BUL-2021-7

Coronavirus State and Local Fiscal Recovery Funds – Revenue Loss

(Supersedes Bulletin 2021-5)

TO: Local Officials
FROM: Deborah A. Wagner, Director of Accounts
DATE: June 2021

This bulletin supersedes Bulletin 2021-5, providing updated preliminary guidance on the revenue loss component of the American Rescue Plan Act, due to the US Treasury’s most recent FAQ’s, appendix regarding revenue loss. The italicized and underlined language in the first bullet on page 2 reflects the change to Bulletin 2021-5.

This Bulletin provides preliminary guidance regarding the revenue loss component of the American Rescue Plan Act of 2021 (ARPA), Pub. L. No. 117-2, signed into law on March 11, 2021 by the President of the United States. This law provides resources through the new Coronavirus Local Fiscal Recovery Fund (CLFRF) to local governments to respond to the public health emergency caused by the Coronavirus Disease (COVID-19). This fund is administered by the US Department of the Treasury (hereafter, “US Treasury” or “Treasury”).

Note that the information contained in this Bulletin reflects information currently in federal law and relevant guidance from the US Treasury. If this information is modified by future federal actions, the Executive Office for Administration and Finance’s (A&F) Federal Funds Office and/or the Director of Accounts (Director) of the Division of Local Services (DLS) may issue further guidance.

This is called preliminary guidance for two reasons:

- there are questions surrounding the definition of “general revenue” contained in the US Treasury’s Interim Final Rule (IFR); and
- the IFR could be modified based upon feedback

However, it is important to provide guidance on other portions of the revenue loss provision for local planning purposes. Once additional information is provided regarding the definition of “general revenue,” a Bulletin will be published.

Pages 51-61 of the IFR provides US Treasury’s guidance on the revenue loss component of ARPA. Section 3 of the FAQ includes additional information. Key provisions from those sources include the following:

- Definition of General Revenue: based on, but not identical, to the Census Bureau’s concept of “General Revenue from Own Sources” in the Annual Survey of State and Local Government Finances.
• this includes revenue from taxes, current charges, and miscellaneous general revenue.
• this excludes refunds and other correcting transactions, proceeds from issuance of debt or the sale of investments, agency or private trust transactions, and revenue generated by utilities (whether treated as an Enterprise Fund, special revenue fund, or contained within the General Fund) and insurance trusts. Please note that the US Treasury’s June 23, 2021 FAQ update (see the FAQ Appendix) provided clarifying information that defines utility revenue as specifically including “revenues from electric power systems, gas power systems, public mass transit systems, and water supply systems.”
• General revenue also includes intergovernmental transfers between state and local governments, but excludes intergovernmental transfers from the Federal government, including Federal transfers made via a state to a locality pursuant to the Coronavirus Relief Fund (CvRF) or the Fiscal Recovery Funds.
• if unsure whether a particular revenue source is included in the Interim Final Rule’s definition of “General Revenue,” consider the classification and instructions used to complete the Census Bureau’s Annual Survey; o the Census Bureau’s Government Finance and Employment Classification manual is available here.

• Calculation of lost revenue: “compute the extent of the reduction in revenue by comparing actual revenue to a counterfactual trend representing what could have been expected to occur in the absence of the pandemic. This approach measures losses in revenue relative to the most recent fiscal year prior to the COVID-19 public health emergency by using the most recent pre-pandemic fiscal year as the starting point for estimates of revenue growth absent the pandemic. In other words, the counterfactual trend starts with the last full fiscal year prior to the COVID-19 public health emergency and then assumes growth at a constant rate in the subsequent years.” The steps in the calculation process are as follows:

• Step 1: Identify revenues collected in the most recent full fiscal year prior to the public health emergency (FY19), called the base year revenue. Must use the sum total across all revenue sources/streams covered as general revenue (cannot calculate on a “source by source” basis).
• Step 2: Estimate counterfactual revenue, which is equal to base year revenue * [(1 + growth adjustment) ^ (n/12)], where n is the number of months elapsed since the end of the base year to the calculation date, and growth adjustment is the greater of 4.1% or the recipient’s average annual revenue growth in the three full fiscal years prior to the COVID-19 public health emergency (FY15 – FY18).
• Step 3: Identify actual revenue, which equals revenues collected over the past twelve months as of the calculation date.
• Step 4: The extent of the reduction in revenue is equal to counterfactual revenue less actual revenue. If actual revenue exceeds counterfactual revenue, the extent of the reduction in revenue is set to zero for that calculation date.

This calculation is to be done at four points in time: 12/31/20, 12/31/21, 12/31/22 and 12/31/23. For illustrative purposes, the table below shows how revenue loss is calculated. This spreadsheet is available for use by clicking here.
<table>
<thead>
<tr>
<th>As of:</th>
<th>12/31/2020</th>
<th>12/31/2021</th>
<th>12/31/2022</th>
<th>12/31/2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>n (months elapsed)</td>
<td>18</td>
<td>30</td>
<td>42</td>
<td>54</td>
</tr>
<tr>
<td>Base Revenue (FY19)</td>
<td>$100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counterfactual Revenue</td>
<td>$106.2</td>
<td>$110.6</td>
<td>$115.1</td>
<td>$119.8</td>
</tr>
<tr>
<td>Actual Revenue 12 mo period</td>
<td>CY20</td>
<td>CY21</td>
<td>CY22</td>
<td>CY23</td>
</tr>
<tr>
<td>Actual Revenue Amount</td>
<td>$105.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variance</td>
<td>($1.2)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Enter "Base Revenue" amount, as defined in the US Treasury's guidance.

Enter actual revenue from Jan 1 to Dec 31 for each year. If local 3-yr avg growth is greater than 4.1%, change formula.

- **Eligible use:** “for the provision of government services to the extent of the reduction in revenue experienced due to the COVID-19 public health emergency.” Page 60 of the IFR provides the following examples of “government services”:
  - maintenance or pay-go funded building of infrastructure, including roads;
  - modernization of cybersecurity, including hardware, software, and protection of critical infrastructure;
  - health services;
  - environmental remediation;
  - school or educational services;
  - and the provision of police, fire, and other public safety services

There are three explicit ineligible uses:

- “expenses associated with obligations under instruments evidencing financial indebtedness for borrowed money...[S]pecifically, government services would not include interest or principal on any outstanding debt instrument, including, for example, short-term revenue or tax anticipation notes, or fees or issuance costs associated with the issuance of new debt.”
- “satisfaction of any obligation arising under or pursuant to a settlement agreement, judgment, consent decree, or judicially confirmed debt restructuring in a judicial, administrative, or regulatory proceeding, except if the judgment or settlement required the provision of government services. That is, satisfaction of a settlement or judgment itself is not a government service, unless the settlement required the provision of government services.”
- “replenishing financial reserves (e.g., rainy day or other reserve funds).”

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www.mass.gov/DLS  P.O. Box 9569 Boston, MA 02114-9569  (617) 626-2300