

Coronavirus Local Fiscal Recovery Fund Guidance:

Reduction in Revenue

Budget shortfalls are particularly problematic in the current environment as local governments work to mitigate and contain the COVID-19 pandemic and help citizens weather the economic downturn.

The American Rescue Plan Act (ARPA) will allow recipients facing budget shortfalls to use payments from the Coronavirus State and Local Fiscal Recovery Funds to avoid cuts to government services and, thus local governments to continue to provide valuable services and ensure that fiscal austerity measures do not hamper the broader economic recovery.¹

General Revenue

The Interim Final Rule (IFR) adopts a definition of “general revenue” based largely on the components reported under “General Revenue from Own Sources” in the Census Bureau’s Annual Survey of State and Local Government Finances, and for purposes of this Interim Final Rule, helps to ensure that the components of general revenue would be calculated in a consistent manner.²

The IFR defines the term “general revenue” to include revenues collected by a recipient and generated from its underlying economy and would capture a range of different types of tax revenues, as well as other types of revenue that are available to support government services. In calculating revenue, **recipients should sum across all revenue streams covered as general revenue.**³

Excluded Revenue Sources⁴

The IFR would exclude:

¹ Interim Final Rule: Coronavirus State and Local Fiscal Recovery Funds, U.S. Department of Treasury (hereinafter “Treasury Guidance”), 48.

² *Ibid.*

³ *Ibid.*

⁴ Treasury Guidance 49.



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- refunds and other correcting transactions
- proceeds from issuance of debt or the sale of investments
- agency or private trust transactions
- utilities and insurance trusts

In this way, the definition of general revenue focuses on sources that are generated from economic activity and are available to fund government services, rather than a fund or administrative unit established to account for and control a particular activity.

Calculation of Loss

Recipients will compute the extent of the reduction in revenue by comparing actual revenue to a counterfactual trend representing what could have been expected to occur in the absence of the pandemic.

The counterfactual trend starts with the last full fiscal year prior to the COVID-19 public health emergency and then assumes growth at a constant rate in the subsequent years.⁵

Key Point

For purposes of measuring revenue growth in the counterfactual trend, recipients may use a growth adjustment of either 4.1 percent per year or the recipient's average annual revenue growth over the three full fiscal years prior to the COVID-19 public health emergency, whichever is higher.

Recipients should calculate the extent of the reduction in revenue as of four points in time: December 31, 2020; December 31, 2021; December 31, 2022; and December 31, 2023.⁶

Four Steps for Calculating Lost Revenue

- Step 1: Identify revenues collected in the most recent full fiscal year prior to the public health emergency (i.e., last full fiscal year before January 27, 2020), called the base year revenue.
- Step 2: Estimate counterfactual revenue, which is equal to base year revenue * $[(1 + \text{growth adjustment})^{(n/12)}]$, where n is the number of months elapsed since the end of the base year to the calculation date, and growth adjustment is the greater of 4.1 percent and the recipient's average annual revenue growth in the three full fiscal years prior to the COVID-19 public health emergency.
- Step 3: Identify actual revenue, which equals revenues collected over the past twelve months as of the calculation date

⁵ Treasury Guidance 50.

⁶ Treasury Guidance 52.

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- Step 4: The extent of the reduction in revenue is equal to counterfactual revenue less actual revenue. If actual revenue exceeds counterfactual revenue, the extent of the reduction in revenue is set to zero for that calculation date.⁷

If you have general questions about the Coronavirus State and Local Fiscal Recovery Funds, please email the U.S. Department of Treasury at SLFRP@treasury.gov or call 844-529-9527.

The information contained here is not legal advice. It will be subject to change based on updates from the U.S. Department of the Treasury, and any recipients should confirm applicability to their specific situation.

⁷ Treasury Guidance 52.