

BURR  FORMAN LLP



Can my ARPA Funds be used to pay debt service?

Debt service on outstanding obligations?

No. Expressly precluded by Final Interim Rule and Treasury FAQ.

Costs of issuance and fees of newly issued obligations?

No. Expressly precluded by Final Interim Rule and Treasury FAQ.

Debt service on newly issued obligations the proceeds of which pay for otherwise eligible projects?

The answer here is slightly less clear but conservatively a “no,” and should be avoided without clarification from Treasury.

Can my ARPA Funds be used to pay debt service?

Think this doesn't make sense? You are not alone.



THE BOND BUYER



Chicago and Illinois to push back on Treasury's aid guidance

By Yvette Shields May 12, 2021, 3:28 p.m. EDT 8 Min Read

Changes to Hawaii's budget heed Treasury guidance on relief funds

By Keeley Webster July 09, 2021, 2:29 p.m. EDT 3 Min Read

Can I use my ARPA Funds on a bond financed project?

Yes, ARPA funds can be used to pay cash for eligible projects or portions of projects which are also funded in part from proceeds of taxable or tax exempt obligations.

- Project must be eligible infrastructure (water, sewer, broadband) or infrastructure being funded with ARPA funds allocable to reduced revenue.
- Can split out eligible portions of a project and allocate expenditure of ARPA funds.
- Can allocate funds to special purpose districts to be used on eligible projects on a pay-go basis alone or in conjunction with bond financing.
 - Final Interim Rule restrictions still apply.
 - County still responsible for tracking use of funds and reporting to Treasury.

Can I use my ARPA Funds to increase fund balance?

Generally, no...but money is fungible.

- Funds allocated to recovery of reduced general revenue may be used for any provision of government services, including (but not limited to) maintenance or construction of new infrastructure and the provision of public safety, health, police or fire services.
- Interim Final Rule does not preclude a local government from increasing fund balance using non-ARPA moneys.
- Must be able to clearly show application of ARPA funds to eligible uses.
- Discuss with finance personnel, financial advisors and county attorney/bond counsel.

Bonus – Can I use ARPA Money to replace Road Fees?

Burns v. Greenville County Council, Op. No. 28041 (S.C. Sup. Ct. filed June 30, 2021)

- Can a county replace road maintenance fee revenue with ARPA funds?
- Under the lost revenue approach, YES, construction and maintenance of roads is eligible.
- States cannot use ARPA funds to replace tax revenue reductions resulting from “covered changes” in law or interpretation...
- BUT this does not apply to counties or other political subdivisions of states.

Are the rating agencies considering use of ARPA funds?

YES!



THE BOND BUYER



Illinois outlook moved to positive by Fitch

By Yvette Shields June 23, 2021, 7:10 p.m. EDT 5 Min Read

Moody's Investors Service and S&P Global Ratings in the spring of 2020 held their ratings at Baa3 and BBB-minus, respectively, but moved the outlook to negative.

Both [restored stable outlooks in March](#) as revenue dramatically improved and the federal government enacted the American Rescue Plan which provides \$8.1 billion for Illinois. Fitch's lead Illinois analyst Eric Kim signaled then that the agency was likely to wait to see how the fiscal 2022 budget panned out and how the state would the new federal relief so as not to add to structural strains.

ARPA Impact on Bond Markets

Given the amount of money pushed down to state and local government, has there been a noticeable impact on bond markets?

- ARPA will deliver a total of \$350 Billion to states, territories and local governments, \$65 Billion to counties.
- For perspective, 2020 total issuance of long-term obligations was \$485 Billion, and county issuance was \$29 Billion.*
- Could this forecast a reduction of new money issuance?

ARPA Impact on Bond Markets

It is early, but so far the bond market seems nonplussed.

January - June of 2021:

- Total issuance up by nearly \$10 Billion (approximate increase of 6%) over January – June 2020.*
- Total new money issuance is up more than \$35 Billion (approximate increase of 31%) over January – June 2020.*
- Total county issuance is up by \$1.3 Billion (approximate increase of 11.5%) over January – June 2020.*

*Statistics are taken from Bond Buyer Market Data online and include public markets transactions and those private placement transactions for which information was available.

ARPA Impact on Bond Markets

ARPA has already impacted other sectors of the financial system through increased liquidity.

- In late May after first round of ARPA funding, the Fed's Reverse Repo Program usage jumped to \$450 Billion, the RRP's highest level since 12/30/2016.
- Spikes in RRP demand indicate excess market liquidity since RRP pays 0%.

MarketWatch

Why demand for Fed's reverse repo facility is surging again

Joy Wiltermuth 5/26/2021



ARPA Impact on Bond Markets

ARPA is just one of a multitude of factors potentially affecting the market.



Inflation

Fed Policy

- **Quantitative Easing**
- **Fed Funds Rate**

Federal Infrastructure Spending

Continued Excess Liquidity

Treasury Yields

Demand – “We want bonds.”

GDP Anticipated to Slow



350 Attorneys.

19 Offices.

1 Firm.

Results Matter.

Bio Slide



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Brandon works in the firm's public finance practice group and has a practice that is made up of a variety of transactions primarily serving local government and nonprofit clients, including issuance of municipal bonds, tax credit advantaged financings and property tax economic incentive transactions. This variety of experience enables Brandon to guide his clients through many of the complex decisions they face, and to help them leverage the tools available to them to continually grow and evolve.