

American Rescue Plan Funding for Townships



Updated August 2021

Townships have received new federal funds from the American Rescue Plan to help deal with pandemic-related and other allowable expenses. On May 10, the U.S. Treasury Department released an Interim Final Rule that provides further direction on allowable uses and reporting requirements. We expect final rules to be issued in Fall 2021 and ongoing clarifications updating the FAQ document.

This fact sheet will provide you with guidance on what we know, and what information is not yet available or lacks clarity, so that your township can plan for the receipt and expenditure of these funds.

How much time will we have to spend these funds?

Townships will have until **December 31, 2024**, to obligate the funds and until December 31, 2026 to actually spend them.

How can we use these funds? Townships may use the funds for expenses in four categories. Please note that the rule and FAQs contain significant new information about the allowable uses. Following is an overview of the categories and their major points.

Responding to the COVID-19 emergency or addressing its negative economic impacts. The new rule significantly tightens how funds may be used in this category. While it includes unreimbursed costs for responding to the COVID-19 emergency, the new rule states that the funds **can only be used to cover costs beginning March 3, 2021**. Any purchases made for otherwise qualified items before March 3, 2021, are not eligible for reimbursement.

To determine whether a use falls under this category, the rule states that township officials should consider whether and how the use would respond to the COVID-19 public health emergency. In other words, does it identify a need or negative economic impact, and how does it address that need or impact?

Examples of eligible uses in this category include enforcement of public health orders, new public communication efforts, capital investments to meet pandemic operation needs or implement COVID-19 mitigation tactics, purchases of PPE, and ventilation/facility improvements for the future.

In this category, townships may also provide aid to households, small businesses, nonprofits, and industries, such as tourism and hospitality, to help address the negative economic impact of the pandemic. This could be in the form of grants, loans, and/or in-kind assistance.

However, uses intended to address the negative economic impacts of COVID-19 must assess whether economic harm was caused by the pandemic and whether the proposed use would respond to that harm. No aid may be given to a business or organization unless there is a documented negative economic impact, and the funding provided must be proportional to this impact. Note that the rule defines “nonprofits” to include only organizations that are registered as 501(c)(3). As such, only volunteer fire departments and nonprofit

ambulance companies **with this designation** would be eligible, if they can demonstrate a negative economic impact through increased expenses or decreased revenues.

The rule states that certain expenses are prohibited under this category. This includes general infrastructure projects (*unless it meets the criteria for this category*), transfer of funds into a capital reserve or “rainy day” account, payments of interest or principal on loans, and fees or costs associated with new debt.

Providing premium pay to eligible workers performing essential work or grants to eligible employers who have eligible workers. The rule states that pay should address those with heightened risks due to being physically present at their workplace and encourages the prioritization of lower-paid eligible workers. Government workers who had to work in person may receive premium pay, but those who teleworked cannot.

Premium pay cannot exceed \$13 per hour or \$25,000 per worker and the rule prohibits using premium pay to increase anyone’s total pay above the higher of 150% of the state or county average annual wage for all occupations. Premium pay must be paid through payroll.

In an important clarification, the rule states that payroll contributions to pension funds that are part of premium pay are permitted in this category.

Lost revenue replacement for the provisions of government services due to the COVID-19 emergency. The rule includes a formula for determining lost revenue replacement, which is to be calculated in total for calendar years beginning with 2020. General revenue includes all taxes, fees, and other local revenues, as well as intergovernmental transfers from the state, such as liquid fuels funds, impact fees, gaming revenues, and more. It does not include debt proceeds, refunds and corrections, sale of investments, utilities, and any federal funding (*even if provided through the state*).

For determining lost revenue due to COVID-19, use general revenues from 2019 as the base year and multiply by 4.1% or the township’s average annual growth rate for 2017 to 2019, whichever is greater. To determine lost revenue for 2020, identify total general revenue and subtract it from the adjusted 2019 revenues. This calculation can be repeated for 2021, 2022, and 2023.

The rule clarifies that this difference is your lost revenue

and assumes that all lost revenues are due to impacts from COVID-19. The rule clearly gives local governments broad latitude to use these funds to provide general government services, such as infrastructure (*including roads*), cybersecurity, public safety, computer systems and more.

Make necessary investments in water, sewer, and broadband infrastructure. The new rule provides wide latitude for water and sewer infrastructure investments. Eligible projects under the U.S. Environmental Protection Agency's Clean Water State Revolving Fund and Drinking Water State Revolving fund are cited as examples of eligible uses. These programs cover a range of water infrastructure projects to improve water quality and address water pollution, including drinking water and wastewater treatment systems, stormwater infrastructure systems, infrastructure that controls non-point source solutions, green infrastructure, and much more. Townships are also able to transfer funds to a municipal authority for one of these purposes.

Broadband projects should target unserved and underserved areas, prioritize last-mile connections, and provide download speeds of 100 Mbps and upload speeds of 20 Mbps. These projects should also be coordinated regionally.

Because this is a one-time infusion of funds, townships should consider using it to focus on capacity building and infrastructure. Townships should be prepared to operate without these funds in future years.

Are there prohibited uses of these funds? Yes. Funds cannot be deposited into pension funds except payroll contributions for premium pay. In addition, no funds can be used to offset revenue resulting from a state tax cut.

What kind of reporting will be needed? Municipalities under 50,000 must file annual reports on the use of the funds based on the federal fiscal year of October 1 to September 30. The first annual report will be due October 31, 2021 and will cover from the date the townships receive the funds through September 30, 2021. Future reports will be due October 31. In addition, the commonwealth will be required to report to the U.S. Treasury on the use of the funds.

What should we do now? Township officials should continue to evaluate their options and plan how to use these funds properly and to best benefit their communities. As townships have several years to spend the funds, this is a process that should be careful and deliberate. It is better to be right than fast.

While not required, township officials should consider opening a new bank account to help with tracking and reporting of the funds. (*PLGIT is available to assist.*) Note that any interest earned can be used at your discretion.

Can PSATS assist with filings or guarantee that a particular project will meet program requirements? No. However, PSATS' new Premier Partner, Zelenkofske Axelrod LLC, will work with your township to find eligible uses for the funds that benefit your community and help you navigate federal compliance and reporting requirements. The company can guarantee that an eligible use meets the program requirements and ensure that your documentation is complete. The company is offering discounted pricing to PSATS members, and the fee is an eligible use of ARP funds. To learn more, contact Pat Kirk at pkirk@zallc.org or Cory Johnson at cjohnson@zallc.org or call (717) 561-9200, ext. 5300.



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