

Fiscal Recovery Funds & Revenue Loss

Replacing Lost Public
Sector Revenue

November 23, 2021

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Agenda

- Brief Overview of Eligible Use Categories
- Background on Revenue Loss
- Definition of General Revenue
- Calculating Revenue Loss
 - Example from the State of Maryland
- Eligible and Ineligible Uses under the Revenue Loss Provision
- Questions and Answers

ARP Fiscal Recovery Funds (FRF) - 4 Eligible Use Categories

01

Support public health expenditures/ address negative economic impacts



02

Replace lost public sector revenue



Eligible Use Categories

03

Provide premium pay for essential workers



04

Invest in water, sewer, and broadband infrastructure



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Background on Revenue Loss

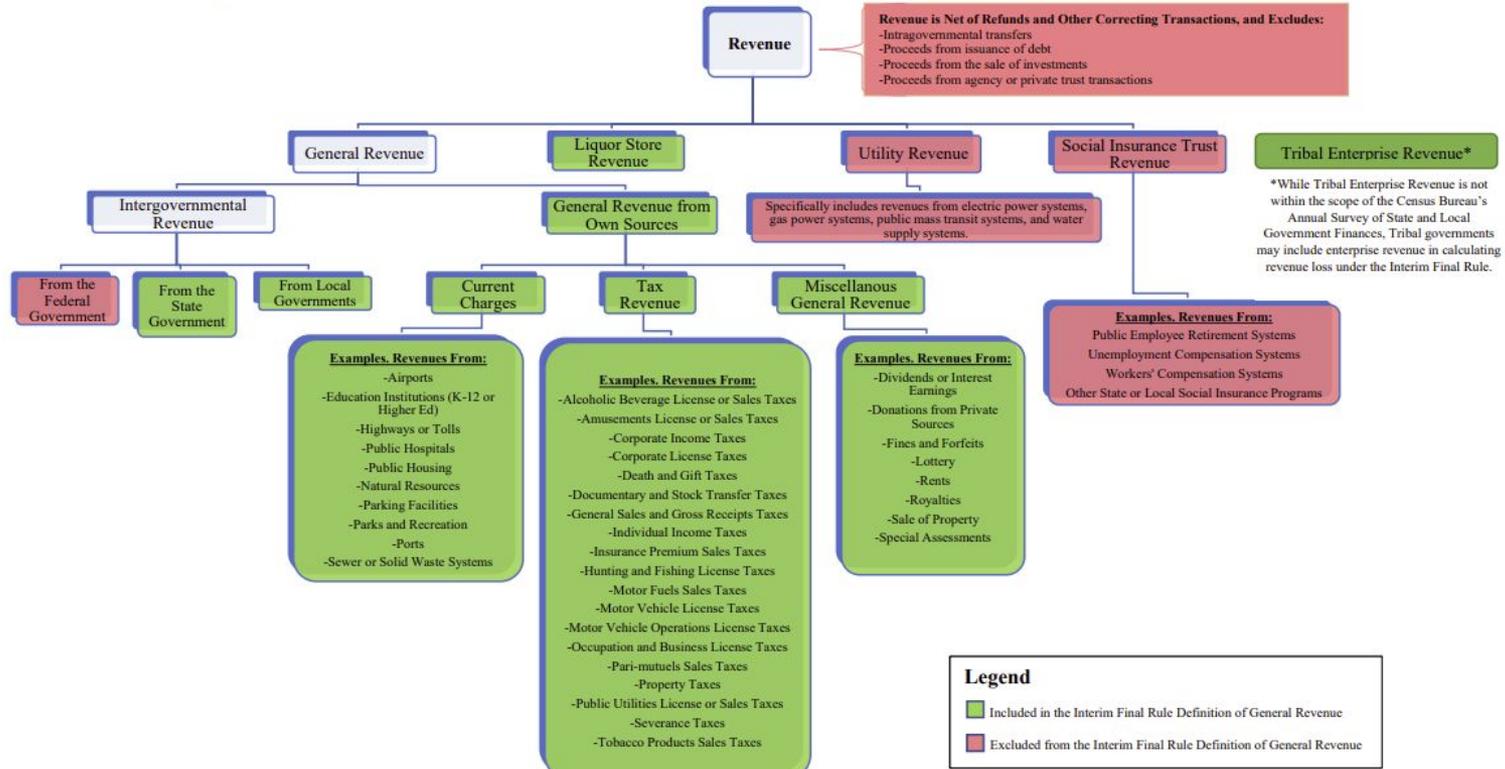
- **Eligibility** - Provision of government services to the extent of the reduction in revenue due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year prior to the emergency
- **Flexibility** - Local governments have broad latitude to use FRF in relation to revenue loss
- **Interim Final Rule** - (1) Definition of “general revenue” for the purposes of calculating lost revenue, (2) methodology for calculating revenue, and (3) guidance on what the replaced revenue can and cannot be used on
- **Reporting** - Revenue Loss is to be reported upon in the annual Project and Expenditure Report

