



# FINANCIAL STIMULUS ACCOUNTABILITY GROUP

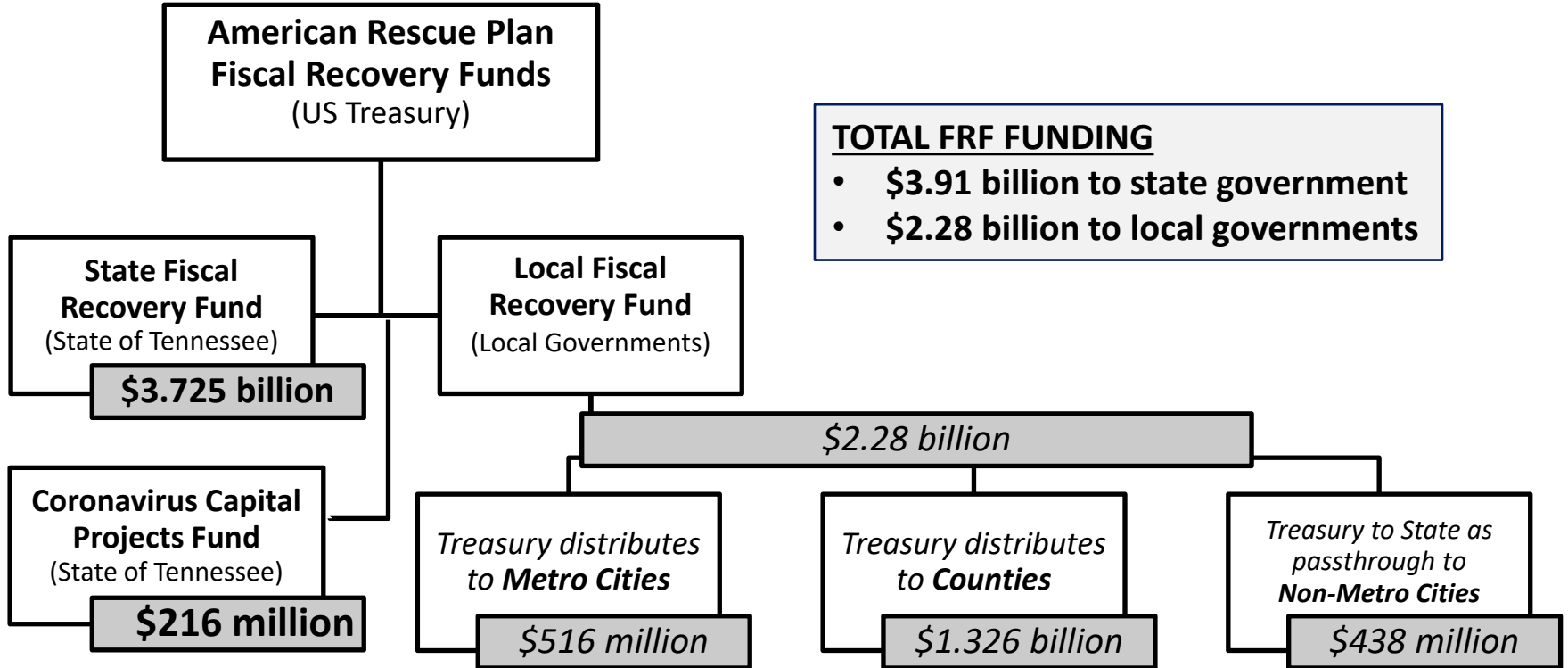
Meeting - August 4<sup>th</sup>, 2021

# Agenda

- Background on ARP Fiscal Recovery Fund and Treasury Requirements
- Plan for Allocation of Funds; Developing the “Tennessee Resiliency Plan”
- Recommendations for Infrastructure Investments
  - Water and Wastewater (Sewer)
  - Broadband Infrastructure and Adoption
- Local Government Technical Support
- Planning and Next Steps for Public Health and Economic Relief

