



**COUNTERFACTUAL:**

IS THAT THE NAME OF A  
MOVIE, TV SHOW, OR  
BOOK?

LEARNING THE USES OF ARPA FUNDS

Although **Counterfactual** would make a great movie, tv show, or book title,  
it was **counterfactual revenue** that had to be calculated for the August 31 ARPA interim report.

Generally meaning different than actual, I do not recall ever using this word before.

# American Rescue Plan Act (ARPA)



## Coronavirus State and Local Fiscal Recovery Funds

---

The American Rescue Plan will deliver \$350 billion for eligible state, local, territorial, and Tribal governments to respond to the COVID-19 emergency and bring back jobs.

Became law on March 11, 2021

What was  
happening  
during this time?

**BUDGET  
PREPARATION FOR  
FISCAL YEAR 2022  
WAS UNDERWAY.**

We knew the law provided the following uses of funds:

1. Respond to public health emergency
2. Provide premium pay to eligible workers
3. Government services due to reduction of revenue
4. Water, sewer, or broadband infrastructure

# Internal Discussions Before the Interim Final Rule on May 11, 2021

## Premium Pay Recommended

Different premium pay amounts were considered. A net pay of \$1,000 was recommended. (Only a portion of workers were paid with ARPA funds.)

## Calculated a pre-guidance revenue loss

On a line-by-line basis, we

1. Had less local sales tax
2. Had less state shared sales tax
3. Had less state shared fuel taxes
4. Had less hotel/motel tax

Determined an amount for water & sewer projects

\$1,000,000

**U.S. Treasury  
issued interim final  
rule on  
May 11, 2021**

**The City had developed  
its proposed budget on  
May 10, 2021, for  
presentation at the May  
13 at the Budget and  
Finance Committee**



*City of Franklin, Tennessee*  
**FY 2022 Operating Budget**

## FY 2022 Proposed Budget Presentation

May 13, 2021  
Budget and Finance Committee



# Budget and Finance Committee

- ▶ 2022 Proposed Budget included:
  - ▶ 1. The \$1,000 net premium pay funded in part by ARPA.
  - ▶ 2. Revenue replacement in the Street Aid Fund.
  - ▶ 3. Revenue replacement in the Hotel/Motel Tax Fund.
  - ▶ 4. \$1,000,000 for W&S projects.
- ▶ Developed from best information prior to the Interim Final Rule.
- ▶ The Interim Final Rule provided that revenue loss had to be on an entity-wide basis in lieu of individual revenue.
- ▶ On an entity-wide basis, we began to believe we did not have revenue loss as development fees continued to come in during the pandemic.
- ▶ We let our Finance committee know we were reviewing the guidance. If these items were not revenue loss, we were looking if they fit within other eligible uses.

# What else did we learn in May 2021

## ▶ **How to apply for the 1<sup>st</sup> tranche of funds.**

- ▶ We are 1 of 18 Tennessee cities receiving funds directly from the U.S. Treasury. (Most cities go through the State.)
- ▶ Setting up the user ID in ID.me to request the funds was an interesting experience. Had to provide a selfie, a photo I.D., and social security number.
- ▶ We applied on the 1<sup>st</sup> day the portal was open on May 10, 2021. We received the funds on May 19.

## ▶ **Learned what the funds could not be used for:**

- ▶ Cannot reimburse expenses (for public health emergency or negative economic impacts) prior to March 3, 2021.
- ▶ Cannot make contributions to rainy day funds or other reserve funds. (Has to be spent.)
- ▶ Cannot pay debt.
- ▶ Cannot be deposited into a pension fund.
- ▶ Cannot be used to offset reduction in net tax revenue.
- ▶ Cannot be non-Federal match for federal programs.



# What did we learn in June 2021

- ▶ **We received an email from GFOA on June 10, 2021, they had made available for download their Revenue Replacement Calculator in Excel.**
- ▶ Had to log in to my membership account to access.
- ▶ We had a preliminary meeting with our auditors to let them know we did not believe we had revenue loss because of the entity-wide calculation and that we would record the funds we received as unearned revenue in 2021 to be used beginning in 2022.

# What did we learn in July 2021

- ▶ We paid the \$1,000 net premium pay on July 23, 2021.
- ▶ We saw the Comptroller's memo emphasizing ARPA funds are to be used for non-recurring expenses.

# What did we learn in August 2021

- ▶ This is the month we truly learned whether we had revenue loss, driven by the need to have our interim report filed by August 31.

**Note: With a population less than 250,000, the City did not have an annual recovery plan performance report on August 31. (ARPA reporting requirements differ based on amounts and population.)**

- ▶ **For the interim report, we went back to the GFOA Revenue Calculator.**
- ▶ **Did we really not have revenue loss?**

# Counterfactual Revenue Calculation (to be calculated 4 times)

## 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**.

**Fiscal Year 2019**

## 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.

**4.1% default**

## Step 3

Identify **actual revenue**, which equals revenues collected over the past twelve months as of the calculation date.

