



FINANCIAL STIMULUS ACCOUNTABILITY GROUP

June 2, 2021

Agenda

- CARES Coronavirus Relief Fund Report
 - FY21 Closing
 - SERG
- American Rescue Plan Fiscal Recovery Funds
 - State Fiscal Recovery Funds Overview
 - Sewer and Water (TDEC)
 - Broadband
 - Public Health and Economic Relief
 - Local Fiscal Recovery Funds

Coronavirus Relief Fund – Closing -FY21

Projected FY21 closing balance with *additional eligible expenditures included

Original CRF Allotment	\$2,363,433,274
Economic, Community, and Individual Relief Programs	(\$1,697,807,216)
Public Health Response Costs	(\$286,616,995)
State Government Costs	(\$31,411,533)
*SERG Program (Reimbursement of Current Applicant Excess Losses)	(\$44,607,834)
*Eligible Payroll Expenses	(\$302,989,696)
Remaining Balance	\$0

***An additional THDA request has been determined as FRF eligible and will be reviewed with FRF expenses.*

SERG Excess Loss Reimbursement

- As of today, \$73 million has been approved for payment to 3,243 business applicants;
 - Average payment of \$22,463;
 - 21% of current grant recipients are diverse business enterprises.
- 1125 businesses (1/3 of those approved) demonstrated a loss in excess of the \$30,000 maximum award. This leaves businesses with an excess loss that is currently unreimbursed by federal or state sources.
- Raising the cap and increasing the maximum grant award to greater than \$30,000 would allow State to use remaining CRF funds to reimburse that excess loss.
- **If we increase the capped award amount to \$100,000, we can reimburse additional losses incurred by applicants and spend down the remainder of the SERG budget.**

