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Bulletin

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Coronavirus State and Local Fiscal Recovery Funds – Revenue Loss

(Supersedes Bulletin 2021-7)

TO: Local Officials
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This bulletin supersedes Bulletin 2021-7, providing updated final guidance on the revenue loss component of the American Rescue Plan Act, due to the US Treasury's issuance of the Final Rule on January 6, 2022.

This Bulletin provides final 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.

In May 2021, Treasury published the Interim final rule (IFR) describing eligible and ineligible uses of funds (as well as other program provisions), sought feedback from the public on these program rules, and began to distribute funds. On January 6, 2022, Treasury adopted a final rule implementing the Coronavirus State and Local Fiscal Recovery Funds (SLFRF). The final rule responds to comments received on the interim final rule. This Bulletin provides information regarding important changes Treasury made relative to the revenue loss portion of the SLFRF.

Per Treasury's "Overview of the Final Rule", recipients now have two options for how to determine their amount of revenue loss. Recipients must choose one of the two options and cannot switch between these approaches after an election is made.

1. Recipients may elect a "standard allowance" of $10 million to spend on government services through the period of performance.

   Under this option, which is newly offered in the final rule Treasury presumes that up to $10 million in revenue has been lost due to the public health emergency and recipients are permitted to use that amount (not to exceed the award amount) to fund "government services." The standard allowance provides an estimate of revenue loss that is based on an extensive analysis of average revenue loss across states and localities, and offers a simple, convenient way to determine revenue loss, particularly for SLFRF's smallest recipients.

   All recipients may elect to use this standard allowance instead of calculating lost revenue using the formula below, including those with total allocations of $10 million or less. Electing the standard allowance does not increase or decrease a recipient's total allocation.

2. Recipients may calculate their actual revenue loss according to the formula articulated in the final rule.

   Under this option, recipients calculate revenue loss at four distinct points in time, either at the end of each calendar year (e.g., December 31 for years 2020, 2021, 2022, and 2023) or the end of each fiscal year of the recipient. Under the flexibility provided in the final rule, recipients can choose whether to use calendar or fiscal year dates but must be consistent throughout the period of performance. Treasury has also provided several adjustments to the definition of general revenue in the final rule.

   To calculate revenue loss at each of these dates, recipients must follow a four-step process:

   a. Calculate revenues collected in the most recent full fiscal year prior to the public health emergency (i.e., last full fiscal year before January 27, 2020), called the base year revenue.

   b. Estimate counterfactual revenue, which is equal to the following formula, where n is the number of months elapsed since the end of the base year to the calculation date:

   $$\mathit{base\ year\ revenue} \times (1+\mathit{growth\ adjustment})^{\frac{n}{12}}$$

   The growth adjustment is the greater of either a standard growth rate -5.2 percent[1] - or the recipient's average annual revenue growth in the last full three fiscal years prior to the COVID-19 public health emergency.

   c. Identify actual revenue, which equals revenues collected over the twelve months immediately preceding the calculation date.

[1] At the time the interim final rule was published, the average annual growth across all state and local government "General Revenue from Own Sources" in the most recent three years of available data (2015-2018) was 4.1%, which was presented as one option for the growth adjustment. Since the interim final rule was published, 2019 data has been made available, which increases this rate to 5.2%.

Under the final rule, recipients must adjust actual revenue totals for the effect of tax cuts and tax increases that are adopted after the date of adoption of the final rule (January 6, 2022). Specifically, the estimated fiscal impact of tax cuts and tax increases adopted after January 6, 2022, must be added or subtracted to the calculation of actual revenue for purposes of calculation dates that occur on or after April 1, 2022.

Recipients may subtract from their calculation of actual revenue the effect of tax increases enacted prior to the adoption of the final rule. Note that recipients that elect to remove the effect of tax increases enacted before the adoption of the final rule must also remove the effect of tax decreases enacted before the adoption of the final rule, such that they are accurately removing the effect of tax policy changes on revenue.

d. Revenue loss for the calculation date is equal to counterfactual revenue minus actual revenue (adjusted for tax changes) for the twelve-month period. If actual revenue exceeds counterfactual revenue, the loss is set to zero for that twelve-month period. Revenue loss for the period of performance is the sum of the revenue loss on for each calculation date.

The supplementary information in the final rule provides an example of this calculation, which recipients may find helpful, in the Revenue Loss section.

Treasury will update reporting guidance to clarify how recipients electing to use a fiscal year basis will adjust prior calculations, and a recipient may adjust its prior calculations to reflect these changes prior to April 1, 2022.

SLFRF funding from the revenue loss category may still be used to pay for "government services", which "generally include any service traditionally provided by a government, including construction of roads and other infrastructure, provision of public safety and other services, and health and educational services."

For further information regarding the Treasury's Final Rule, please refer to the links below on the Division of Local Services webpage:

US Treasury CLFRF Resources

- US Department of Treasury Press Release - (1/6/2022)
    - View Text of Final Rule
    - View User-Friendly Overview of Final Rule