Definition of General Revenue

- Based on, but not identical to, the components reported under the “General Revenue from Own Sources” in the Census Bureau’s Annual Survey of State and Local Government Finances
- General revenue includes “revenues collected by a recipient and generated from its underlying economy and would capture a range of different types of tax revenues, as well as other types of revenue that are available to support government services”
- Treasury’s intent in its definition is to focus on “sources that are generated from economic activity and are available to fund government services, rather than a fund or administrative unit established to account for and control a particular activity”
- General revenue is taken as a whole, so local governments must use the “sum across all revenue streams covered as general revenue,” as opposed to looking at individual revenue sources

Revenue Classification

Appendix: Interim Final Rule Definition of General Revenue Within the Census Bureau Classification Structure of Revenue



Source: U.S. Bureau of the Census Government Finance and Employment Classification Manual, 2006; Annual Survey of State and Local Government Finances

Examples of General Revenue Streams

- Property Tax
- Sales Tax
- Income Tax
- License Fees
- Revenue from Sale of Property
- Municipal Sewer System Revenues
- Rent from municipally owned facilities
- Intergovernmental transfers
 - Treasury recognizes that “[s]tates and local governments often share or collect revenue on behalf of one another”
 - Intergovernmental transfer refers to funds “other than funds transferred pursuant to ARPA, CRF, or another Federal Program”
 - For federal funds that are passed through states or other entities or intermingled with other funds, recipients should attempt to identify and exclude the federal portion

Exclusions from General Revenue

- Refunds and other correcting transactions
- Proceeds from issuance of debt or the sale of investments
- Agency of private trust transactions
- Revenue generated by municipally owned electric, gas, public transit and water supply utilities and insurance trusts
- Intergovernmental transfers from the Federal Government, including Federal transfers made via a State to a local government

Calculating Revenue Loss

Compare **actual** revenue to a counterfactual trend representing what could have been expected to occur in the absence of the pandemic.

Any revenue shortfall compared to the counterfactual is considered “revenue loss” and is assumed to be caused by pandemic.

1. Estimate the counterfactual trend using a growth rate. This counterfactual is the higher of
 - a. 4.1%, or
 - b. the municipality’s average annual revenue growth over the three full fiscal years prior to the COVID-19 public health emergency
2. Identify actual revenue
3. Compare actual revenue to counterfactual trend. Determine if there is a loss, and if so, how much

Calculation dates: December 31, 2020; December 31, 2021; December 31, 2022; and December 31, 2023.

