

Maryland Government Finance Officers Association

Strategies for Effectively Deploying Coronavirus State and Local Fiscal Recovery Funds

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faegre
drinker

Presented by

Skip Bitt
Principal
Faegre Drinker Consulting
Washington, DC
Skip.Bitt@faegredrinker.com

Nick Weber
Director
Faegre Drinker Consulting
Hillside, IL
Nick.Weber@faegredrinker.com

Maryland
GFOA

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Review of Macro ARP Issues



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Four Categories of Assistance



- Responding to the public health emergency or its negative economic impacts
- Providing premium pay to essential workers (public or private sector)
- Providing revenue replacement to the unit of government (with limits)
- Making investments in water, sewer or broadband infrastructure

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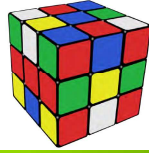
Suggested ARP Planning Principles

-  ARP recipients have until **2024** to allocate funds and they have until **2026** to spend them. There is time to be strategic.
This is not CARES Act 2.0; the stage of the pandemic, the status of the economy and the program rules are all different.
-  Recipients should compare spending alternatives in terms of return on investment (ROI).
Some are likely more valuable and strategic than others (e.g., replacing a sewer line versus investing in automated meter reading technology).
-  **Set goals and measure outcomes** to see if spending is achieving desired objectives.
Examples include % reduction of homes served by lead water lines; % reduction of homes without high-speed internet.

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Determining Which Funds to Use

- There is no minimum or maximum allocation a community can make of funds among spending categories.
- Some uses are allowable under multiple categories.
- Strategic considerations are relevant not only for which projects to support, but also how best to deploy the funds to accomplish the goals—deploying the most restrictive dollars possible to address the targeted issues allows for the preservation of more flexible dollars for other priorities.

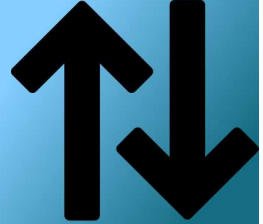


For maximum impact of ARP funds, a community should consider the sources and uses of capital at its disposal to piece together a funding solution that allows for the greatest flexibility possible

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Revenue Replacement

- Using base general revenue prior to pandemic and applying growth factor, unit of government can determine the difference between pandemic revenue and what it would have earned in revenue if there had been no pandemic—the difference can be filled with ARP funds.
- Some sources of income are excluded from the general revenue definition, including some utility revenues and proceeds from debt issuance or sale of investments.
- Process can occur for 2020, 2021, 2022, 2023.
- Process only has value if ARP funds remain available in the out years; **therefore, projecting now what the revenue replacement opportunity could be is critical in long-term planning.**
- Once classified as revenue replacement, funds can be used for government service.



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How the Process Works

- Staff use federal guidance to set pre-COVID-19 baseline revenue.
- Treasury FAQ clarified that when making the baseline and revenue replacement calculations, only exclude utility income from water supply systems, electric power systems, gas supply systems, and public mass transit systems. This leaves other public utilities that can be included.
- Use the growth factor provided in the guidance (4.1%) if more than the average of past 3 years' revenue growth.
- Model counterfactual revenue (baseline plus growth, over time) and compare it to actual revenue.



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Funding Flexibility

- Because ARP is a new program, and Congress sought to provide more options to recipients than was available with CARES Act funds, the program has significant flexibility.
- Revenue replacement funds are the most flexible ARP dollars.
- However, additional flexibility may be possible, particularly when trying to address federal policy priorities.



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Federal Policy Priorities Included in ARP

- Benefit those within Qualified Census Tracts
- Promoting greater equity for historically disadvantaged populations
- Direct ARP funding to those most impacted by COVID-19, either directly or as a result of pre-existing challenges

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What are Qualified Census Tracts



- QCTs have 50 percent of households with incomes below 60 percent of the Area Median Gross Income (AMGI) or have a poverty rate of 25 percent or more.
- Department of Treasury uses QCTs as a tool to target funds to areas of need.
- Great flexibility in utilization of funds in a QCT (or for those living in a QCT) and in reporting, due to the presumption of COVID impact for those populations.

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Qualified Census Tract Activities

Combat health disparities and address Social Determinants of Health

Create stronger neighborhoods and communities, including supportive housing

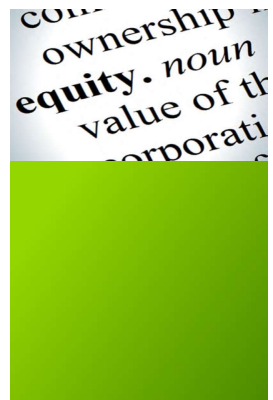
Address educational disparities exacerbated by COVID-19, including early learning services

Promote healthy childhood environments

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Promoting Equity

- The US Department of Treasury is placing an emphasis on, "promot[ing] and streamlin[ing] the provision of assistance to individuals and communities in greatest need, particularly communities that have been historically disadvantaged and have experienced disproportionate impacts of the COVID-19 crisis."
- The flexibility and focus allowed by Treasury is meant to, "promote use of resources to facilitate the provision of assistance to individuals and communities with the greatest need."