**1<sup>st</sup> time, Jan-Dec 2020**

## 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.

# GFOA Revenue Replacement Calculator

- ▶ The calculator had 4 tabs:
  - ▶ Summary
  - ▶ Base Year Revenue
  - ▶ Growth Rate
  - ▶ Actual Revenue

- ▶ We started with the Base Year Revenue


We started by entering our entity-wide revenue total from fiscal year 2019 of **\$153,696,977**.

**We classified the revenue as we do for the Census Bureau's Annual Survey of State and Local Government Finances.**

The calculator returned Base Revenue of \$136,913,918.

**Excluded was:**

1. Federal revenue from transportation grants and recovery bond subsidies,
2. Water revenue (but not sewer revenue), and
3. Transit revenue

| Base Year Revenue Worksheet  |                    | Fiscal Year Ended | 6/30/2019          |  |
|--|--------------------|-------------------|--------------------|--|
| Revenue Source   | Base Revenue (Y/N) |                   | Amount             |  |
| <b>Taxes</b> Amount of tax collections for all taxes imposed by the government.                                    |                    |                   |                    |  |
| <b>Property Tax</b>  |                    |                   |                    |  |
| Property Tax   | Y                  | \$                | 19,032,275         |  |
| <b>Sales and Gross Receipts Tax</b>  |                    |                   |                    |  |
| General Sales and Use Tax  | Y                  | \$                | 36,168,179         |  |
| Selective Sales Tax  |                    |                   |                    |  |
| Alcoholic Beverage   | Y                  | \$                | 4,390,579          |  |
| <b>Licensing and Permit Taxes</b>  |                    |                   |                    |  |
| Alcoholic Beverage Licensing and Permits   | Y                  | \$                | 14,750             |  |
| Building/Construction Permits  | Y                  | \$                | 14,901,334         |  |
| Occupation and Business Licensing and Permits  | Y                  | \$                | 6,744,859          |  |
| <b>Intergovernmental Revenue</b> Amount of revenue in form of grants, share of taxes imposed by others, PILOTs, or |                    |                   |                    |  |
| <b>Intergovernmental Revenue</b>   |                    |                   |                    |  |
| From the State   | Y                  | \$                | 17,895,699         |  |
| From the Federal Government  | N                  | \$                | 3,950,843          |  |
| <b>Other Revenue</b> Amount of other revenue excluding any refunds or transfers between funds                      |                    |                   |                    |  |
| <b>Utility Sales Revenue</b>   |                    |                   |                    |  |
| Water Supply System  | N                  | \$                | 12,747,273         |  |
| Transit or Bus System  | N                  | \$                | 84,943             |  |
| <b>User Charges and Fees</b>   |                    |                   |                    |  |
| Sewerage Charges   | Y                  | \$                | 20,340,913         |  |
| Refuse Collection, Disposal, and Recycling Charges   | Y                  | \$                | 9,166,363          |  |
| Other  | Y                  | \$                | 2,848,541          |  |
| <b>Other Revenue</b>   |                    |                   |                    |  |
| Receipts from Sale of Property and Other Capital Assets  | Y                  | \$                | 295,936            |  |
| Interest Earnings  | Y                  | \$                | 3,148,185          |  |
| Fines and Forfeitures  | Y                  | \$                | 511,864            |  |
| Rents  | Y                  | \$                | 224,113            |  |
| Miscellaneous Other Revenue  | Y                  | \$                | 1,230,328          |  |
| <b>Total</b>   |                    | \$                | <b>153,696,977</b> |  |
| <b>Total Included in Base Revenue</b>  |                    | \$                | <b>136,913,918</b> |  |

For **actual revenue**, we wish the guidance would have permitted governments to compare fiscal year to fiscal year. However, the comparison year to FY 2019 was calendar year 2020.

We combined:

1. 1. Last 6 months of audited fiscal year 2020. (Jan-Jun 2020)
2. 2. First 6 months of unaudited fiscal year 2021. (Jul-Dec 2020)

