# Virginia's Budget and the American Rescue Plan

## Virginia First Cities Coalition

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# The State Budget is in Good Shape

- **Expect a GF revenue surplus of around $2 bil. at the end of FY 2021 -** even though the adopted budget increased GF revenue growth from -1.8% in the August Special Session to +2.7 percent in April budget. YTD GF revenue growth thru May was 17.8 percent**. At $2 bil., Rainy Day Fund deposit would be about $800 mil. and WQIF would be $200 mil.**

- April budget prioritized restoring FY 22 unallotments, providing July 1, 2021 salary increases for teachers and state employees, and building up cash reserves.

  - 5% salary increase for state employees & state supported local employees - $236 mil.
  - State share of 5% salary increase for K-12 SOQ Positions - $235 mil. Allows divisions to access prorated funds if the division provides an increase between two percent and five percent.
  - Eliminating Health and Human Service unallotments were a priority ($173 mil. over introduced budget). Focusing on long-term care, maternal and child health, and behavioral/developmental health.
  - $100 mil. for a one-time payment to the VRS to reduce unfunded liabilities ($61 mil. for teacher plan)
  - $126 mil. for the Housing Trust Fund
  - $100 mil. for broadband
  - $250 mil. to increase cash reserves and Rainy Day Fund to $2.1 billion.

# Other Budget Changes of Interest to VFC Localities

- Fully funded “no loss” payments for 3.5 percent ADM reductions.
- $49.5 million to fund SOQ staffing standard of three specialized support positions for every 1,000 students
- Provides $26.6 million GF in FY 2022 to provide one counselor per 325 students as provided in 2020 legislation
- Provides $11.1 million GF in the second year to increase Va. Preschool Initiative per pupil amount from $6,326 in FY 2021 to $7,655 in FY 2022
- Begins the next phase of improvements for wastewater treatment plants by providing $50.0 million GF and $50.0 million in bonds for nutrient removal grants. Also provides $25 mil. to the Stormwater Local Assistance Fund.
- $10 mil. (VFC initiative) for the Community Development Financial Institutions Fund (CDFI)