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CARES addressed the immediate and health related needs of communities—ARP seeks to ensure not only that a recovery is possible in America, but that communities of impacted individuals are not left behind in that recovery

Those Most Impacted

- The APR regulations seek to promote the use of resources to facilitate assistance to individuals and communities with the greatest need, including (but not limited to):
 - The historically disadvantaged
 - Those with pre-existing social vulnerabilities
 - Those with pre-existing health conditions
 - Those without access to broadband
 - Workforces with higher percentages of women and people of color
 - Workforces with lower-wage employees
 - The unemployed



ARP Opportunities Up Close



On a Road to Nowhere

- Many communities are interested in using ARP for road infrastructure
- Doing so within the confines of the rules, however, is challenging.
- Two primary routes:
 - Revenue replacement funds
 - As a legitimate part of water, wastewater or stormwater projects
 - Top-side infrastructure of eligible below-grade work is permissible

Additional Infrastructure Opportunities

- Investments in public spaces are possible, including when:
 - Inside a Qualified Census Tract (QCT)
 - Building stronger neighborhoods and communities could potentially include physical infrastructure, esp. if disinvestment in the area has occurred over time
 - As part of a partnership with small businesses
 - Façade or outside space initiatives
 - Can be outside of a QCT
 - In response to damage or increased maintenance needs
 - Parks that were overutilized as a "safe space" outside the home during COVID-19
 - Can be outside of a QCT to benefit populations, households, or geographic areas disproportionately impacted by COVID-19



Additional Infrastructure Concepts



- Develop a P3 with a third-party to operate and manage broadband services. Jumpstart it with ARP funds, while partner maintains it over time and runs it/pays for it by sharing the infrastructure with paying commercial customers.
- Develop a P3 for shared healthcare technology or build a facility that could be shared across healthcare providers to collectively enhance the care they deliver to those in need.
- Partner with locality's water and/or wastewater entity to pay for upcoming capital investment costs (potentially through 2026) with ARP funds. This could allow the utility's resources to be redirected as appropriate/possible, or for the locality to reduce appropriation of local funds and redirect those dollars.

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Public Safety and ARP

- The initial ARP guidance implied a relatively minor focus on public safety issues outside of essential employee pay.
- Recipients may rehire police officers and other public servants to restore law enforcement and courts to their pre-pandemic levels.
- Prompted by an increase in crime in many communities and many recipients' interest in funding public safety, a more expansive view of allowable spending was added to ARP eligible uses via a Frequently Asked Question document from Treasury.
 - Spending that is in response to increases in violence and crime offers greater flexibility.
 - Indianapolis, for example, committed approx. \$150M of its ARP funds to supporting innovative crime reduction strategies.



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Public Safety and ARP



- Technology (body cameras), increased staff (above pre-pandemic levels), license plate readers (LPR), increased prosecutions, violence intervention programs, and eliminating case backlogs may be eligible uses.
- Key element to expanded public safety spending is determining if an increase in violence, particularly gun violence, has occurred in the community.

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The Coronavirus State and Local Fiscal Recovery Funds did not exist before March 2020; every rule, regulation, FAQ and reporting requirement sets precedent. Before 2026, we expect rules and guidance in some areas to evolve.

Changes Will Occur

- We have already seen some changes, for example:
 - Interim Final Rule included the word "crime" twice in footnotes and included "public safety" primarily concerning payroll and revenue replacement. Subsequent FAQ provide for greater spending flexibility.
 - Interim Final Rule allows for the sharing of funds with constituent units of government. Subsequent FAQ allows sharing for joint projects with non-constituent units of government, provided that the benefits are proportional to amount contributed.

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RESULTS



Federal Reporting

Report	Due Date
Interim Report ✓	August 31, 2021
Project and Expenditure Report	January 31, 2022*, and quarterly thereafter
Recovery Plan Annual Performance Report** ✓	July 31, 2021, 2022, 2023, 2024, 2025, 2026 and March 31, 2027

* Non-entitlement units due date as been moved to April 30, 2022
 ** Only required for recipients with a population greater than 250,000

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Reporting Detail

- The reporting structure for ARP funding is as new as the funding itself.
- Treasury expects that the administrative burden associated with this program will be moderate for a grant program of its size.
- At this point, recipients are making educated guesses and good faith attempts at reporting compliance—over time the process will likely regularize.
- It is our instinct that, due to the flexibility of the funding, the narrative portions of the submitted reports will be important and that the process of developing them contemporaneously as part of spending decisions is a worthwhile effort.



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Where Does ARP Spending Stand Now (as of October 3rd reporting)?

States have spent about 2.5% of ARP funds

- About half of all states had spent \$0

Large cities have spent about 8.5% of ARP funds

- About 2/3 of 90 largest cities had spent \$0

To date, state governments have established plans for about 40% of the available ARP funding

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Where Does ARP Spending Stand Now (as of October 3rd reporting)?

State priorities, to date, include:

- Shoring up unemployment trust funds

Large city priorities, to date, include:

- Revenue replacement to fund government services

Significant debates at all levels regarding one-time versus recurring expenses (due to concerns about taking on long-term obligations)

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Major Potential Policy Issues

- Reallocation or claw backs??
 - Treasury Department released information on reallocation of Emergency Rental Assistance program funds.
 - Mnuchin sought unused CARES Act funds.
 - In future years, Congress may look to fund other projects with unused dollars.
- Expanded flexibility
 - Local governments are arguing that the formula for calculating lost revenue is too restrictive.
 - They are arguing for the ability to calculate revenue losses on a fund-by-fund basis as opposed to a consolidated basis.
 - While we don't know exactly what the future will look like, we do expect continued evolution.



Final Thoughts on ARP Strategy

Take time to be strategic and measure outcomes	Consider what is optimal, not just what is good	Various types of public engagement have yielded mixed outcomes	Understand your revenue replacement (including projections)
Use the most restricted money first; protect the most flexible money	Understand your entire capital stack, including budgets, debt, ARP potential infrastructure plan and earmarks	Carefully evaluate one-time versus recurring costs (sustainability)	Consider whether desired (but not eligible) spending can be modified or re-thought to make it permissible
	Stay on top of compliance reporting and don't ignore report narratives	Know the applicable federal procurement rules	

Questions?



Thank You

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Principal
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Faegre Drinker Consulting
Indianapolis, IN
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