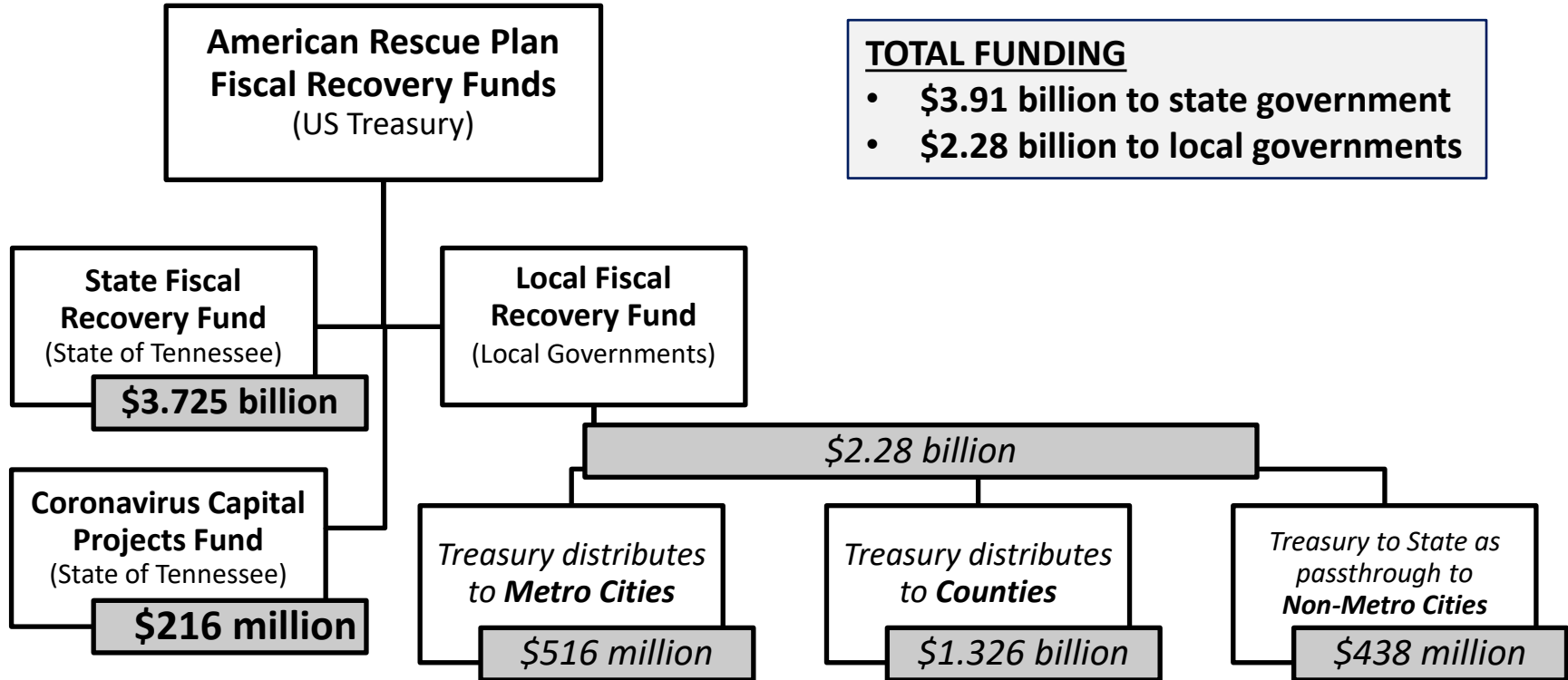
AMERICAN RESCUE PLAN

State and Local Fiscal Recovery Funds (FRF)



American Rescue Plan (ARP)

State and Local Funding as of May 26



ARP Fiscal Recovery Funds - Summary

- Installment 1 of State Fiscal Recovery Fund is \$1.862 billion (one half of \$3.725 billion). (Local entities will also receive funds in two installments.)
- Funds must be obligated by Dec. 31, 2024. Performance must be completed by Dec 31, 2026.
- State and Local Fiscal Recovery Fund (FRF) requirements are more prescriptive than the CRF, requiring more detailed reporting and demonstration to the US Treasury.
- For economic and public health expenditures, the FRF is very similar to last year's CRF, requiring a demonstration that funds are used for relief due to COVID-19 pandemic and its effects.
- **New eligible uses** include investments in physical infrastructure, **but only if** they are certain sewer, water, and broadband investments.

Recommended 2021 Priorities for State of Tennessee FRF are:

- Evidence-based and high-ROI investments in sewer, water and broadband infrastructure;
- Support for public health to improve health outcomes;
- Provide economic relief to affected entities and industries;
- Effectively supporting local government compliance and risk mitigation.

Sewer and Water - Overview

- American Rescue Plan prohibits FRF funds from being used on physical infrastructure, unless that infrastructure is sewer, water, or broadband. Roads and bridges are not an eligible use.
- We recommend that a significant portion of funds are reserved for a comprehensive sewer and water program for the state of Tennessee. This can be accomplished in partnership with local governments and state agencies.
- TDEC has led a cross-agency review of state needs and opportunities in sewer and water.

Water Infrastructure is Critical

- Tennessee Water and Wastewater Infrastructure Needs are Significant:
 - Current requests for financial assistance exceed \$485 million
 - Reports cite necessary investment ranging from \$5-15 billion between now and 2040
- A Snapshot of the Challenges:
 - Tennessee's water infrastructure includes extensive piping networks and treatment facilities to collect, treat, and distribute drinking water, stormwater, and wastewater
 - Tennessee relies on water infrastructure that is aging and at/near-capacity in many communities
 - Water loss due to aging distribution lines is costing Tennessee communities \$355 million annually across the state

ARP Water/Wastewater Eligibility

- Current Treasury eligibility: Water and wastewater infrastructure projects that align with clean water and drinking water SRF eligibility, such as:
 - Asset management
 - Line replacement
 - Plant/facility upgrades
 - Regionalization and consolidation
 - Stormwater management
 - Nonpoint source pollution
 - Water conservation and energy efficiency
 - Water storage
 - Workforce training
- TDEC proposes submitting comments on Treasury's Interim Final Rule requesting expansion of eligibility. We'd request Treasury expand guidance to allow:
 - Industrial site development
 - Dams and reservoirs
 - Flooding and stream maintenance/restoration
 - Projects addressing regional water supply concerns