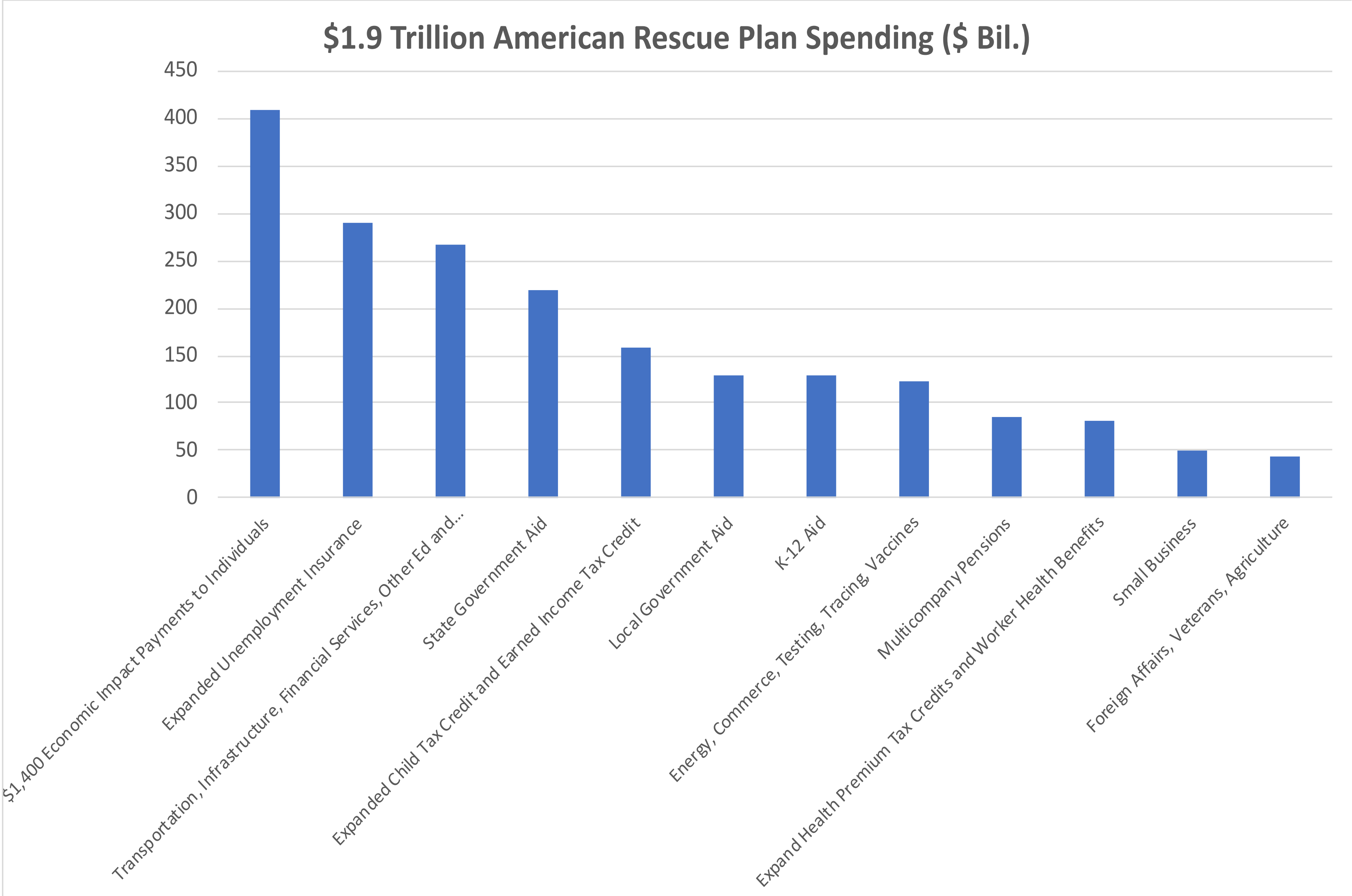
# Missed Opportunities

- No increase in Aid to Police (HB 599)
- Full funding of VFC requests for economic development, such as more Main Street, Enterprise Zones, Industrial Revitalization, and Brownfields funding.
- Instead of $250 million increase in cash reserves, an additional one-time payment to reduce the VRS teacher pool would have provided long-term savings for state a local governments equivalent to a 7 percent annual return.

# FY 2021 Revenues Have Rebounded Strongly, Guaranteeing a Large Revenue Surplus

| | Original FY 21 Revenue Est. | August Special Session FY 21 Revenue Est. | Adopted Revenue FY 21 Est. | YTD May 2021 Actual |
|---|---|---|---|---|
| *Withholding* | *3.9%* | *2.4%* | *2.7%* | *4.4%* |
| *Estimated Pay/Tax Dues* | *7.8%* | *-3.6%* | *4.4%* | *69.2%* |
| *Refunds* | *4.2%* | *5.1%* | *20.1%* | *7.1%* |
| Net Individual Income | 4.8% | 0.6% | 0.6% | 17.5% |
| Sales Taxes | 1.3% | -9.7% | 4.7% | 11.1% |
| Corporate Income | -1.2% | 3.0% | 27.4% | 60.1% |
| Recordation | -17.2% | -12.6% | 24.4% | 41.1% |
| **Total Revenue Growth Over Prior Year** | **3.0%** | **-1.8%** | **3.0%** | **17.8%** |

*Note: Non-withholding growth will moderate in June due to timing of tax filing versus last year*


$1.9 Trillion American Rescue Plan Spending ($ Bil.)
450
400
350
300
250
200
150
100
50
0
$1,400 Economic Impact Payments to Individuals
Expanded Unemployment Insurance
Transportation, Infrastructure, Financial Services, Other Ed and...
State Government Aid
Expanded Child Tax Credit and Earned Income Tax Credit
Local Government Aid
K-12 Aid
Energy, Commerce, Testing, Tracing, Vaccines
Multicompany Pensions
Expand Health Premium Tax Credits and Worker Health Benefits
Small Business
Foreign Affairs, Veterans, Agriculture

# Virginia Will Receive $13.8 Billion in Direct Program Aid from ARPA

| | **$ Mil.** |
|---|---|
| State Recovery Funds | $4,293.7 |
| Local Recovery Funds | $2,910.0 |
| Elementary and Secondary School Emergency Relief | $2,123.3 |
| Higher Education Emergency Relief Fund | $843.9 |
| Child Care Grants | $823.3 |
| Public Transit Formula Assistance | $800.1 |
| Emergency Rental Assistance | $450.7 |
| Hoeowner Assistance Fund | $258.4 |
| Epidemiology and Lab Capacity for School Testing | $257.1 |
| Capital Projects Fund | $221.7 |
| State Small Business Credit Initiative | $188.4 |
| Vaccine Preparedness & Community Health Centers Access | $162.6 |
| HUD HOME Investment Partnerships | $97.0 |
| Low-income Energy Assistance | $90.2 |
| Human Services Assistance Programs | $86.6 |
| IDEA Grants to States, Preschool, Infants | $73.3 |
| Mental Health and Substance Block Grants | $69.5 |
| Emergency Assistance to non-public Schools | $46.3 |
| All Other | $12.4 |