**Actual revenue was \$157,658,500. The calculation returned \$139,381,424 with the excluded revenues.**

| Actual Revenue Worksheet  |                           |                |
|---|---------------------------|----------------|
|   | 12 Months Period Prior to | 12/31/2020     |
| Revenue Source  | Base Revenue (Y/N)        |                |
| <b>Taxes</b>  |                           |                |
| Amount of tax collections for all by the government.                              |                           |                |
| <b>Property Tax</b>   |                           |                |
| Property Tax  | Y                         | \$ 20,737,906  |
| <b>Sales and Gross Receipts Tax</b>   |                           |                |
| General Sales and Use Tax   | Y                         | \$ 35,911,224  |
| Selective Sales Tax   |                           |                |
| Alcoholic Beverage  | Y                         | \$ 4,676,213   |
| <b>Licensing and Permit Taxes</b>   |                           |                |
| Alcoholic Beverage Licensing and Permits  | Y                         | \$ 9,750       |
| Building/Construction Permits   | Y                         | \$ 15,750,801  |
| Occupation and Business Licensing and Permits                                     | Y                         | \$ 4,566,197   |
| <b>Intergovernmental Revenue</b>  |                           |                |
| Amount of revenue in form of grants, share of taxes imposed by others, PILOTs, or |                           |                |
| <b>Intergovernmental Revenue</b>  |                           |                |
| From the State  | Y                         | \$ 18,541,186  |
| From the Federal Government   | N                         | \$ 4,963,488   |
| <b>Other Revenue</b>  |                           |                |
| Amount of other revenue excluding any refunds or transfers between funds          |                           |                |
| <b>Utility Sales Revenue</b>  |                           |                |
| Water Supply System   | N                         | \$ 13,276,505  |
| Transit or Bus System   | N                         | \$ 37,083      |
| <b>User Charges and Fees</b>  |                           |                |
| Sewerage Charges  | Y                         | \$ 21,343,458  |
| Other   | Y                         | \$ 2,733,807   |
| <b>Other Revenue</b>  |                           |                |
| Receipts from Sale of Property and Other Capital Assets                           | Y                         | \$ 79,535      |
| Interest Earnings   | Y                         | \$ 2,228,493   |
| Fines and Forfeitures   | Y                         | \$ 528,088     |
| Rents   | Y                         | \$ 76,623      |
| Miscellaneous Other Revenue   | Y                         | \$ 2,123,930   |
| <b>Total</b>  |                           | \$ 157,658,500 |
| <b>Total Actual Base Revenue</b>  |                           | \$ 139,381,424 |



# Exclusion of Federal Revenue

We are not aware of an accounting reason why the guidance excludes actual federal revenue but includes state revenue. However, it is consistent with the interim final rule stating “...the importance of State transfers for local government revenue.”

Other exclusions in the guidance:

Revenues from utilities (water supply, electric power, gas supply, and public mass transit systems); Refunds or correcting transitions; Proceeds from issuance of debt; and Liquor store revenue.



**We had revenue loss after all (based on a counterfactual revenue of \$145,419,850).**

**The calculator returned revenue loss of \$6,038,426, or 4.2%.**



## ARPA Revenue Replacement Calculator

### Background Information

|    |                          | Notes:     |   |
|----|--------------------------|------------|---|
| 1) | Fiscal Year End          | June       |   |
|    | Base Year Revenue Period | 6/30/2019  | FY used for base year calculation             |
| 2) | Calculation Date         | 12/31/2020 |   |
|    | Number of Months         | 18         | Months between Base Year and Calculation Date |

### Estimate Revenue

|    |                        |                |  |
|----|------------------------|----------------|--|
| 3) | Base Year Revenue      | \$ 136,913,918 | <a href="#">Use Worksheet to Calculate</a> |
| 4) | Growth Rate            | 4.1%           | <a href="#">Use Worksheet to Calculate</a> |
|    | Counterfactual Revenue | \$ 145,419,850 | Estimated Revenue Without Pandemic         |
| 5) | Actual Revenue         | \$ 139,381,424 | <a href="#">Use Worksheet to Calculate</a> |

### Reduction in Revenue

|  |                     | Fiscal Year Ended 12/31/2020 |  |
|--|---------------------|------------------------------|--|
|  | Revenue Reduction   | \$ 6,038,426                 |  |
|  | Revenue Reduction % | -4.2%                        |  |

# Outcome of the Calculation

- ▶ The exclusion of federal revenue was the primary driver of the calculated revenue loss.
- ▶ We used the 4.1% growth rate for calculating the counterfactual revenue, the projected revenue we would have had if there had not been a pandemic.
- ▶ We contacted our auditors to make sure having a calculated revenue loss did not change our unearned revenue entry in 2021 before we closed our books on August 31. (Not being revenue at this point made sense as it was not spent.)

# Using the calculation in our August 31 Interim Report

Under the Expenditure Summary section (Step 2),  
we entered the **\$661,048** spent on the premium pay.

Under Revenue Replacement, the report asked for:

Base Year Revenue of **\$136,913,918**

Fiscal Year End Date of **6/30/2019**

Growth Adjustment Used **4.1%**

Actual General Revenue of **\$139,381,424**

Estimated Revenue Loss **\$6,038,426**

**No** (funds were not used to make a deposit into a  
pension fund)

**Did not ask to enter the calculated counterfactual revenue amount of  
\$145,419,850.**

# What did the calculation tell us?

- ▶ We saw the report needed an explanation of how revenue replacement funds were allocated to government services.
- ▶ As of August 31, our planned uses were the allocations in the 2022 Budget.
- ▶ This was our answer for the report:
  - ▶ At the time of this report, the funds are allocated for general services impacted by lower sales tax collections, street maintenance services impacted by lower fuel taxes, and tourism services impacted by lower hotel/motel tax collections and less revenue by the conference center, that is jointly owned with Williamson County.

# What we know now

1. The GFOA Revenue Loss Calculator was key to knowing we as a city had revenue loss.
2. We are not sure yet how much of the calculated revenue loss will be used. We used some of the funds for premium pay and have the amount allocated to Water & Sewer projects.
3. The **American Rescue Plan Act Guidance for Local Government** on the Comptroller's Office website has been our primary reference for ARPA information.
4. We know the next report we have due is the quarterly Project and Expenditure Report by October 31 (for projects and expenditures, status, subawards, and program data).