# American Rescue Plan

## State and Local Coronavirus Fiscal Recovery Fund (“FRF”)



# ARP Fiscal Recovery Funds - Background

- 2021 payment from Treasury State Fiscal Recovery Fund will be \$1.862 billion (one half of \$3.725 billion). Remainder will be paid in 2022. (Local entities similarly are paid funds in two installments.)
- Funds must be **obligated** or returned by Dec. 31, 2024. Recipients will have until through December 31, 2026 to complete spending of funds on obligated projects.
- Overall, guidance for the State and Local Fiscal Recovery Fund (FRF) is more prescriptive than the CRF, limiting uses and requiring a higher threshold of explanation to the US Treasury.
- **New eligible uses** include investments in physical infrastructure, **but only if** they are certain sewer, water, and broadband investments.

## **Recommended 2021 Priorities for State of Tennessee FRF are:**

- Evidence-based and high-ROI investments in sewer, water and broadband infrastructure;
- Support for public health to improve health outcomes;
- Provide economic relief to affected entities and industries;
- Effectively supporting local government compliance and risk mitigation.

# State Plan and Treasury Reporting

- Enhanced reporting required by Treasury (more prescriptive than CRF)
- Treasury requires states submit an annual “Recovery Plan Performance Report” prior to making expenditures.
- We will deliver this report in the form of a “**Tennessee Resiliency Plan,**” to reflect Tennessee’s progress to date and the priority FSAG has placed on long-term, high ROI investments.
- This plan will serve as the record of FSAG planning activities and will summarize the:
  - FSAG priorities and steps taken to implement those priorities.
  - Planned expenditures from the FRF by category and subcategory.
  - The evidence basis and outcome or performance metrics for those planned expenditures.

# Tennessee Resiliency Plan

The Tennessee Resiliency Plan allocating all FRF funds will be developed with FSAG and published in September.

The plan will be organized around the following categories:

- 1. Public Serving Infrastructure**
- 2. Local Government Technical Support**
- 3. Improvements to State Healthcare Assets**  
(or other eligible capital asset improvements)
- 4. Public health initiatives and services**
- 5. Economic relief to individuals, families, non-profits, businesses and affected industries**

# Tennessee's Resiliency Plan – Next Steps

## State Planning Actions

- We are prepared to move forward with Infrastructure components of the plan.
- We will convene the FSAG for a series of meetings in September to review other proposals for public health and economic relief. Agencies will be available to present program details and answer questions.

## Local Planning Actions

- We are prepared to partner with local governments to support local planning and shared infrastructure spending priorities.
- Funds will be drawn down and distributed for small cities (<50,000) once the "Interim Final Rule" becomes a Final Rule (expected September). All other local governments have access to Treasury portal currently.

# Tennessee Resiliency Plan – August Recommendation

Category	Amount Recommended	Overall Percentage
Beginning Balance	\$3,725,832,113	-
<b>1A. Infrastructure - Sewer and Water</b>	<b>\$1,350,000,000</b>	<b>36.24%</b>
<b>1B. Infrastructure – Broadband</b>	<b>\$500,000,000</b>	<b>13.4%</b>
<hr/>		
<i>2. Local Govt Technical Support</i>	<i>\$1,875,832,113 (Costs to be confirmed and allocated in September)</i>	<i>51.36%</i>
<i>3. Eligible Health Capital Projects</i>		
<i>4. Public Health</i>		
<i>5. Economic Relief</i>		



# Recommended Infrastructure Spending

- Limited infrastructure is the only clear and explicit use established in ARP statute.
- Under statute and interim rule, eligible infrastructure projects includes only to sewer, water and broadband infrastructure. Narrowed to certain criteria established by Treasury.

Infrastructure goals:

1. Support Tennessean access to clean water and efficient sewer systems;
2. Promote broadband expansion and adoption in underserved areas;
3. Promote economic recovery;
4. Support local investments in areas of high need.