# Expected ARPA Allocations to VFC Localities

| | Weldon Cooper | Amounts Listed by U.S. Treasury ($ M) | | | | |
|---|---|---|---|---|---|---|
| Cities | July 1, 2019 Estimate | Metro Cities Allocation | *Non-Entitlement Allocation* | County Allocation | Total | Per Capita $ |
| Charlottesville City | 49,181 | $10,428,843 | | $9,180,866 | $19,609,709 | $399 |
| Danville City | 39,932 | $21,364,773 | | $7,778,078 | $29,142,851 | $730 |
| Hampton City | 135,753 | $22,533,427 | | $26,126,991 | $48,660,418 | $358 |
| Harrisonburg City | 53,997 | $13,536,358 | | $10,297,736 | $23,834,094 | $441 |
| Hopewell City | 22,718 | $5,622,819 | | $4,375,994 | $9,998,813 | $440 |
| Lexington City | 7,432 | | $7,725,349 | $1,446,298 | $9,171,647 | $1,234 |
| Lynchburg City | 80,783 | $17,368,358 | | $15,960,171 | $33,328,529 | $413 |
| Martinsville City | 12,793 | | $13,024,984 | $2,438,467 | $15,463,451 | $1,209 |
| Newport News City | 181,000 | $31,981,891 | | $34,812,355 | $66,794,246 | $369 |
| Norfolk City | 245,054 | $106,991,262 | | $47,149,788 | $154,141,050 | $629 |
| Petersburg City | 31,430 | $14,873,246 | | $6,088,593 | $20,961,839 | $667 |
| Portsmouth City | 94,581 | $38,506,859 | | $18,335,705 | $56,842,564 | $601 |
| Richmond City | 226,841 | $110,120,336 | | $44,759,492 | $154,879,828 | $683 |
| Staunton City | 24,971 | $8,113,077 | | $4,842,749 | $12,955,826 | $519 |
| Williamsburg City | 15,383 | | $15,515,024 | $2,904,639 | $18,419,663 | $1,197 |
| Winchester City | 28,180 | $6,883,860 | | $5,453,822 | $12,337,682 | $438 |
| **Total VA First Cities** | **1,250,029** | **$408,325,109** | ***$36,265,356*** | **$241,951,744** | **$686,542,209** | **$549** |
| | | | | | | |
| **Total Virginia Allocation** | **8,535,519** | **$618,276,089** | **$633,753,549** | **$1,657,924,506** | **$2,909,954,144** | **$341** |
| **VFC % of State** | **14.6%** | **66.0%** | **5.7%** | **14.6%** | **23.6%** | |

# Uses of Local Relief Funds in ARPA

*Only use the funds provided under a payment made under this section (2 tranches) to cover costs incurred by the metropolitan city, non-entitlement unit of local government, or county,* ***by December 31, 2024****:*

**(A) to respond to the public health emergency with respect to COVID–19 or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;**

- There is a **presumption of eligibility inside qualified low-income census tracts**, along with other impacted populations and geographic areas.
  - Direct cash and loan interventions
  - Assistance to business and non-profits
  - Impacted industries and workers
  - Investments in housing and neighborhoods, such as services to address individuals experiencing homelessness, affordable housing development, housing vouchers, and residential counseling and housing navigation assistance to facilitate moves to neighborhoods with high economic opportunity;
  - Addressing childcare and education disparities

# Uses of Local Relief Funds in ARPA

**(B) to respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;**

- Funds are eligible to provide premium pay for "essential work" as work involving regular in-person interactions or regular physical handling of items that were also handled by others.

  Such workers include:
  - Staff at nursing homes, hospitals, and home care settings;
  - Workers at farms, food production facilities, grocery stores, and restaurants;
  - Janitors and sanitation workers;
  - Truck drivers, transit staff, and warehouse workers;
  - Public health and safety staff;
  - Childcare workers, educators, and other school staff; and
  - Social service and human services staff.

