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U.S. Department of the Treasury Launches the Coronavirus State and Local Fiscal Recovery Funds Program: Ballard Spahr

Summary

The U.S. Department of the Treasury (Treasury Department) announced the launch of the Coronavirus State and Local Fiscal Recovery Funds Program, which will provide $350 billion in emergency funds to eligible entities including state, local, territorial, and tribal governments. Eligible entities may use Coronavirus State and Local Fiscal Recovery Funds to stabilize revenue downturns and address budget shortfalls.

The Upshot

The Coronavirus State and Local Fiscal Recovery Funds Program allocates up to $350 billion to eligible government entities. Of the $350 billion, $306 billion is available to states, counties, and metropolitan cities for COVID-19 mitigation efforts, post-pandemic recovery, and capital investments in public facilities.
Funds may be used to support public health expenditures and address negative economic impacts; replace lost public sector revenue; provide premium pay for essential workers; and invest in water, sewer, and broadband infrastructure.
Funds may not be used to fund directly or indirectly a reduction in tax revenue, and funds may not be deposited into any pension fund.

The Bottom Line

Eligible government entities are encouraged to request funding from the Treasury Department for their allocation of Coronavirus State and Local Fiscal Recovery Funds to help support and resolve economic difficulties arising from the COVID-19 pandemic.

On May 10, 2021, the U.S. Department of the Treasury (Treasury Department) launched the Coronavirus State and Local Fiscal Recovery Funds Program (the Fiscal Recovery Funds Program) authorized pursuant to the American Rescue Plan Act. The American Rescue Plan Act (ARPA) was signed into law by President Biden on March 11, 2021. Section 9901 of the ARPA amended Title VI of the Social Security Act, to add provisions that collectively established the Fiscal Recovery Funds Program.

This $350 billion initiative will provide economic relief in an effort to ameliorate some of the deleterious economic effects further exacerbated by the COVID-19 pandemic to eligible government entities. Government entities eligible to receive emergency funds provided under the Fiscal Recovery Funds Program include states, counties, metropolitan cities, territories, non-entitlement units, tribal governments and the District of Columbia.

The Fiscal Recovery Funds Program provides eligible government entities the flexibility to determine the appropriate form of eligible uses. Eligible uses provided under the Fiscal Recovery Funds Program include vaccination programs, contract tracing, purchasing of personal protective equipment, and capital investments in public facilities to address existing operational concerns. Additionally, eligible businesses and non-profits are allowed to use dispersed funds to provide loans or grants to mitigate financial hardship including declines in revenue, payroll, rent, or other costs related to retaining employees, including providing funds to offer additional payments to essential works. Further, local governments and municipalities are permitted to use funds to make necessary investments in water, sewer, and broadband infrastructure, including wastewater-owned treatment works and develop water reuse projects. The Fiscal Recovery Fund Program does not permit any funds received by an eligible government entity to be deposited into existing pension funds.

In conjunction with announcing the launch of the Fiscal Recovery Fund Program, the Treasury Department issued an Interim Final Rule (IFR) outlining the requirements of the Fiscal Recovery Fund Program. The IFR explains that state and local governments have experienced substantial increases in costs to provide government services to their community members and as a result have experienced substantial budget challenges, including a reduction in workforce. The Fiscal Recovery Fund Program seeks to provide support to state and local governments to help rebuild economies and strengthen efforts related to mitigating and preventing the spread of COVID-19 and to meet Congress's intent that Fiscal Recovery Funds be spent within four eligible uses: (1) to respond to the public health emergency and its negative economic impacts, (2) to provide premium pay to essential workers, (3) to provide government services to the extent of eligible governments' revenue losses, and (4) to make necessary water, sewer, and broadband infrastructure investments. The Fiscal Recovery Fund Program generally restricts the use of funds from being used to directly or indirectly offset a reduction in the net tax revenue of a State or territory resulting from a change in law, regulation, or administrative interpretation from March 3, 2021 through the last day of the fiscal year in which the funds provided have been spent, although that restriction is being challenged by the Attorneys General of several states.

The Treasury Department will distribute funds to eligible entities based on government type. States and the District of Columbia are eligible to receive up to $195.3 billion in economic relief, collectively. Counties and metropolitan cities across the United States are allocated to receive $65.1 billion and $45.6 billion, respectively. Beginning May 10, 2021, eligible entities can submit their allocation request through the Treasury Submission Portal here. Local governments, counties, and metropolitan cities should expect to begin to receive funds in two tranches beginning in May 2021 with the remainder of funds to be disbursed next year. States that have experienced an increase in unemployment by more than 2% as of February 2020 pursuant to requirements outlined by the Treasury Department will receive their full allocation in a single payment, while other states will receive their full allocation in two equal tranches. The Coronavirus State and Local Fiscal Recovery Funds Program provides eligible entities with necessary flexibility to utilize emergency funds to strengthen the needs of their local communities.

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