



You Received ARPA Funds: Now What?

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On May 10, the Treasury Department released [preliminary guidance](#) regarding the distribution and use of the Coronavirus State and Local Fiscal Recovery Funds (the “State and Local ARPA Funds”) created under H.R. 1319 – 117th Congress (2021–2022) – The American Rescue Plan Act of 2021 (ARPA). The State and Local ARPA Funds allocated \$350 Billion to states, territories, tribal governments, Washington D.C., and various metropolitan cities and counties to be used to respond to the COVID-19 public health emergency and its negative economic impacts.

The rules for the State and Local ARPA Funds vary in several ways from those that applied to the March 2020 CARES Act Coronavirus Relief Fund (the “Coronavirus Relief Fund”), the use of which has been extended until December 31, 2021. The Coronavirus Relief Fund prohibited states and local governments from using funds to recover lost revenue due to the pandemic. In contrast, ARPA and the Treasury Department guidance make clear that State and Local ARPA Funds can be used to offset lost revenue. See our guidance regarding use of Coronavirus Relief Fund moneys for economic development purposes [here](#). In addition, the State and Local ARPA Funds create new opportunities to help rehabilitate low-income and minority communities, as well as in parts of the country that are “Qualified Census Tracts” as defined by the Census Bureau.

Funding

Funding from the State and Local ARPA Funds will largely be split into two tranches, with half of the funds received in May of 2021, and the other half to be received 12 months later. However, states where the unemployment rate is 2% or more above their pre-pandemic levels will receive a single lump-sum payment. State and Local ARPA Funds must be obligated by December 31, 2024, with all projects completed by December 31, 2026. This is a major change from the Coronavirus Relief Fund money, which had an earlier and more restrictive deadline. Estimated allocation amounts can be

found on the Treasury Department's website [here](#).

Eligible Uses

Under ARPA, State and Local ARPA Funds must be used to:

- respond to or mitigate COVID-19 or its negative economic impacts;
- cover costs incurred as a result of the emergency; or
- replace revenue that was lost, delayed, or decreased as a result of the emergency.

Additionally, State and Local ARPA Funds may be used to respond to the disproportionate impact among low-income and minority communities. The Treasury Department's guidance expands on these definitions, as well as the ineligible uses specifically listed in ARPA.

Responding to the Public Health Emergency

Uses falling under this category must be in response to the disease itself. A non-exclusive list of possible uses is as follows:

- COVID-19 mitigation and prevention
- Medical expenses
- Behavioral health care
- Public health and safety staff
- Expenses to improve the design of health and public health programs
- Addressing disparities in public health outcomes

Responding to the Negative Economic Impacts of COVID-19

Uses falling under this category must be designed to address economic harm resulting from or exacerbated by the public health emergency. Recipient jurisdictions will be required to publicly report private-sector assistance, including how COVID-19 impacted the businesses. A non-exclusive list of possible uses is as follows:

- Assistance to unemployed workers
- State unemployment insurance trust funds
- Assistance to households
- Expenses to improve the efficacy of economic relief programs
- Small business and non-profit assistance
- Loans or grants to implement COVID-19 prevention and mitigation
- Rehiring government staff
- Aid to impacted industries

Responding to Disproportionate Impact Among Low-Income and Minority Communities

ARPA allows for expanded use of State and Local ARPA Funds for purposes that fall under this category. The Treasury Department will presume that certain types of services are eligible uses when the use is applied in a Qualified Census Tract. A non-exclusive list of possible uses is as follows:

- Services to address homelessness
- Affordable housing development to increase the supply of affordable and high-quality living units
- Housing vouchers, counseling, or housing assistance
- Addressing educational disparities
- New or high-quality childcare
- Home visiting programs
- Enhanced services for child welfare-involved families and foster youth

Other Uses

Under ARPA, funding may be used to provide for broadband, sewer, and water infrastructure improvements and may also be used by states and local units of government to recover revenue losses due to the COVID-19 pandemic. Note, however, the funds may not be used to offset a reduction in tax revenue resulting from a change in

law or regulations. In other words, funding may not be used to cover tax breaks initiated during the pandemic.

Ineligible Uses

Treasury Department guidance also outlines prohibited uses for State and Local ARPA Funds. The following are specifically ineligible uses of ARPA funds:

- General infrastructure projects (unless they are water, sewer, or broadband improvements)
- Rainy day funds or financial reserves
- Offsetting a reduction in tax revenue resulting from a change of law or regulations or delays of tax imposition or increase
- Deposits into pension funds

Transfer

ARPA authorized recipients of State and Local ARPA Funds to transfer funding to private non-profits, public benefit corporations, and special-purpose units of government that perform specific functions of the community (such as fire, water, or sewer districts). The Treasury Department guidance treats this list as non-exclusive and lists private entities, school districts, and constituent cities and towns as potential subrecipients. Subrecipients are required to comply with the same requirements as initial recipients of State and Local ARPA Funds. Recipients are responsible for monitoring their subrecipients.

Frost Brown Todd's Public Finance industry team has experience helping clients navigate state and federal coronavirus relief programs. We can help identify potential uses for State and Local ARPA Funds or assist in evaluating specific plans or proposals for you or your clients.

For more information, please contact [Carrie Cecil](#), [Michael Elliott](#), [Laura Theilmann](#), [Denise Barkdull](#), or any attorney with Frost Brown Todd's [Public Finance](#) industry team.

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