

Practice Update

# American Rescue Plan Act of 2021: Funding for State and Local Government

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The American Rescue Plan Act of 2021 (the Rescue Plan) included significant funds for States, local, and tribal governments. These include both direct funding from the U.S. Department of Treasury (Treasury) and program monies that will flow through other federal agencies. The direct funding for States goes through the State Fiscal Recovery Fund. Money for other governments goes through the Coronavirus Local Fiscal Recovery Fund. These funds are guaranteed to go to every local government. The programmatic funds go to States and local entities that meet certain eligibility requirements. Thus, for these funds, there is no guaranteed level of funding for every local government.

Briefly, States, including the District of Columbia, will receive a total of \$219.8 billion. Cities and counties will receive a total of \$130.2 billion. Out of that total, \$65.1 billion will go to counties. The funds will be distributed directly from the Treasury. Another \$45.57 billion will go to cities over 50,000 in population. Cities of this size currently receive an annual distribution of funds through the Community Development Block Grant (CDBG). The funds will be distributed directly by the Treasury within 60 days. For cities under 50,000 funds will be allocated according to population. Given the complexity of the process, the Treasury will

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distribute these funds to the States within 60 days. The States then have 30 additional days to distribute the funds to the smaller cities. The States can request an extension in rare circumstances. Counties and cities have until December 31, 2024 to spend the money. Finally, \$20 billion is for U.S. territories and tribal governments.

Half the funds for counties and all cities will be distributed initially. The remaining half will be distributed a year after the first distribution.

For smaller cities, the payments cannot exceed 75 percent of a city's annual budget as of January 27, 2020.

The funds can be used for the following purposes:

1. To respond to the coronavirus health impacts or economic impacts including assistance to households, small businesses, nonprofits, and impacted industries including hospitality, travel, and tourism.
2. By providing premium pay for essential workers up to \$13 an hour with an annual cap of \$25,000.
3. To cover for lost revenue in providing services.
4. To make investments in water, sewer or broadband infrastructure.

Funds cannot be used to cover lost revenues if the losses were due to a tax cut. Funds cannot be used to cover pension shortfalls.

The direct funding also includes \$10 billion for Coronavirus Capital Projects Fund. This money will go out to States and local governments based on a complicated formula. While the project eligibility is worded broadly in the law, the accompanying reports indicate the funds should be used for rural broadband infrastructure. Finally, the bill establishes a \$2 billion fund to cover shortfalls for governments that revenue share with the federal government. An

example of that is the Payment In Lieu of Taxes (PILT).

Regarding programmatic funding the largest item in the bill is \$50 billion for the Federal Emergency Management Agency (FEMA). FEMA's funds go to local governments after natural disasters, like floods, earthquakes, fires, and hurricanes. The monies are used to cover both relief and rebuilding efforts. By adding the money and defining the coronavirus as eligible for disaster funding, local governments can be reimbursed for COVID related expenses such as purchasing protective equipment, covering the costs of vaccine distribution and sanitizing schools, municipal offices, transit properties, and courthouses.

The Rescue Plan also allocates \$25 billion for rental and utility assistance, \$10 billion for mortgage assistance, and \$4.75 billion for homeless assistance.

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