLFRF SURVEY RESPONSES

In a survey³ by GFOA, nearly 400 recipients of SLFRF funds shared their thoughts.

“SLFRF was a lifeline to our jurisdiction, given the loss of incommuters, travelers, and even resident population experienced. It will take many years to recover all the losses, if we are able. SLFRF was critical in allowing us to maintain government services as we move ahead into an increasingly uncertain future.”

“The aid is being used to make transformational investments in our community in housing, jobs, and neighborhood safety.”

“We would benefit from more flexibility for using the funds.”

“Expectations of having obligated or spent funds in such a short time encourages waste, fraud and abuse. We want to be careful stewards of these funds and make prudent, long-term investments.”

“It takes a lot of time to ready programs and put processes in place. It has been more than a year since the County received its first tranche of SLFRF funding and we are just now getting starting to get some out the door. There isn’t a sense of urgency now, we still have time to make good decisions.”



ABOUT THE SLFRF

Funding and Allocations

The SLFRF, as part of ARPA, appropriated \$350 billion of relief funds to states, localities, territories, and tribes.⁴

Funds appropriated to states and the District of Columbia: **\$195.3 billion**

Funds appropriated to counties: **\$65.1 billion**

Funds appropriated to metropolitan cities: **\$45.6 billion**

Funds appropriated to territories: **\$4.5 billion**

Funds appropriated to tribal governments: **\$20 billion**

Funds appropriated to non-entitlement units of local government: **\$19.5 billion**

Guidance

“Recipients are accountable to Treasury for oversight of their subrecipients in accordance with 2 CFR 200.332, including ensuring their subrecipients comply with the SLFRF statute, SLFRF Award Terms and Conditions, Treasury’s interim final rule and final rule, applicable federal statutes, regulations, and reporting requirements.”⁵

The Compliance and Reporting Guidance also includes four key principles to keep in mind when creating compliance protocols:

1. Recipients and subrecipients are the first line of defense and responsible for ensuring the SLFRF award funds are not used for ineligible purposes, and there is no fraud, waste, or abuse associated with their SLFRF award;
2. Many SLFRF-funded projects respond to the COVID-19 public health emergency and meet urgent community needs. Swift and effective implementation is vital, and recipients must balance facilitating simple and rapid program access widely across the community and maintaining a robust documentation and compliance regime;
3. Treasury encourages recipients to use SLFRF-funded projects to advance shared interests and promote equitable delivery of government benefits and opportunities to underserved communities, as outlined in Executive Order 13985, On Advancing Racial Equity and Support for Underserved Communities Through the Federal Governments; and
4. Transparency and public accountability for SLFRF award funds and use of such funds are critical to upholding program integrity and trust in all levels of government, and SLFRF award funds should be managed consistent with Administration guidance per Memorandum M-21-20 and Memorandum M-20-21.⁶

One jurisdiction is “thankful for the opportunity to serve its citizens with these funds from Treasury.”

“There is real fear about how to appropriately follow the hundreds of pages of rules and the uniform guidance.”

“Lost revenue provision has been extremely helpful.”

“It seems like SLFRF is intended to have extremely broad potential uses, but the language used has left a lot of gray areas. Since our revenue loss calculation does not equal our entire award, it has been more important to determine if some of our biggest needs fit into approved uses outside the revenue loss category. But many of those descriptions seem up to interpretation and that makes us nervous to take action in certain areas, especially given the recent history of changing guidance on CARES and SLFRF funding.”

“We’re all going through this together, and understandably, Treasury’s guidance changed as they tried to provide interpretations/answers. Out of necessity, we needed to remain flexible and document our decisions. We hope to have set up enough controls along the way to satisfy future scrutiny/audits.”

“Having a use for the funds that would be beneficial for our community, but struggling to find the Treasury Justification for the expenditure.”

“We appreciate the opportunity to make these once in a generation monies work best for those we serve and who will ultimately pay the tab for the funds. Making the best, most efficient and responsible use of the funding is our top priority so future generations can benefit as well.”

