

Memorandum

To: File

From: Josh Fernandez, Budget and Management Analyst

Date: Monday September 18, 2023

Re: Use of American Rescue Plan Funds for Water and Sewer Fund Personnel Reimbursement

Background

The American Rescue Plan Act of 2021 Coronavirus State and Local Fiscal Recover Fund (ARPA/CSLFRF) provides direct federal funding to North Carolina counties and municipalities. The Town of Hillsborough's allocation is **\$2,282,192.40**. Because the town's allocation is below \$10 million, the entirety of funds may be expended in *Expenditure Category 6.1: Revenue Replacement — Provision of Government Services* as defined by the United States Treasury's final ruling on the allowable uses of these funds. This particular expenditure category creates the most flexible and least demanding administrative procedures for compliance. Under this category, local units may expend CSLRF funds on any project or activity that they are legally authorized to undertake. Under the Town of Hillsborough's current plan and existing ARPA project ordinances, these funds are allocated towards a list of capital projects related to the water and sewer utility system. To date, just \$308,278 has been spent of the total allocation:

Table 1: Funds Available for Transfer to Fund 30 to Reimburse Operating Salaries in FY23

	Encumbered/Expended	Budget	Remaining
Project Allocations	\$308,278.00	\$2,158,460.00	\$1,850,182.00
Unallocated		\$123,732.40	\$123,732.40
Total ARPA Allocation		\$2,282,192.40	\$1,973,914.40
Interest Earned			\$48,733.00
Total Remaining			\$2,022,647.40

The United States Treasury requires that all CSLFRF funds be obligated by December 31, 2024 and expended by December 31, 2026. This timing requirement has presented challenges to the current plan for the use of funds due to utilities staff capacity constraints, bidding and quote delays, and supply chain issues. In addition, using CSLFRF funds directly for capital projects involves lengthy administrative reviews and compliance assurances, including but not limited to: conflict of interest review, federal award suspension and debarment review, allowable cost element reviews, and other cumbersome paperwork/filing requirements for *each* individual project.

To address both issues, the town may utilize the funds differently while still accomplishing the capital projects enabled by the funds. The United States Treasury allows local units to reimburse themselves for previous expenditures dating back to March 3, 2021. Because Expenditure Category 6.1 also allows local units to spend the funds on any activity in which the local government is authorized to undertake, the town can use the funds to reimburse itself for previous salary and benefit costs. By reimbursing these costs, the town would free up unrestricted fund balance cash that could then be allocated to the capital projects previously planned for direct CSLFRF funding. This strategy has been pursued by many North Carolina jurisdictions and is encouraged by the UNC School of Government Faculty and the Central Pines Regional Council due to the administrative ease of the process. For example, by moving the balance of the CSLFRF award to the Water and Sewer Fund for reimbursement, compliance steps must only be repeated once rather than for each individual project. In addition, the investigation of conflicts of interest and suspension and debarment are mitigated, because the reimbursed activity is internal to the government unit without the involvement of contractors or vendors. Finally, only one set of documentation will need to be preserved and retained through December 31, 2031 to capture the singular transaction.

Recommendation

Reimbursement of local government activity is outlined below:

Step 1: At a Board of Commissioners' Meeting, adopt or amend grant ordinance to establish the allocation *from* Fund 77 to Fund 30 in the amount of \$2,022,647.40 representing the balance of unspent ARPA funds, and accumulated interest, to reimburse the operating fund (Fund 30) for personnel costs in Fiscal Year 2023.

Step 2: At the same meeting, amend Fund 30 budget to increase the budget allocation for transfer to Fund 69, balanced by an appropriation of fund balance on the revenue side. Also, adopt or amend capital project ordinances within Fund 69 to recognize a transfer in from Fund 30 and allocate to previously determined ARPA projects in the amounts listed below:

Table 2: Funds to Transfer from Fund 30 to Fund 69 for Capital Projects

Project	Fund 69 Grant Ordinance Allocation
Water Treatment Plant Paving and Curbing	\$90,000.00
Hydrant and Valve Project	\$487,647.40
McAdams Road Water Main	\$350,000.00
Lawndale Basin Rehabilitation	\$935,000.00
Galvanized Water Main	\$160,000.00
Grand Total: "ARPA Enabled Projects"	\$2,022,647.40

Step 3: Execute transfer of cash from Fund 77 to Fund 30. This transfer will result in a corresponding increase in the existing unrestricted fund balance in Fund 30. Once

complete, these funds are no longer considered ARPA funds and are not subject to the associated compliance requirements because they are a reimbursement. Then, execute a cash transfer from Fund 30 to Fund 69 authorized by the previous amendment to Fund 30 for a transfer out to Fund 69.

Step 4: Retain all documentation until December 31, 2031 and complete required annual Project and Expenditure Report to United States Treasury due by April 30.

Conclusion

By reimbursing the Water and Sewer Fund for personnel expenses from CSLFRF funds, the Town of Hillsborough may expend the balance of its award well before the 2024 obligation deadline and 2026 expenditure deadline. This will counter the challenges of time constraints on getting all projects quoted, bid, qualified, etc. In addition, the town will avoid repetitive compliance procedures and the need to steward multiple project files and documents.

Resources

<https://canons.sog.unc.edu/2022/05/budgeting-for-american-rescue-plan-act-coronavirus-state-and-local-fiscal-recovery-fund-expenditures/>

<https://canons.sog.unc.edu/2023/06/american-rescue-plan-act-coronavirus-state-and-local-fiscal-recovery-funds-reimbursements/>

<https://canons.sog.unc.edu/2022/09/american-rescue-plan-act-of-2021-new-fewer-compliance-requirements-for-revenue-replacement-expenditures/>

<https://canons.sog.unc.edu/2022/06/supplanting-salaries-and-benefits-with-american-rescue-plan-act-coronavirus-state-and-local-fiscal-recovery-funds/>