Massachusetts Taxpayers Foundation

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Update on Remaining ARPA and Surplus Resources

Since December of 2021, the state has appropriated close to $8 billion in combined federal Fiscal Recovery Funds (FRF) and Fiscal Year (FY) 2021 and 2022 surplus resources to support a range of COVID recovery and economic development initiatives. Significant resources still remain, but tracking the amount and type of funds that are still available is a challenge for policymakers and the public.

This Brief outlines the recent history of FRF and surplus spending and summarizes the current status of remaining funds.

Background on Federal Fiscal Recovery Funds

The Commonwealth received $5.3 billion in state Fiscal Recovery Funds soon after the passage of the American Rescue Plan Act, in addition to a further $3.4 billion that went directly to communities and counties. While FRF resources are subject to federal requirements for eligible spending, more than two-thirds of the state's amount can be spent as "revenue replacement," which means they can be used for general government operations and investment.[1]

The vast majority of FRF resources were appropriated in two major COVID recovery and economic development bills, signed into law in December of 2021 and November of 2022, but $478 million was allocated outside of the typical appropriation process:

FRF Spending Outside of Major Legislation

Program	Amount
Chelsea, Everett, Methuen & Randolph	$109.1
VaxMillions	$10.0
COVID Paid Leave	$158.9
Administration Set Aside	$200.0
Amount	**$478.0**

$ in millions

[1] More information on federal guidelines and eligible uses can be found in MTF's analysis here

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After accounting for this spending, $4.8 billion in FRF remained available for appropriation.

COVID Recovery/Economic Development (CRED) Legislation

In December of 2021, Governor Baker signed the first CRED bill into law, which included $4 billion in appropriations supported by a mix of FRF and FY 2021 surplus funds. That bill allowed the Baker administration to fund appropriations with up to $2.55 billion of federal FRF resources and up to $1.45 billion of FY 2021 surplus dollars. CRED appropriations in the bill are available until the end of FY 2027. Therefore, federal or state funds are essentially assigned to each item, but the funds may not be spent for several years. The Baker administration planned to use the entire $2.55 billion FRF allotment in support of the bill, leaving $2.23 billion in FRF resources unobligated.

FRF Status Pre-CRED 2

Original Award	**$5,286.0**
Non-appropriated	$478.0
CRED 1	$2,550.0
Supp. Correction	$24.0
Amount Remaining	**$2,234.0**

$ in millions

Heading into last fall, the House and Senate were negotiating a second CRED bill which again would rely on a mix of FRF and state surplus funds. After accounting for 62F rebates, the FY 2022 surplus was just under $2.4 billion. The House and Senate agreed to spend down that surplus and use up to $510 million in available FRF resources to support a total of $3.8 billion in CRED spending, which would be available until the end of FY 2027.

House and Senate Proposed Resource Use for CRED 2

Original surplus	**$2,390.0**
Remaining FRF	**$2,234.0**
CRED 2 Surplus Use	-$2,336
CRED 2 FRF Use	-$510
CRED 2 Supported by Other Resources	-$915
CNS Transfers	-$30
Surplus Remaining	**$24.0**
FRF Remaining	**$1,724.0**

As with the first CRED bill, the Legislature included an outside section that capped the use of FRF resources to $510 million, which would have left $1.7 billion in FRF unobligated. However, the Baker administration vetoed that section and it was not overridden. The Baker administration made the case that the state should obligate as much of the FRF resources as possible to support spending in the two CRED bills, and free up state surplus revenues for future use.

The rationale for the Baker administration's FRF strategy is straightforward: FRF resources have to be obligated by the end of 2024, they are subject to eligibility restrictions and reporting requirements, and unused funds could potentially be clawed back by the federal government. State surplus funds, on the other hand, have no restrictions on use or timing. Therefore, it makes sense to obligate federal funds as quickly as possible and retain more flexible state surplus funds.

Current Status

Following the veto of the FRF use cap, the current plan is to obligate as many remaining FRF resources as possible towards appropriations included in the two CRED bills. While some federal funds may remain unobligated, the amount is likely in the low hundreds of millions. At the same time, the state now has up to $1.7 billion in unobligated surplus funds residing in a Transitional Escrow Fund. These surplus funds can be accessed at any time and have no restrictions on their use.

The timeline of CRED spending makes statements on the status of FRF and surplus funds subject to change. While the state currently plans to obligate most remaining FRF resources on CRED appropriations, the Healey administration could change those decisions or the Legislature could mandate that obligation decisions be altered. In addition, it is likely that some CRED programs will not be a good use of FRF resources and it is quite possible that some level of FRF or surplus will free up over the next year and require re-appropriation.

Whether or not all FRF resources can be obligated to the two CRED bills depends on three factors:

1. Is there $4.48 billion (the total amount of FRF not otherwise accounted for) in FRF eligible spending in the two bills? We know that about $3.9 billion of this amount can apply to almost any spending as the state's "revenue replacement" allocation, but ANF will need to ensure that a further $1 billion or so qualifies under more restrictive eligibility criteria.
2. Are some items unlikely to meet federal obligation (December of 2024) and expenditure (December of 2026) deadlines? If the administration has any concerns with items meeting timing requirements, they are unlikely to assign FRF resources to the item.
3. Are some items eligible for other federal reimbursement programs? FRF cannot be used to draw down other federal funds (including Medicaid reimbursement). Therefore, the

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administration must also make sure to not use FRF for any investments that may qualify for other federal funds.

Bottom Line

At present, the vast majority of federal FRF resources are obligated to existing appropriations. However, the state retains approximately $1.7 billion in combined FY 2022 surplus resources and remaining federal funds that are available for use. Governor Healey's FY 2024 budget does not propose tapping into remaining surplus funds and it is possible that lawmakers will use these and other resources to pursue a third CRED bill later in the year.

The strategy to obligate FRF resources as soon as possible is a smart one. It enables the state to easily meet federal timing requirements and minimizes the possibility that a portion of Massachusetts' award is recouped by the federal government.

Currently, it is very difficult for policymakers or the public to keep an accurate accounting of the status of federal ARPA resources and state surplus funds. Improving the transparency and clarity of those funds should be a priority for budget-makers.