



Massachusetts
Taxpayers Foundation

The background of the slide is a nighttime aerial photograph of the Massachusetts State House and the surrounding city of Boston. The State House's iconic golden dome is brightly lit and stands out against the dark blue twilight sky. The city skyline, with various skyscrapers and lights, is visible in the distance. In the foreground, a street with light trails from cars and some greenery are visible. The overall scene is a mix of urban architecture and natural elements under a dramatic sky.

Testimony to the House Committee on Fiscal Stimulus & Census Oversight

May 20th
Presented by Doug Howgate

Outline

- I. Overview of federal COVID action & MA
 - Pre-ARP
 - ARP
- II. Coronavirus State & Local Fiscal Recovery Funds
 - Key themes
 - General information
 - What we know:
 - Eligible uses
 - Restrictions
 - Reporting
- III. Considerations going forward

A night view of a city skyline, likely New York City, featuring several illuminated skyscrapers and a bridge over water. The lights from the buildings and bridge are reflected in the water. A dark blue rectangular box is overlaid on the bottom half of the image, containing white text.

Overview of Federal Action to Date

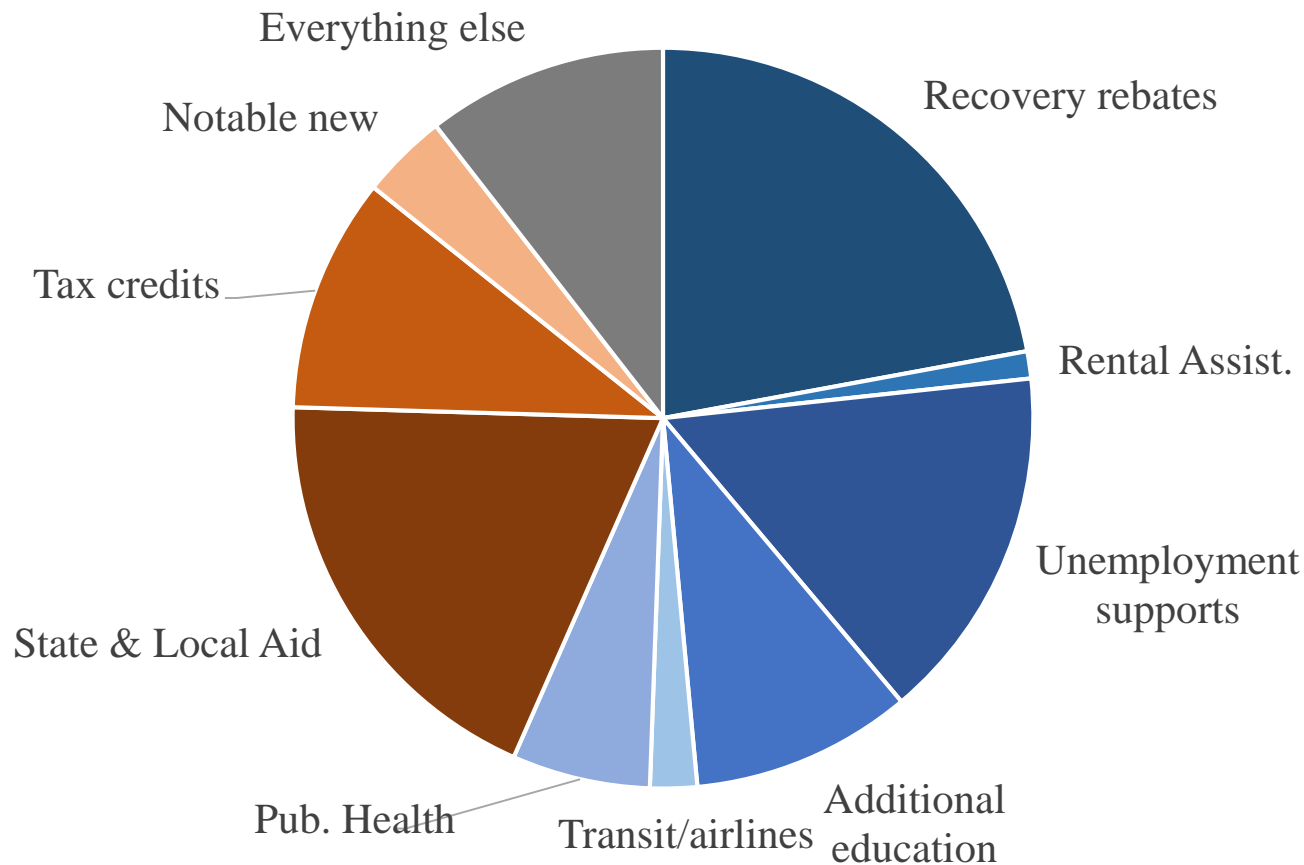
Federal Action Reference

Title	Acronym	Became Law	CBO Cost (in billions)
Families First Coronavirus Relief Act	FFCRA	3/18/2020	\$192
Coronavirus Aid Relief & Economic Security Act	CARES	3/27/2020	\$1,721
PPP & Health Care Enhancement Act	NA	4/24/2020	\$483
Coronavirus Response & Relief Supplemental Appropriations Act	CRRSAA	12/27/2020	\$868
American Rescue Plan	ARP	3/11/2021	\$1,863
<i>TOTAL</i>			<i>\$5,127</i>

ARP is the 5th Major Stimulus

Acronym	CBO Cost (in billions)	Notable provisions
FFCRA	\$192	Enhanced FMAP, <i>COVID leave, UI</i>
CARES	\$1,721	CRF, <i>Recovery Rebates, PPP</i> , provider payments, <i>additional UI, ESSER, Higher Ed, CCDBG, public transit</i>
PPP & Health Care Enhancement	\$483	<i>PPP & provider payments</i>
CRRSAA	\$868	<i>Recovery Rebates, UI, PPP, ERAP, ESSER, CCDBG</i>
<i>TOTAL</i>	<i>\$3,264</i>	

ARP: How the \$1.9T Breaks Down



ARP & Massachusetts

	Direct Budget Assistance	Indirect Budget Assistance
State fiscal relief	\$5,286.1	\$0.0
Childcare development	\$196.6	\$0.0
Local fiscal relief	\$0.0	\$3,388.4
K-12	\$0.0	\$1,842.1
Transit	\$0.0	\$1,000.0
Higher education	\$0.0	\$825.5