# Infrastructure Investment Plan

## **Sewer and Water Maintenance and Improvement:** \$1.350 billion

- Year 1: State strategic projects and local project support via universal formula grant
- Year 2: State strategic projects and competitive grants

## **Broadband Access and Adoption:** \$500 million

- Year 1: Launch a statewide rural and underserved access and adoption program.
- Year 2-3: Identify remaining gaps via statewide map, and launch targeted investments and special initiatives using remaining or additional funds.

# Sewer and Water Infrastructure

- **Administered by TDEC;**
- **Three components:**
  - Formula-Based Matching Program for Locals (\$1 billion)
  - State Strategic Priorities + Competitive Grants (\$350 million)
- **Formula based grants to be made available to all locals relying on a local match (Match formula determined on a sliding scale / “ability-to-pay” index);**
  - Locals will be asked to participate in a comprehensive asset inventory and planning process to identify best and highest use of funds.
- **Timeline of program to run through 2026.**
- **TDEC to begin outreach and education in September, and will solicit stakeholder feedback on detailed plans**
- **Appendix details plan and timeline.**

# Broadband Infrastructure and Adoption

To address the over 400,000 Tennesseans lacking broadband access, we are recommending \$500 million to support a comprehensive state approach to broadband.

## Phase 1 – Ubiquitous Coverage and Adoption Interventions

- \$400 million for provider grants in unserved locations;
  - Application Fall 2021; Awards begin Spring 2022 ;
  - Priorities will include locations in distressed and at-risk counties and projects which have a local match committed.
  - 2-year projects or less.
- \$100 million for broadband adoption initiatives.

## Phase 2 – Targeted Strategy for Remaining Gaps

- Application Summer 2022, Award Winter 2023
- New broadband map will determine areas of need
- 2-3 years
- Special projects such as locations lacking a willing provider or geographies that demand a creative technology solution

# Infrastructure – Local Matching Funds

- The Sewer & Water and the Broadband program will have independent parameters, and state-local matching will be specific to each program.
  - Sewer and Water state expenditure is expected to leverage between \$219 and \$438 million in local ARP spending
  - Broadband program expected to leverage at least \$125 million in local ARP and private provider spending
- Local Governments will be educated as to the advantages of investing in infrastructure based on their own community's funding availability and project opportunities.

# Local Government Technical Support

- State will launch a local government support program that will promote a fiscally prudent, deliberative, and disciplined approach to spending down federal funds.

## Program Components

### • **Training and Education Program**

- To introduce local government leaders and local government association staff to the basics of federal grant management. We will work to expand local human capital and technical expertise as it relates to financial reporting and best practices to avoid negative audit findings.

### • **Planning Support and Guidelines**

- State will provide a template and direction for local planning to help locals maximize funds in a deliberative manner.
- TDEC and ECD will execute local outreach to help locals understand scope and model for infrastructure projects. This will include education on match opportunities and importance of local participation to leverage state-local partnership.

### • **Local Plan Review**

- Local governments will be given opportunity to submit an annual plan for non-binding advisory review by State. State will review local plans to identify potential legal or financial risks and will communicate those risks to locals for local remedy or action.
- Plan templates will mirror the reporting framework that large localities and states are required to submit Treasury
- Plans will be published and available to all Tennesseans for viewing.

# Local Support Program - Timeline

<b>SEPTEMBER 2021 (Phase 1 - Local Government Engagement)</b>	
Sep 1 - 15	Release schedule for 8-week training program for local government officials
	Release local government ARPA spend plan template (after Treasury Interim Rule becomes Final.)
Sep 15 - 30	Perform ongoing communication with local governments to encourage participation in assistance program and training (In coordination with MTAS, CTAS, and other local government associations)
<b>OCTOBER - DECEMBER 2021 (Phase 2 - Local Government Training)</b>	
Oct 1 - Dec 31	Complete 8-week training program with local government officials
	Release monthly updates on Treasury guidance and local government assistance program
	Hold monthly call with public to solicit questions
	Launch local outreach process with ECD and TDEC to educate locals on the infrastructure grants process and affirmative steps necessary to participate.
<b>JANUARY 2022 - JUNE 2022 (Phase 3 - Local Government Annual Plan Review)</b>	
Jan 4	Open portal for submission of local government annual ARP spend plans for state review
Jan 4 - Apr 30	Perform review of local plans and provide feedback and guidance to local governments in response
May 1 - June 30	Locals can integrate local government spend plans into local government budgets to be submitted and approved by the Comptroller.