# Uses of Local Relief Funds in ARPA

**(C) for the 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.**

Localities should compute the extent of their reduction in revenue by comparing their actual revenue to an alternative representing what could have been expected to occur in the absence of the pandemic. Begin with an FY 2019 baseline and project forward at either (a) the recipient's average annual revenue growth over the three full fiscal years prior to the public health emergency or (b) 4.1%, the national average state and local revenue growth rate from 2015-18 (the latest available data). Treasury's Interim Final Rule presumes that any diminution in actual revenue relative to the expected trend is due to the COVID-19 public health emergency.

1. Own source general revenue drawn from Census Bureau definition; including fees generated by the underlying economy such as parking and sports stadiums; and enterprise funds
2. Excluded from general revenue includes: refunds and other correcting transactions; proceeds from issuance of debt or the sale of investments; agency or private trust transactions; utility revenue (still being reviewed with Treasury) and insurance trusts; and federal transfers
3. A "non-exclusive" list of government services that "lost revenue" ARPA funding can be spent on includes "pay-go" capital projects started with cash but finished with future revenues or bonds.

# Example Revenue Reduction Calculation

Localities can calculate a revenue reduction as of four points in time: December 31, 2020; December 31, 2021; December 31, 2022; and December 31, 2023.

1. A city had $100m in revenue in FY 2019, the last full fiscal year before Jan. 27, 2020
2. The city finds that 4.1 percent is greater than city's average annual revenue growth in the three full fiscal years prior to the public health emergency
3. City has 18 months from the end of its base year (June 2019) to December 31, 2020, and its projected revenue would have been $106.3m. 100m+[(1+.041)^(18/12)]
4. City had $95m of actual revenue in CY 2020
5. The revenue loss for 2020 is $106.3m-$95m=$11.3m
6. **If actual revenue exceeds calculation, then no revenue loss for that year**

# Uses of Local Relief Funds in ARPA

**(D) to make necessary investments in water, sewer, or broadband infrastructure.**

- Projects eligible under the Clean Water State Revolving Fund
  - Construct, improve, and repair wastewater treatment plants; control non-point sources of pollution; create green infrastructure; manage and treat stormwater; water reuse; protect waterbodies from pollution.
- Projects eligible under the Drinking Water State Revolving Fund
  - Build or upgrade facilities to improve water quality; transmission, distribution, and storage systems; consolidation or establishment of drinking water systems.
- Cybersecurity
- Climate change and resilience projects
- Encourages modern, high-speed broadband fiber-optic projects where possible, in unserved or underserved communities. Financial assistance to households to support internet access or digital literacy is also an eligible use.

# Reporting Requirements

1. Metropolitan cities must submit an interim report and quarterly Project and Expenditure reports thereafter.

2. Metropolitan cities with a population in excess of 250,000 will also be required to submit an annual Recovery Performance Plan to Treasury.

3. Non-entitlement units of local government (NEU) are NOT required to submit interim reports or Recovery Performance Reports. However, NEUs will be required to submit annual Project and Expenditure reports.

# Key Documents on Uses of ARPA Funding

Fact Sheet and Frequently Asked Questions:

https://home.treasury.gov/system/files/136/SLFRP-Fact-Sheet-FINAL1-508A.pdf

https://home.treasury.gov/system/files/136/SLFRPFAQ.pdf

Interim Final Rule (Final rule expected July 16):

https://public-inspection.federalregister.gov/2021-10283.pdf

# ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND (ESSER III)

| | |
|---|---|
| CHARLOTTESVILLE CITY PUBLIC SCHOOLS | $10,065,919 |
| DANVILLE CITY PUBLIC SCHOOLS | $29,674,337 |
| HAMPTON CITY PUBLIC SCHOOLS | $54,800,634 |
| HARRISONBURG CITY PUBLIC SCHOOLS | $11,822,224 |
| HOPEWELL CITY PUBLIC SCHOOLS | $12,531,043 |
| LEXINGTON CITY PUBLIC SCHOOLS | $441,286 |
| LYNCHBURG CITY PUBLIC SCHOOLS | $28,413,544 |
| MARTINSVILLE CITY PUBLIC SCHOOLS | $8,801,782 |
| NEWPORT NEWS CITY PUBLIC SCHOOLS | $82,142,456 |
| NORFOLK CITY PUBLIC SCHOOLS | $113,301,572 |
| PETERSBURG CITY PUBLIC SCHOOLS | $22,608,275 |
| PORTSMOUTH CITY PUBLIC SCHOOLS | $46,708,351 |
| RICHMOND CITY PUBLIC SCHOOLS | $122,811,024 |
| STAUNTON CITY PUBLIC SCHOOLS | $6,258,501 |
| WILLIAMSBURG CITY | $2,703,488 |
| WINCHESTER CITY PUBLIC SCHOOLS | $8,188,762 |
| **VFC Total** | **$561,273,201** |
| **VFC % of State** | **29.6%** |

