

VLCT's ARPA GOAL: Not One Penny of Your Local ARPA Money Will Be Returned

December 12, 2023

March 2024 marks the three-year anniversary of the passage of the American Rescue Plan Act, which created the State and Local Fiscal Recovery Fund (SLFRF). The SLFRF – simply referred to as “ARPA” – injected \$1.25 billion into Vermont’s economy, more than \$200 million of which went directly to Vermont municipalities to help them recover from the effects of the COVID-19 pandemic. For the first time perhaps ever, local officials suddenly had cash in the bank (about \$300 per resident) and flexible rules on how to spend it. ARPA presented a rare opportunity to advance transformational projects; patch holes in operating budgets hit hard by rapid escalating costs of goods, services, and labor; or serve as precious, hard to amass match dollars for other federal grants.

This means that if an ARPA project with obligated funds fails to launch by December 31, 2026, whether due to escalating costs, funding gaps, supply chain issues, permitting delays, contractor limitations, etc. – all of which are common with Vermont projects – then **funds must be returned to the U.S. Treasury.**

The structure of ARPA provided a long runway for its recipients to be both immediately responsive and deliberately strategic. Funds must be **obligated** by December 31, 2024, and **expended** by December 31, 2026 (~2.5 and 4.5 years respectively from initial receipt). This allowed local officials to take the uncommon stance to be proactive, plan, engage their citizenry, and think big picture on how best to deploy these funds. The structure also provided broad flexibility and limited oversight for ARPA awards under \$10 million with “**standard allowance**” (which all Vermont recipients elected to take).

All the elements that have made ARPA a boon for small local governments (NEUs) are what keep national attention on ARPA. The U.S. Government Accountability Office (GAO) and the Office of the Inspector General have increased their scrutiny on the deadlines for ARPA (see

GAO's October 2023 [States' and Localities' Fiscal Recovery Funds Spending as of March 31, 2023](#)). Many in Congress consistently scrutinize the program's progress and look for ways to pull back funds. It is safe to assume that this pressure and scrutiny will continue to grow, especially as we draw closer to the 2024 elections.

The Treasury department has also started to flex its regulatory muscles and notified the National League of Cities, GFOA, and NACO that **local governments that do not file reports on time risk having their funds [recouped](#) and will also be ineligible to receive any federal grants for a period of three years; this includes FEMA funds for emergency relief**. In addition, if recipients fail to obligate funds by the end of 2024 or to spend funds by the end of 2026, then they must return them to Treasury; the circumstance under which a recipient may [re-obligate](#) funds is very limited. This means that if an ARPA project with obligated funds fails to launch by December 31, 2026, due to escalating costs, funding gaps, supply chain issues, permitting delays, contractor limitations, etc. – all of which are common with Vermont projects – then funds must be returned to the U.S. Treasury.

As Treasury's rules have evolved and gained clarity, congruent opinions have formed among professional finance organizations. This has allowed municipal organizations across the country to have confidence in providing guidance and recommendations to their member municipalities. Many leagues, especially those operating in states with clear laws on government finance and consistent application, have given early, blanket direction to their members to spend ALL their ARPA funds as quickly as possible, well before the December 2026 deadline.

VLCT recognizes that in Vermont our laws on government finance are not robust and there is no consistency in application. This means that every municipality is unique in how it manages its finances – there is no one-size-fits-all approach. Some towns are on a cash basis, some accrual, some modified accrual. Some have adopted financial policies whereas others have none. There is no uniform chart of accounts. Many municipalities follow Generally Accepted Accounting Principles (GAAP), but many don't. Some have professional finance staff and annual professional audits, and others have elected officials and volunteers. Regardless, VLCT is here to help each municipality navigate its unique situation and find the ARPA spending path that is best for it to keep these precious federal funds.

VLCT's Recommendations

VLCT makes the following general recommendations regarding remaining local ARPA funds, with the understanding that each municipality may have a different situation:

#1: Obligate By March 31, 2024

VLCT recommends that every Vermont municipality that has unobligated ARPA funds to obligate them prior to March 31, 2024, if possible. This will allow your municipality to report its entire ARPA as fully obligated when completing the required April 2024 reporting. This action will signal to Treasury that your municipality's money is not available to be returned, should it become an issue.

#2: Spend Quickly – Now, If Possible

VLCT recommends that if your municipality cannot obligate all of its ARPA funds by March 31, 2024 to instead spend them as quickly as possible. This may mean that you transfer your remaining ARPA revenue to your general fund (this fiscal year, if possible) and spend it on municipal staff payroll or other non-contractual expenses. This will free up general fund revenue (e.g. from property taxes) that would have otherwise been used to pay for these expenses, thus creating a fund balance (surplus). As your municipality contemplates how to use this fund balance, it should also consider whether your municipality has adopted financial policies, established practices, etc., to help determine how to proceed.

If the decision is to “park” this fund balance until projects can be identified and developed, then it could be used to create a new reserve fund ([24 V.S.A. § 2804](#)) for a specific purpose. Since this fund balance is comprised of **general fund** dollars, **NOT ARPA** dollars, the reference to “ARPA” should not be included anywhere in your reserve fund name or purpose.

#3: If You Have an Annual Professional Audit, Give Your Auditor a Call

Regardless of any recommendation VLCT provides, your professional auditor is where the rubber meets the road. Your municipality's legislative body should discuss its options. When they come to an agreement on a pathway forward for the municipality's ARPA funds, give your auditor a call to walk them through it before any final action is taken. If your auditor agrees with it, you can move it to an action. If they don't, then they should provide you with specific guidance to ensure that you will have a clean finding.

VLCT's goal is simple: not one penny of Vermont's local ARPA money will be returned to the federal government. If you need help – from a simple question to discussing a more detailed process to follow – don't hesitate to reach out to us. And we encourage you to do so through the [Municipal Access Portal \(MAP\)](#), please!

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