Framework for Investing in Water Infrastructure

- Leverage partner agencies
 - Alignment of information, resources, and goals
- Ensure fiscally responsible investments
 - Emphasize comprehensive asset management
- Leverage local financial resources
- Prioritize projects for systems with greatest needs, including small or disadvantaged systems
- Informed by engagement with stakeholders

Broadband

- The guidance permits broadband investment but are much more restrictive than prior state investments in broadband. Those include:
 - Projects must prioritize non-profit or government-owned networks and fiber optic technology unless infeasible;
 - Projects are “expected to deliver” 100 Mbps symmetrical speed or must be scalable to 100/100 Mbps.
- Eligible “unserved” locations are defined as those lacking a 25/3 Mbps connection. States are given flexibility in determining these locations;
 - ECD is currently mapping the state to improve on FCC maps.
- Possible uses could include broadband infrastructure deployment, digital literacy programming, broadband service subsidies, public wi-fi and community anchor institution connectivity.
- **Our broadband team at ECD is reviewing guidance limitations and engaging with stakeholders to develop proposed uses for these funds.**
- **We will bring to FSAG for review a proposed plan for how federal funds can complement state strategy for state-budgeted broadband funds.**

Public Health and Economic Relief

- FRF is very similar and allows same uses as prior CRF for expenditures in public health and economic relief.
- **Public Health:** May be used to improve public health service offerings, as well as improve public health facilities;
- **Economic Relief:** May be used for targeted relief to small businesses and impacted industries, e.g., healthcare, tourism, and transportation.
 - Other types of technical assistance and support services for businesses may also be eligible.
- **We are engaging with community stakeholders and agencies to develop new programming for public health and economic relief. Proposals will be brought to future FSAG meetings.**

Local Fiscal Recovery Funds

- State FRF is mirrored by the Local FRF (same guidance and limitations apply).
- The Local FRF is divided into three allocations (i) metro cities, (ii) counties, and (iii) non-metro cities. (i) & (ii) are released, but non-metro is on hold from Treasury.
- We are closely coordinating with the Comptroller to encourage and promote the careful use of these funds.
- Treasury guidance prohibits states from directly restricting how a local govt uses these funds. A local government has ability to transfer funds to state if it wishes to give up control and liability for funds.
- **We will work to provide a service to local governments to support expenditure decisions and reduce likelihood of misspending funds.**
- **We will also promote state priorities and will consider how state and local governments could partner by way of a state-local FRF match.**

Local Funds – Risk Reduction Plan

- State will develop an optional program for local governments
- Localities will be invited to enroll in program to receive free support and advice through a process of review.
- Localities engaging in the program will retain final decision authority, custody and control of funds.
- The Department of Finance and Administration, through Horne LLP, will provide a pre-audit review to confirm whether a locality's proposed use of funds is compliant with US Treasury guidelines.
- Pre-audit review will provide assurances to the localities and provide a reasoned opinion they may refer to in case of future Treasury audit.
- Pre-audit reviews will be held by the Department of Finance and Administration and the log of reviews will be available for viewing at any time by the Comptroller's office.



APPENDIX

Other Categories Eligible Under FRF

REVENUE REPLACEMENT

- The FRF allows the replacement of lost revenue so long as a government can show that it experienced less than a 4.1% average annual growth rate in general revenue.
- Revenue is to be calculated using federal data and cover all general revenue sources.
- Due to Tennessee's economic success, we are unlikely to be eligible for replacement of revenue, however we are reviewing all data sources to confirm against federal revenue definitions.

"PREMIUM PAY"

- Guidance allows states to pay wage enhancements for certain "essential workers."
- Our recommendation for the State's consideration of this type of use is that it should be limited to urgent labor shortages or competitive labor mismatches on a temporary basis.