# Summary of ARPA K12 Allowed Uses

Activities authorized under federal programs like ESEA, IDEA, Perkins & McKinney-Vento;

Developing and implementing procedures and systems to improve Division preparedness and response efforts;

Cleaning, sanitizing, and associated training and planning;

Educational technology;

Mental health services and supports;

Planning and implementing activities to address the unique needs of low-income children or students, children with disabilities, English learners, racial and ethnic minorities, students experiencing homelessness, and foster care youth;

Eligible uses to include school re-construction projects, facility repairs, and air quality upgrades **directly related to the COVID-19 pandemic.**

# ARPA Local Recovery Fund Budget Process

- **Appoint** an ARPA Local Relief Fund Coordinator.
- **Conduct in-house budget development** with locality staff across all areas of local government. Familiarize staff with allowed uses (U.S. Treasury guidance, etc.).
- **Hold public hearings** on the ARPA spending proposals.
- Adopt a **spending blueprint**.
- Put a **spending tracking and administration system** in place – similar to CARES Act spending requirements.

**Budget Process Should Identify:**

1) What **constituencies or groups** in your locality have been hit the **hardest hit** by the pandemic.

2) How can your locality can become **more resilient**, both from a **health** standpoint, as well as **economically**?

3) Where you can **leverage additional state and federal funds** using your local share of ARPA dollars. Is it in Water/sewer projects? Broadband? Business assistance? Housing? Etc.  Where can you create transformational change?

# Target Broad Areas for Funding Commitments

- Replacing lost revenue that your locality can commit to your urgent needs.
- Improving the capacity and delivery of your public health system, including COVID, but also broader public health interventions.
- Providing direct assistance for job training to unemployed.
- Providing premium pay for front line workers.
- Providing direct <u>business</u> assistance for those most impacted by the pandemic, including restaurants, entertainment and hospitality.
- Upgrading K-12 schools and public buildings with modern HVAC systems.
- Addressing K-12 learning loss with extended day and year learning opportunities. Prioritize at-risk children's educational needs.
- Ensuring <u>all</u> have access to high-speed broadband.
- Upgrading locality information systems including case management technology and software. Make secure from cyberattack.
- Improving water/sewer systems, resiliency and CSO (Richmond, Lynchburg)

- Prioritize addressing long-standing equity-related needs that are difficult to fund adequately during the normal fiscal process. This could include significant new funding and investment in areas **such as public health, housing, community wealth building, transit, and education**.

1. Provide broad flexibility in achieving the goal of vaccinating all residents by the end of 2021, or sooner by providing a myriad of vaccination sites particularly in/near public housing communities, recreation centers, school sites, or other locations in order to maximize access for racial and income groups most adversely affected by the pandemic; undertake public education related both to COVID safety and vaccine availability.
2. Provide immediate cash assistance to individuals in immediate need of cash support to prevent eviction, obtain employment or transportation to employment, meet health expenditures, support food security, or other needs.
3. Provide support services to homeless persons.
4. Improve capacity to provide intensive workforce development services especially to those affected by the pandemic; Launch new apprenticeship programs; Support transition to homeownership.
5. Support housing needs through immediate investment in affordable housing development, including units affordable for residents earning $30,000 a year or less.
6. Develop comprehensive healthy food initiatives.
7. Support early childhood learning initiatives and childcare improvements. Support childcare providers in financial jeopardy because of the pandemic.
8. Make improvements to transit systems and consider providing free transit passes. Work for further regional expansion of transit.
9. Provide reliable high-speed broadband access to the internet for all - removing an economic and social barrier as well as a source of stress particularly for low-income residents.
10. Provide additional assistance to high-poverty school districts. Use evidence-based educational services and practices, including tutoring, summer, afterschool, and other extended learning and enrichment programs; address the social, emotional, and mental health needs of students
11. Improve the efficiency and effectiveness of city government. Make additional, substantive improvements to assessment and oversight of locality services. Reward high-performing employees with premium pay and implement stronger accountability measures for sub-standard employee performance.