Conditions and Requirements

The final rule of the SLFRF became effective on April 1, 2022. Under the final rule, there are four statutory categories that fund usage needs to fall under:

1. To respond to the COVID-19 public health emergency or its negative economic impacts;
2. To respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the recipient that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
3. For the provision of government services, to the extent of the reduction in revenue of such recipient due to the COVID-19 public health emergency, relative to revenues collected in the most recent full fiscal year of the recipient prior to the emergency; or
4. To make necessary investments in water, sewer, or broadband infrastructure⁷

Funds used for government services must be costs “incurred by the recipient after March 3, 2021.”⁸

Funds cannot be used for:

1. Deposits into pension funds
2. To offset a reduction in the net tax revenue resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax or delays the imposition of any tax or tax increase
3. Funding debt services or depositing into reserves⁹

Guiding Principles

GFOA has recommends the following guiding principles for spending American Rescue Plan funds:

1. **Temporary Nature of ARPA Funds.** ARPA funds are non-recurring so their use should be applied primarily to non-recurring expenditures.
 - Care should be taken to avoid creating new programs or add-ons to existing programs that require an ongoing financial commitment.
 - Use of ARPA funds to cover operating deficits caused by COVID-19 should be considered temporary and additional budget restraint may be necessary to achieve/maintain structural balance in future budgets.
 - Investment in critical infrastructure is particularly well suited use of ARPA funds because it is a non-recurring expenditure that can be targeted to strategically important long- term assets that provide benefits over many years. However, care should be taken to assess any on-going operating costs that may be associated with the project.
2. **ARPA Scanning and Partnering Efforts.** State and local jurisdictions should be aware of plans for ARPA funding throughout their communities.
 - Local jurisdictions should be cognizant of state-level ARPA efforts, especially regarding infrastructure, potential enhancements of state funding resources, and existing or new state law requirements.
 - Consider regional initiatives, including partnering with other ARPA recipients. It is possible there are many beneficiaries of ARPA funding within your community, such as schools, transportation agencies and local economic development authorities. Be sure to understand what they are planning and augment their efforts; alternatively, creating cooperative spending plans to enhance the structural financial condition of your community.
3. **Take Time and Careful Consideration.** ARPA funds will be issued in two tranches to local governments. Throughout the years of outlays, and until the end of calendar year 2024, consider how the funds may be used to address rescue efforts and lead to recovery.
 - Use other dedicated grants and programs first whenever possible and save ARPA funds for priorities not eligible for other federal and state assistance programs.
 - Whenever possible, expenditures related to the ARPA funding should be spread over the qualifying period (through December 31, 2024) to enhance budgetary and financial stability.
 - Adequate time should be taken to carefully consider all alternatives for the prudent use of ARPA funding prior to committing the resources to ensure the best use of the temporary funding.¹⁰

SPENDING SLFRF

The United States Treasury Department announced in their June 2022 Reporting Analysis on SLFRF that “the median percentage of SLFRF funds allocated by state governments was 95% as of June 30, 2022 and that more than 80% of state SLFRF resources had been budgeted overall.”¹¹

Defining Obligated

Treasury’s Reporting Portal provides prime recipients three reporting stages for spending of the funds. The first is to report when the funds were budgeted. Budgeting resources is a policy decision and effectively an appropriation of resources. The second part of the process is what the law states as “obligated” which is intended to mean a contractual obligation to spend. In accounting terms, “encumbered” is a more relevant term for the transaction. Finally, the jurisdiction reports when the funds have been “expended,” which essentially means spent.

The definition of obligation in the law taken together with the requirement to obligate funds by December 31, 2024 has caused some confusion in application. In their earnest attempt to ensure compliance, state and local governments need a firm definition of obligation, especially in circumstances where there are different applications of the funds, either for one-time expenditures or for the effective obligation of funds over a period of time within the covered period.

Spending on Government Services

Government Services is a term that covers a wide range of uses. Flexibility for jurisdictions to spend federal funds is vital, and the wide ranges of expenses that fall under government services exemplifies this. Local governments have been able to maintain important services for their communities because of the eligible use of funds towards government services. Examples of government services include affordable housing, public health, and grant administration.

State and local governments were able to maintain crucial services because of this eligible use. A handful of examples of what jurisdictions were able to do, out of many more, includes:

- 1. Responding to public health needs**

27% of total respondents have obligated or spent SLFRF funds toward public health (SURVEY Q17)

- 2. Investing in affordable housing**

20% of total respondents have obligated or spent SLFRF funds toward housing (SURVEY Q17)

- 3. Supporting workers**

Almost **27%** of total respondents have obligated or spent SLFRF funds toward supporting workers (SURVEY Q17)

- 4. Community aid**

Almost **25%** of total respondents have obligated or spent SLFRF funds toward community aid (SURVEY Q17)

- 5. Government operations**

Almost **28%** of total respondents have obligated or spent SLFRF funds toward government operations investments (SURVEY Q17)

- 6. Public safety**

38% of total survey respondents have obligated or spent SLFRF funds toward public safety (SURVEY Q17)

- 7. Investments in infrastructure**

Over **45%** of total respondents have obligated SLFRF funds towards infrastructure projects (SURVEY Q17)



73% of respondents reported that they have utilized the government services category to quickly and effectively address their own government’s needs. (SURVEY Q13)



Over 1/3 of respondents reported that SLFRF funds have allowed them to maintain government services that they otherwise would not have been able to. (SURVEY Q15)

CONCLUSION

Local governments have been and continue to use SLFRF to the benefit of their localities and residents! The survey illustrates just how important SLFRF funds are, and specifically how useful and needed flexibility in eligible uses and government services is for successful implementation of ARPA.

