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DEPARTMENT OF THE TREASURY

[31 CFR Part 35

RIN 1505-AC81]

Coronavirus State and Local Fiscal Recovery Funds

AGENCY: Department of the Treasury

ACTION: Interim Final Rule

SUMMARY: The Secretary of the Treasury is issuing an interim final rule to implement the amendments made by the Consolidated Appropriations Act, 2023 with respect to the Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund established under the American Rescue Plan Act.

DATES: *Effective date:* The provisions in this interim final rule are effective [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER].

Comment date: Comments must be received on or before [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Please submit comments electronically through the Federal eRulemaking Portal:

<http://www.regulations.gov>. Comments can be mailed to the Office of Recovery Programs,

Department of the Treasury, 1500 Pennsylvania Avenue NW, Washington,

DC 20220. Because postal mail may be subject to processing delay, it is recommended that

comments be submitted electronically. All comments should be captioned with “Coronavirus

State and Local Fiscal Recovery Funds 2023 Interim Final Rule Comments.” Please include your

name, organization affiliation, address, email address and telephone number in your comment.

Where appropriate, a comment should include a short executive summary. In general, comments

received will be posted on <http://www.regulations.gov> without change, including any business or

personal information provided. Comments received, including attachments and other supporting materials, will be part of the public record and subject to public disclosure. Do not enclose any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

FOR FURTHER INFORMATION CONTACT:

Jessica Milano, Acting Chief Recovery Officer, Office of Recovery Programs, Department of the Treasury, (844) 529–9527

SUPPLEMENTARY INFORMATION:

I. INTRODUCTION

Overview

Since the first case of coronavirus disease 2019 (COVID-19) was discovered in the United States in January 2020, the pandemic has caused severe, intertwined public health and economic crises. In March 2021, as these crises continued, the American Rescue Plan Act of 2021 (ARPA)¹ established the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) to provide state, local, and Tribal governments² with the resources needed to respond to the

¹ Sec. 9901, Pub. L. 117–2, 135 Stat. 223.

² Throughout this Supplementary Information, Treasury uses “state, local, and Tribal governments” or “recipients” to refer generally to governments receiving SLFRF funds; this includes states, territories, Tribal governments, counties, metropolitan cities, and nonentitlement units of local government.

pandemic and its economic effects and to build a stronger, more equitable economy during the recovery. Upon enactment, the ARPA provided that SLFRF funds³ may be used:

- (a) To respond to the public health emergency or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- (b) To respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers;
- (c) For the provision of government services to the extent of the reduction in revenue due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year prior to the emergency; and
- (d) To make necessary investments in water, sewer, or broadband infrastructure.

The U.S. Department of the Treasury (Treasury) issued an interim final rule implementing the SLFRF program on May 10, 2021 (the 2021 interim final rule).⁴ Treasury received over 1,500 public comments on the 2021 interim final rule.

Executive Summary of the 2022 Final Rule

On January 6, 2022, Treasury issued a final rule which responded to public comments and made several clarifications and changes to the provisions of the 2021 interim final rule to

³ The ARPA added section 602 of the Social Security Act, which created the State Fiscal Recovery Fund, and section 603 of the Social Security Act, which created the Local Fiscal Recovery Fund (together, SLFRF). Sections 602 and 603 contain substantially similar eligible uses; the primary difference between the two sections is that section 602 established a fund for states, territories, and Tribal governments and section 603 established a fund for metropolitan cities, nonentitlement units of local government, and counties.

⁴ See 86 Fed. Reg. 26786 (May 17, 2021).

provide broader flexibility and greater simplicity in the SLFRF program.⁵ The 2022 final rule provided for the following:

- Public Health and Negative Economic Impacts: Recipients may use SLFRF funds for a non-exhaustive list of programs, services, and capital expenditures that support an eligible COVID-19 public health or economic response. Recipients must serve “impacted” and “disproportionately impacted” classes of beneficiaries: impacted classes experienced the general, broad-based impacts of the pandemic, while disproportionately impacted classes faced more severe impacts, often due to preexisting disparities.

Public health eligible uses include COVID-19 mitigation and prevention, medical expenses, behavioral healthcare, and preventing and responding to violence. Negative economic impact eligible uses include assistance to households such as job training, rent, mortgage, or utility aid, affordable housing development, childcare; assistance to small businesses or nonprofits such as through loans or grants to mitigate financial hardship; assistance to impacted industries like travel, tourism, and hospitality that faced substantial pandemic impacts; or assistance to address impacts to the public sector, for example by hiring public sector workers to pre-pandemic levels.