Eviction mitigation	\$0.0	\$350.0
Childcare stabilization	\$0.0	\$314.4
Capital Projects Fund	\$0.0	\$174.4
Homeowner Assistance	\$0.0	\$175.0
Heating/energy	\$0.0	\$125.0
Emergency Solutions	\$0.0	\$100.0
Total	\$5,482.7	\$8,294.8
<i>\$ in millions</i>		



Coronavirus State & Local Fiscal Recovery Funds

Key Themes

1. Unprecedented opportunities and challenges
2. Importance of/barriers to coordination
3. Balance of current need with future unknown
4. Vital to target resources to need and impact
5. Balance of short-term effectiveness and long-term sustainability

Funding Breakdown

	US Total	Initial MA projection	MA Final	MA Change
State	\$195,300.00	\$4,512.69	\$5,286.07	\$773.38
Metropolitan cities	\$45,570.00	\$1,709.88	\$1,664.51	-\$45.37
Other municipalities	\$19,530.00	\$367.94	\$385.06	\$17.12
County Award	\$65,100.00	\$1,336.76	\$1,338.79	\$2.03
Total	\$325,500.00	\$7,927.26	\$8,674.42	\$747.16

\$ in millions

Timeline to Date/Going Forward

- March 11th, ARP signed by President Biden
- May 17th, Treasury Interim Final Rule published in Federal Register
- Massachusetts is one of 21 states that will receive funds in lump sum
 - Other states receive 50 percent of funds up front and 50 percent after one year
- States/locals can now submit requests for funding
- Funds must be 'obligated' by 12/31/2024 and expended by 12/31/2026

Metropolitan Cities

- “Metropolitan Cities” receive additional direct funding in ARP
- The term comes from distribution of HUD funding
- In order to be a “Metropolitan City” a municipality must meet one of the following criteria:
 - Have a population of 50,000 or more
 - Determined by OMB to be the “central city” in a metropolitan statistical area
 - A city previously held a “central city” designation for 2 or more years
 - Distribution based on population, poverty and other factors
- 38 Metropolitan Cities in MA
- The cliff effects of this definition can be profound

Other Municipalities

- 314 Massachusetts cities and towns receive funds as “Non-entitlement units”
 - This covers 89% of cities and towns in the state
 - Essentially receive \$100 per person
 - Award cannot exceed 75% of budget
- Those in abolished counties will receive a supplemental awards of \$195 per person
- Municipality awards subject to same funding eligibility, restriction and oversight as state, cities, counties
 - Exception: only state is subject to tax reduction provision