Example: State of Maryland's Revenue Loss Calculation

Step 1: Determine Growth Rate for Counter Factual				
Growth Rate Calculation				
Base Year	FY2016	32,971,302,657		
Year 1	FY2017	33,732,640,130	2.3%	
Year 2	FY2018	34,801,888,319	3.2%	
Year 3	FY2019	36,475,062,977	4.8%	
	Average		3.40%	
	CAGR		3.42%	
Treasury specifies can use average growth or 4.1%, whichever is higher				
Therefore, using the baseline of 4.10%				

Example: State of Maryland's Revenue Loss Calculation

While growth rates are fiscal year, the checkpoint for revenue loss is calendar year					
Most recent completed fiscal year prior to Public Health Emergency (Jan 2020)			Historic Growth Rate	Base Level Growth Rate	
Fiscal Year 2019 General Revenue	36,475,062,977		3.42%	4.10%	
In House Data					
	Point in Time	Months Elapsed from FY19 Actual	Counterfactual Revenue Amount	Actual	Counterfactual Revenue Less Actual Revenue
Counterfactual Point 1 - Calculation Date	12/31/2020	18	38,741,117,567	37,146,178,954	1,594,938,613
Counterfactual Point 2 - Calculation Date	12/31/2021	30	40,329,503,387		
Counterfactual Point 3 - Calculation Date	12/31/2022	42	41,983,013,026		
Counterfactual Point 4 - Calculation Date	12/31/2023	54	43,704,316,560		

Eligible Uses under the Revenue Loss Provision

Local governments have broad latitude to use FRF for the provision of government services. Treasury provides a non-exhaustive list of examples:

- 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
- The provision of police, fire, and other public safety services

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Ineligible Uses under the Revenue Loss Provision

- 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
- Expenses associated with obligations under instruments evidencing financial indebtedness for borrowed money
- 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
- Replenishing financial reserves (e.g., rainy day or other reserve funds)
- Overarching restrictions on all program funds (e.g., restriction on pension deposits, restriction on using funds for non-federal match where barred by regulation or statute)

QUESTIONS?

For any questions following this webinar, please email:
arpa.neuadmin@maryland.gov or submit questions
through the [Technical Assistance Portal](#)

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Appendix

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Resources

- [U.S. Treasury Interim Final Rule](#)
- [U.S. Treasury Frequently Asked Questions](#)
- [U.S. Treasury Compliance and Reporting Guidance](#)
- [State of Maryland NEU Technical Assistance Webpage](#)
- [State of Maryland NEU Technical Assistance Question Portal](#)
- [U.S. Census Bureau Government Finance and Employment Classification Manual](#)

U.S. Treasury guidance is subject to change. As a recipient of Federal funds, each non-entitlement unit of government is responsible for administration and compliance of fiscal recovery funds.

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Revenue Classification

The Revenue Classification Chart (for purposes of calculation Revenue Loss) on slide 6 uses definitions from the U.S. Census Bureau's Government Finance and Employment Classification Manual.

Key takeaways include:

- Utility Revenue that is to be excluded are most revenues from municipally owned electric, gas, mass transit and water systems. Other utility revenues are to be included in the revenue loss calculation
- Many one-time transactions, such as land sales, are to be included in this formula.
- Intergovernmental Transfers from the Federal Government are excluded from General Revenue, but transfers from other government units are to be included.

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GFOA Revenue Loss Calculator

The Government Finance Officers Association (GFOA) prepared an [excel template](#) to assist with revenue loss calculations under the American Rescue Plan Act (ARPA).

Please note that the State of Maryland and Hagerty Consulting have not independently verified the accuracy or completeness of this tool. Each NEU is solely responsible for calculating revenue loss consistent with U.S. Treasury Program Guidance.

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Revenue Loss Example

Background Information		Notes:
1) Fiscal Year End	June	
Base Year Revenue Period	6/30/2019	FY used for base year calculation
2) Calculation Date	12/31/2020	
Number of Months	18	Months between Base Year and Calculation Date
Estimate Revenue		
3) Base Year Revenue	\$ 500,000	Use Worksheet to Calculate
4) Growth Rate	4.1%	Use Worksheet to Calculate
Counterfactual Revenue	\$ 531,063	Estimated Revenue Without Pandemic
5) Actual Revenue	\$ 510,000	Use Worksheet to Calculate
Reduction in Revenue		Fiscal Year Ended 12/31/2020
Revenue Reduction	\$ 21,063	
Revenue Reduction %	-4.0%	