# Planning Actions – September and October

- Based on today's discussion, TDEC and ECD to launch planning and outreach activities for Infrastructure programs;
- We will launch Local Government Technical Support program;
- FSAG will review a series of Public Health and Economic Relief proposals for inclusion in the Tennessee Resiliency Plan.
- Upon review of all proposals, the State will publish the Tennessee Resiliency Plan and solicit public feedback.
- After public feedback and adjustments to plan, State will draw down funds from Treasury; Submits Tennessee state plan to Treasury.



# Future FSAG Meetings

Future FSAG meetings will review proposals with respect to:

- Eligible Health Capital Expenditures
- Public Health and Economic Relief Proposals

We expect a final rule from Treasury by September 10. We are working closely with agencies to identify strategic priorities that align with statute, current Treasury guidance and FSAG fiscal principles.

All proposals will require a clear outcomes and evidence framework for Treasury reporting. New proposals for state services will be temporary or pilot-driven (recognizing the one-time nature of funds).

# APPENDIX



# Sewer and Water Statewide Program - Overview

- Three components:
  - Formula-Based Grants + States Strategic Priorities + Competitive Grants
- Administered by TDEC
- TDEC to convene and be supported by a stakeholder advisory committee of agencies, industry, local governments to support implementation;
- Formula based grants to be made available to all locals relying on a local match (Match formula to be determined on a sliding scale / “ability-to-pay” index);
- Some, but not all state projects could be eligible, we are tracking the potential for eligibility to expand in final rule;
- Timeline of program to run through 2026.

# State Water/Wastewater FRF Investment Categories

- Current eligibility: Current Treasury Rule permits water and wastewater infrastructure projects that align with clean water and drinking water SRF eligibility, such as:
  - Comprehensive asset management
  - Line replacement
  - Plant/facility upgrades
  - Regionalization and consolidation
  - Stormwater management
  - Nonpoint source pollution
  - Water conservation and energy efficiency
  - Water storage
  - Workforce training
- (Potential) Expanded timeline and eligibility: Treasury's Interim Final Rule currently does not cover these types of projects, however, State is preparing for possibility that comments will cause Treasury to expand to cover other project types such as:
  - Industrial site development
  - Dams and reservoirs
  - Flooding and stream maintenance/restoration
  - Projects addressing regional water supply concerns

# Sewer & Water - Approach to Funds Disbursement

## (i) Formula-Based Grants + (ii) Strategic Priorities + (iii) Competitive Grants

### (i) Formula-Based, Noncompetitive Grants

- Provides funding for eligible projects that meet minimum requirements, subject to availability of funds and TDEC approval
- Empowers local communities or utilities to select projects, with guidance from TDEC
- Likely to require fewer local resources for application preparation and grant administration
- Likely to require fewer state resources for application design, project evaluation, and grant compliance and reporting
- Methodology could consider **population of local government, population served by utility, volume of water treated, or relative need for investment in infrastructure**, among other factors
- Sliding scale for match requirements based on Ability to Pay Index

# Sewer & Water - Approach to Funds Disbursement

- State Strategic Priorities
  - Infrastructure Scorecard
  - New SRF Loan Incentive
  - State Agency Priority Projects
  - Industrial Site Development Projects
  - Major Regional Water Supply Projects
  - Statewide IT/GIS Project
  - Education and Workforce Development
- Competitive Grants
  - Funded by **unused** noncompetitive grant allocations and remaining funds from strategic priorities
  - Supports innovative approaches to enhancing water/wastewater infrastructure and implementation of best practices

