

advisory

LOCAL GOVERNMENT MUST BE CAUTIOUS IN THE USE OF AMERICAN RESCUE PLAN FUNDS

State and local government budgets throughout the country have been severely impacted by the COVID-19 pandemic. Government officials have been forced to make significant cuts in their budget, delay infrastructure projects, reduce spending for education and in many cases use their rainy-day funds to simply survive.

When President Biden signed the American Rescue Plan Act of 2021 on March 11, 2021, he placed in motion a \$1.9 Trillion stimulus plan as a means of stimulating the economy. The stimulus plan resources included a \$350 Billion fund to assist state and local governments impacted by the COVID-19 pandemic. For many states and cities, these local funds are a lifeline and a positive jolt to the economy.

The State of Rhode Island will receive approximately \$1.1 Billion in state fiscal recovery funds and local municipalities will be sharing about \$542 Million. In addition, more than \$415 Million is estimated for aid for K-12 education. Government entities will receive two disbursements over the next year but will have until December 31, 2024 to use these funds to cover costs that are directly in response to the COVID-19 public health emergency or its negative economic impact.

While the American Rescue Plan will provide state and local governments with resources to stabilize their operating budgets, it is critical that government officials not view the funds earmarked as a windfall because the American Rescue Plan includes restrictions on the use of the funds and contains a recoupment provision for funds used in violation of the Act. For example, use of these funds for pension payments are specifically prohibited and the U.S. Treasury is expected to promulgate additional regulations and guidance dealing with the distribution of funds under the Act.

State and local government will be able to use the funds for shortfalls in their budgets to cover “premium pay” to “eligible workers,” which are those employees designated by each municipal CEO who are needed to maintain continuity of operations of essential critical infrastructure sectors to protect the health and well-being of their residents.



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Government finance personnel would be wise to review their revenue streams in the most recent full fiscal year pre-COVID and compare it to the collections in the current fiscal year in that the stimulus funds may be used to supplant the shortfall. In addition to direct government services included in the budget, the American Rescue Plan allows municipalities to use these funds for necessary investments in water, sewer or broadband infrastructure.

Government officials will also have some flexibility to use the funds to assist households, small businesses and nonprofits, or on a broader scale, to bolster an impacted sector of the economy such as our state's valuable hospitality and tourism industry. Government entities can also be creative and use the funds to provide grants to eligible employers that have eligible workers who perform essential work.

Now that funding is secure, it's time to act. If utilized wisely, these funds can stabilize the finances of a locality, assist business owners to recover and support workers who were left unemployed. Essentially, if the funds are properly deployed, it will assist the community in rebuilding from the carnage that this pandemic brought to Rhode Island and throughout the country. If you would like further information about the American Rescue Plan Act or have questions about uses of the funds or other concerns, please contact PLDO Partner Allan W. Fung at 401-824-5100 or afung@pldolaw.com.



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