County Awards

- Intact counties receive dedicated FRF to be spent according to same guidelines as municipalities
 - Counties can elect to return their award to the state
- In MA, 5 “active” counties
- For non-operative counties funds are to be distributed to component municipalities based on population:
 - Works out to an additional ~\$194 per resident
- Counties can transfer funds back to state
 - During Plymouth retained award, others transferred back to state

Understanding the IFR

- US Treasury’s “Interim Final Rule” published in Federal Register on 5/17
 - This is the guidance we’ve been expected
 - Rule is in effect
 - Comments solicited for 60 days
 - Additional changes are possible
- IFR provides detail for:
 - Eligible uses
 - In many cases, eligible uses listed are not exhaustive
 - Reporting and oversight
 - Prohibitions

Allowable Use (A) – Public Health & Economic Impacts

- Broad view of actions to respond to the pandemic
- Divided into public health & economic impacts
- IFR sets forth:
 - Non-exhaustive list of eligible uses
 - Criteria to determine eligibility of use not listed
 - **Presumptive eligibility for range of uses related to communities experiencing disparate negative impacts**
 - Sets Qualified Census Tract (QCTs) as possible avenue to assist disproportionately impacted

Allowable Use (A) – Public Health

Use	Example
COVID-19 mitigation & prevention	Vaccines, testing, PH system improvement, capital investment
Medical expenses	Genomic surveillance and long-term health impacts
Behavioral health care	MH/SUD treatment, crisis intervention, outreach
Public health & safety staff	Payroll for public employees with duties related to COVID
Expenses to improve design/execution of health and public health programs	Data infrastructure, program evaluation, analysis
<i>Disparities in public health outcomes</i>	Facilitating access to resources that improve health outcomes

Allowable use (A) – Economic Impacts

Use	Example
Assistance to unemployed workers	Job training, rehiring
State UI trust fund	Return trust fund to pre-pandemic balance/repay federal advances
Assistance to households	Food, housing, emergency assistance, cash assistance, internet access
Improved efficacy of state economic relief programs	Data infrastructure, program evaluation, analysis
Small businesses & nonprofits	Loans/grants to mitigate financial hardship, COVID mitigation
Rehiring public employees	Return to pre-pandemic staffing levels
Aid to impacted industries	Travel, tourism, hospitality, similarly impacted industries
<i>Communities/populations disproportionately impacted</i>	Housing/community investment, educational disparities, healthy childhood environments

COVID-19 Impacts and QCTs

- Both public health and economic impact spending criteria are broadened for Qualified Census Tracts (QCTs)
- Of MA's 1,478 census tracts, 311 are QCTs
 - 50 percent of households have income below 60% of Area Median Gross Income ; OR
 - Poverty rate of 25% or more
- In both cases, spending that gets at broader causes of disproportionate public health/economic impacts of COVID are allowed

Allowable Use (B) – Premium Pay

- Premium pay for workers performing essential tasks during COVID-19
- IFR identifies eligible workers
 - Staff at nursing homes, hospitals, home care settings
 - Workers at farms, food production facilities, grocery stores & restaurants
 - Janitors & sanitation workers
 - Truck drivers, transit staff & warehouse workers
 - Public health & public safety staff
 - Childcare workers, educators & school staff
 - Social services and human service staff

Allowable Use (B) – Premium Pay

- Under ARP
 - Premium pay defined as up to \$13 per hour in addition to normal pay
 - Must be additive
 - Not to exceed \$25K per eligible worker
- Notable elements of IFR:
 - Chief executive of each recipient can ID additional sectors to essential worker list
 - Work has to have been in-person
 - Lower-income workers should be prioritized
 - Burden to justify premium pay if it results in wages in excess of 150% of average

Allowable Use (C) – Revenue Replacement

- Most flexible use of FRF
 - “Provision of government services”
 - ARP left if very unclear how allowable revenue replacement would be calculated
- IFR good news:
 - Revenue loss calculated based on what revenues would have been without a pandemic
 - FY 2019 revenues grown annually by at least 4.1%
- IFR less good news:
 - Revenue replacement calculation involved and occurs at 4 different times over the next 3.5 years
 - Cannot use RR to replenish Stabilization Fund

Revenue Replacement Calculation

- Includes most types of state revenue
 - Notably does not include federal revenue
- Uses revenue data submitted by state/local government to US Census
- Calculation occurs 4 times:
 - Difference between actual/projected revenue as of 12/31/2020 (occurs immediately)
 - As of 12/31/2021
 - As of 12/31/2022
 - As of 12/31/2023
- For each calculation, adjust FY 2019 revenues by assumed growth
 - Likely 4.1 percent for MA

What RR does this mean for MA?