# Sewer & Water Priorities Emphasized

- Asset management planning
- Water loss and infiltration/inflow reductions
- Water quality – addressing compliance issues
- Replacement of lead service lines
- Consolidation and regionalization
- Optimization and modernization
- Managing stormwater and green infrastructure
- Managing risk and building resilience to multiple hazards
- Enhancing service to underserved communities
- Fiscal sustainability

# Details Formula-Based Grant Program + Strategic Priorities

Description	Lead Agency	Collaborating Agencies	Percentage of Allocation	Est. Max Funding
<b><i>Projects that are Currently Eligible under the Treasury Interim Rule</i></b>				
Formula Grants for Drinking Water, Wastewater, and Stormwater System Improvements	TDEC	ECD, Comptroller	61.3%	\$1,095,000,000
State Strategic Priority - New SRF Loan Incentive	TDEC	ECD, Comptroller	1.1%	\$20,000,000
State Strategic Priority - State Agency Priority Water and Wastewater Projects <i>(Only a portion of state agency priority water and wastewater projects are currently eligible. Others would be eligible if Treasury expands allowed uses.)</i>	DGS STREAM	TDEC, ECD	8.9%	\$159,544,900
State Strategic Priority - State-Led GIS or Web-Based Application Project to Support Enhanced Information Sharing/Management of Water and Wastewater Infrastructure	TDEC	ECD, Comptroller	0.4%	\$8,000,000
State Strategic Priority - Water and Wastewater Infrastructure Education and Workforce Development	Sub to External Party		0.3%	\$5,000,000
Subtotal Programmed – Eligible				\$1,287,544,900
Administration for Currently Eligible Projects <i>(Tentative)</i>			10%	\$128,754,490
<b><i>Additional Projects with Uncertain Eligibility – Dependent on Treasury Expansion of Eligibility (September)</i></b>				
State Strategic Priority - Water and Wastewater Infrastructure Projects Supporting Major Industrial Site Development	ECD	TDEC, Comptroller, DGS-STREAM	9%	\$160,000,000
State Strategic Priority - Major Regional Water Supply Projects	ECD	TDEC, Comptroller	9%	\$160,000,000



# Water and Wastewater Infrastructure Investment Plan: Year 1

Deploy state strategic priorities

Publish *draft* water/wastewater infrastructure investment plan, open comment period  
**September 2021**

Publish *final* water/wastewater infrastructure investment plan  
**November 2021**

Open process for non-competitive grant letter of acceptance and project proposals  
**January 2022**

Close non-competitive grant period  
**December 31, 2022**

Review comment and begin review/revision of draft plan  
**October 2021**

Engage in robust communication, education, and outreach to ensure communities are aware of funding approach, eligibility, requirements, and other critical elements  
**Fall 2021**

Engage in capacity building, technical assistance and communication, education, and outreach and review proposals as they are submitted  
**Spring, Summer, Fall 2022**



# Water and Wastewater Infrastructure Investment Plan: Years 2-6

Deploy state strategic priorities

Competitive Grant  
Program Design  
**Fall 2022,  
Spring 2023**

Close competitive  
grant program  
application period  
**Summer 2024**

Grant  
Administration, sub-  
recipient  
monitoring, and  
grant closeout  
**Through December  
2026 (or longer)**

Open Competitive  
Grant Program  
Application Period  
**Fall 2023**

Execute competitive grant  
program and any  
remaining projects  
contracts by  
**December 31, 2024**