There are two main reasons why SLFRF dollars may not have been spent at this point:

1. **Understanding and interpreting the rules and spending accordingly is taking a lot of time.** Local governments are not necessarily sure about what they can spend on because of a lack of clarity of definitions, which deters spending to avoid breaking spending rules.

Less than 12% of survey respondents reported that the guidance from Treasury on determining eligible uses of SLFRF funds was extremely clear. More than 25% of respondents reported that Treasury's guidance was either extremely or somewhat unclear.
2. **Municipalities operate on a different timeline than Congress.** Local governments have budget timelines, reporting timelines, and more. Budget cycles often take two years, and local governments also have internal controls to ensure all rules and procedures are being properly followed—but these things take time. A solid definition of obligated funds will help to enable the communities make best use for maximum and equitable impact while also ensuring funds are spent in accordance with the law.

While most survey respondents have spent 20% or less of their SLFRF to date, almost all of respondents anticipate obligating all of their SLFRF funds before December 31, 2024 (Q8).



FUNDS
CURRENTLY
SPENT: <20%



ANTICIPATED
OBLIGATED FUNDS BY
12/31/24: OVER 95%

MESSAGE TO CONGRESS

Good things are happening, and vital government services are being maintained due to the flexibility of eligible uses of SLFRF dollars. Sustaining flexibility will allow jurisdictions to continue to serve their communities and thrive amid a health emergency that is impacting every person in this country to this day.

Additionally, funds that are so far unused should not be taken back. The Treasury Department reported that “as of June 30, the largest metro cities and counties had cumulatively budgeted all of their first tranche of funds and had already allocated 20% of their remaining second tranche funds, which they could not receive until mid-May.”⁹ Recipients that have not yet obligated their allocated funds may not have the resources to utilize the dollars on the same timeline as more resourced communities, but still need the funding. Ongoing supply chain issues were also cited from recipients as a reason that they are having trouble spending all their funds in the given time frame. These recipients and their communities deserve the chance to responsibly spend their dollars, even if it takes longer to spend the funds.

Recipients have generously taken the time to share what these funds mean to them and why flexibility in both use of funds and timeframes to obligate and spend funds is needed for communities to effectively distribute resources to their residents and to recover from the COVID-19 pandemic.

¹ Department of the Treasury. (2022). Compliance and reporting guidance: State and Local Fiscal Recovery Funds. <https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf>

² Crapo, M., Grasslet, C. E., Cornyn, J., Thune, J., Burr, R., Portman, R., Toomey, P., Scott, T., Cassidy, B., Lankford, J., Daines, S., Young, T., Sasse, B., & Barrasso, J. United States Senate Committee on Finance. (2022). Letter to the Honorable Gene Dodaro, Comptroller General at the U.S. Government Accountability Office. https://www.finance.senate.gov/imo/media/doc/6-6-22_letter_to_gao_on_ust_arpa_funding.pdf

³ Government Finance Officers Association. (2022). *SLFRF Recipient Survey* [Data Set].

⁴ Department of the Treasury. (n.d.). *Coronavirus State and Local Fiscal Recovery Funds*. <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>

⁵ Department of the Treasury. (2022). *Compliance and reporting guidance: State and Local Fiscal Recovery Funds*. <https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf>

⁶ Department of the Treasury. (2022). *Compliance and reporting guidance: State and Local Fiscal Recovery Funds*. <https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf>

⁷ Coronavirus State and Local Fiscal Recovery Funds, 87 Fed. Reg. 4338-4339 (Jan 27, 2022) (to be codified at 31 C.F.R. pt. 35).

⁸ Department of the Treasury. (2022). *Compliance and reporting guidance: State and Local Fiscal Recovery Funds*. <https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf>

⁹ Coronavirus State and Local Fiscal Recovery Funds, 87 Fed. Reg. 4338-4339 (Jan 27, 2022) (to be codified at 31 C.F.R. pt. 35).

¹⁰ Government Finance Officers Association. (n.d.). <https://www.gfoa.org/american-rescue-plan-spending-guiding-principles>

¹¹ Department of the Treasury. (2022). *Helping communities recover and rebound from the pandemic: State and Local Fiscal Recovery Funds June 2022 reporting data analysis*. <https://home.treasury.gov/system/files/136/July-2022-Quarterly-Reporting-Analysis-How-Governments-are-Addressing-Urgent-Needs.pdf>



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