- Exact calculation will take time and coordination
 - Comptroller's Office compiles revenue data for Census
- Using only tax revenues, estimate CY 2020 revenue replacement in the \$1.5 billion range
 - ***This is an initial rough estimate***

Calculation		Tax revenue without COVID	Actual CY 2020 revenue	Difference
$\$29,740 * [(1+0.041)^{(18/12)}]$	=	\$31,588	\$30,025	\$1,563
\$ in millions				

Allowable Use (D) - Infrastructure

- *(D) to make necessary investments in water, sewer, or broadband infrastructure.*
- IFR:
 - Water:
 - Aligns eligibility with standards for EPA Clean Water Revolving Fund & Drinking Water State Revolving Fund programs
 - Privately owned infrastructure is eligible
 - Broadband
 - Projects that meet/exceed speed standard of 100 Mbps
 - Focus on unserved/underserved locations
 - Underserved means lacking reliable download of 25Mbps/upload 3 Mbps
 - Encouraged to include affordability to meet needs of underserved
 - Assistance to affected household allowable

FRF Restrictions

- Deposit into pension funds (applies to all)
 - Prohibited if meets both of the following:
 - Reduces pre-pandemic liability
 - Occurs outside the regular timing for pension payments
 - This does not include payroll contributions for pension benefits
- Offset a reduction in net tax revenue (only applies to states)
 - Violation of this provision results in forfeiting FRF equal to amount of tax reduction
 - IFR creates a framework to identify a cost to a tax policy change and resources used to offset

Tax Reduction Provision in Action

- Recipients need to demonstrate offset for tax reduction. Three possible offsets:
 - Organic revenue growth
 - Tax increase
 - Spending cut
- Annually, recipients must ID the aggregate value of tax reductions made in that year
 - If actual tax revenue in a give year exceeds expected tax revenue (FY 2019 * inflation), no further offset necessary
 - If actual revenue is less, need to ID offset:
 - Tax increases
 - Spending cuts not replaced by FRFs

Reporting Information

- Several reporting requirements
 - Quarterly project & spending report
 - Reporting modified version of CRF reporting
 - Initial interim report covering spending through 7/31/21
 - First quarterly report due 10/31/21
 - Non-entitlement municipalities have annual reporting requirement
 - Annual Recovery Plan Performance Report
 - Initial report due 8/31/2021
 - Annual tax provision compliance by DOR

CSLFRF v. Coronavirus Relief Fund

- Size

- \$2.7B for MA in CRF
- \$8.6B for MA in CSLFRF

- Intent

- CRF: immediate pandemic response
- CSLFRF: prospective pandemic recovery
 - Treasury focus on transparent process to support action over next several years (as opposed to reimbursing for emergency costs)

- Timeline

- CRF: ~18 months
- CSLFRF: 3.5-5.5 years



Considerations Going Forward

- Coordination across multiple dimensions
 - Across branches of government
 - Within CSLFRF
 - With other federal stimulus programs
 - With the state budget
- Creating transparent process for effectiveness and compliance
- Keeping program goals central to process:
 - 5 year timeline
 - Focus on disproportionate impact
- Balance of short-term need and long-term sustainability

Thank you!

www.masstaxpayers.org

@masstaxpayersfd

A night photograph of a city skyline, likely New York City, featuring several illuminated skyscrapers and a bridge over a body of water. The lights from the buildings and bridge are reflected in the water. A blue rectangular overlay is positioned at the bottom of the image, containing the word "Appendix" in white text.

Appendix

Acronyms

- ARP = American Rescue Plan
- ESSER = Elementary & Secondary School Emergency Relief
- CCDBG = Childcare Development Block Grant
- CSLFRF = Coronavirus State & Local Fiscal Recovery Fund
- FRFs = Fiscal Recovery Funds
- IFR = US Treasury Interim Final Rule
- QCT = Qualified Census Tract