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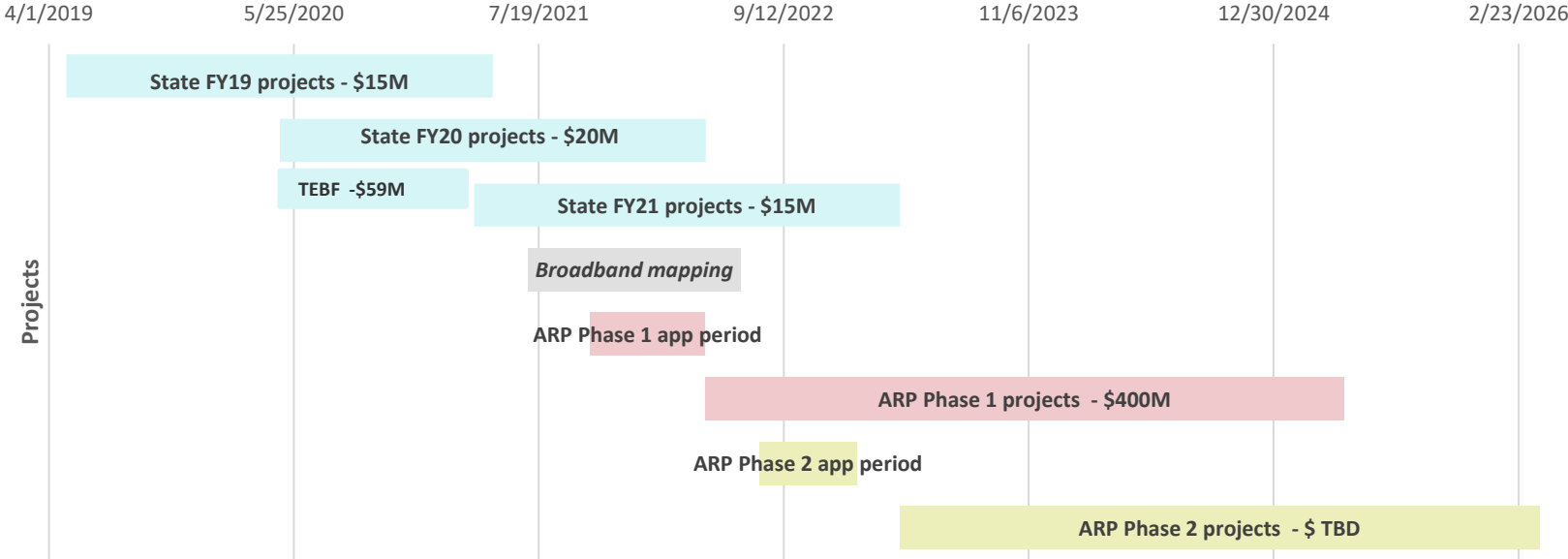
Noncompetitive grant administration and sub-recipient monitoring

# Broadband Investment – Program Outline

Strategy	Program	Description	Funding	Local Match
Accessibility	ARP FRF Phase 1	Broadband deployment in unserved areas	\$400M	70/30 but can vary based on community needs
		Two Parts: <ul style="list-style-type: none"> <li>• <u>Distressed County Connectivity Fund</u> targeted to projects providing ubiquitous broadband service to remaining unserved distressed, at-risk counties</li> <li>• <u>Broadband Local Match Fund</u> targeted to projects located in political subdivisions supporting project with local ARP funds.</li> </ul>		
<b>Subtotal</b>			<b>\$400M</b>	<b>\$80-120M</b>
Adoption	Residential service subsidy	Temporary subsidy to qualifying households to cover expense of 100mb/100mb broadband service	\$50M	80/20
	Community Connectivity	Provide connectivity to community anchor institutions. Support digital literacy programs. Examples may include schools, libraries, public safety buildings, public housing authorities, state offices, or state parks.	\$44M	80/20
	Downtown Wi-Fi	Connecting downtown business districts with free public wi-fi	\$2M	80/20
	<b>Subtotal</b>			<b>\$96M</b>
Admin	1%-3%	Contracted services for mapping, project certification, technical assistance, grants administration and internal program management	\$5-15M	
<b>TOTAL</b>			<b>\$500M</b>	<b>~\$100-140M</b>

# Broadband - Timeline

## STATE BROADBAND TIMELINE



*New broadband map available*  
*TBAA projects complete*  
*Phase 1 projects complete*  
*Phase 2 projects complete (statewide)*

*June 2022*  
*April 2023*  
*May 2025*  
*March 2026*