- Premium Pay: Recipients may provide premium pay to a broad set of essential workers.
- Revenue Loss: Recipients may determine revenue loss due to the COVID-19 public health emergency by claiming the standard allowance of up to \$10 million or completing the full revenue loss calculation. Recipients may use funds under revenue loss for government services.

⁵ See 87 Fed. Reg. 4338 (Jan. 27, 2022).

- Water, Sewer, and Broadband Infrastructure: Recipients may use SLFRF funds for eligible broadband infrastructure investments to improve access, affordability, and reliability; and for eligible water and sewer infrastructure investments, including a broad range of lead remediation and stormwater management projects.

Impact of SLFRF

Since the launch of the SLFRF program, Treasury has disbursed 99.99% of SLFRF funds to approximately 30,000 state, local, and Tribal governments, and these recipients have moved swiftly to deploy this funding in their communities. According to data reported to Treasury through March 31, 2023,⁶ states and the largest local governments have budgeted nearly 80% of their total available SLFRF funds. Recipients are using SLFRF funds across a wide variety of eligible uses to meet the unique needs of their communities.⁷ Recipients have been using SLFRF funds to shore up state and local finances, helping to avoid a repeat of the Great Recession when state and local government budgets were a drag on the overall economy for 14 quarters of the recovery.⁸ Recipients reported that they budgeted nearly \$100 billion for over 53,000 revenue replacement projects to provide fiscal stability through the provision of government services. Recipients have also budgeted over \$12 billion across over 5,800 projects to respond to the public health needs of the COVID-19 pandemic including by providing testing, vaccinations,

⁶ U.S. Department of the Treasury, April 2023 Quarterly and Annual Reporting Analysis, <https://home.treasury.gov/system/files/136/April-2023-Reporting-Blog-Post.pdf>.

⁷ The figures included in this interim final rule include Project and Expenditure reporting data covering the period ending March 31, 2023 from the all SLFRF recipients. It includes quarterly data reported by states, territories, and metropolitan cities and counties with a population over 250,000 or an allocation over \$10 million, non-entitlement units of local government allocated more than \$10 million, and Tribal governments allocated over \$30 million from January 1, 2023 – March 31, 2023 and annual data reported by metropolitan cities and counties with populations less than 250,000 and an allocation less than \$10 million, Tribal governments with an allocation less than \$30 million, and non-entitlement units of local government allocated less than \$10 million from April 1, 2022 to March 31, 2023.

⁸ Press Release, U.S. Department of the Treasury, Remarks by Secretary of the Treasury Janet L. Yellen at National Association of Counties 2023 Legislative Conference (Feb. 14, 2023).

staffing, and outreach to underserved communities; budgeted \$17 billion in projects to meet housing needs including through rental assistance, development and preservation of affordable housing, and permanent supportive housing services; budgeted over \$11 billion to support workers through job training for populations impacted by the pandemic, to provide premium pay, and to invest in public sector capacity building; and budgeted over \$26 billion for water, sewer, and broadband infrastructure projects. Overall, the impact of the SLFRF program is already proving to be transformative for communities across the country as recipients use SLFRF funds to build a more equitable economic recovery and help the country be better prepared for future crises.

Overview of the Consolidated Appropriations Act, 2023

On December 29, 2022, the Consolidated Appropriations Act, 2023 (the 2023 CAA) was signed into law by the President,⁹ amending sections 602 and 603 of the Social Security Act to give state, local, and Tribal governments more flexibility to use SLFRF funds to provide emergency relief from natural disasters, build critical infrastructure, and support community development.

Generally, the 2023 CAA does not alter the existing eligible use categories originally provided by the ARPA. All eligible uses described in the 2022 final rule remain available to recipients. The 2023 CAA codifies the option for recipients to use up to \$10 million, which Treasury termed the “standard allowance,” to replace lost revenue and use that funding to provide government services in lieu of calculating revenue loss according to the formula set forth in the 2022 final rule. Otherwise, the 2023 CAA provides for new eligible uses.

⁹ Pub. L. 117–328 (Dec. 29, 2022).

The 2023 CAA provides that state, local, and Tribal governments may use SLFRF funds to provide emergency relief from natural disasters or the negative economic impacts of natural disasters, including temporary emergency housing, food assistance, financial assistance for lost wages, or other immediate needs. As described later in this interim final rule, the emergency relief from natural disasters eligible use category is subject to the same program administration requirements as the four existing eligible uses in the SLFRF program, including the obligation deadline of December 31, 2024 and expenditure deadline of December 31, 2026.

The 2023 CAA also grants the authority for recipients to use SLFRF funds for additional infrastructure projects, including projects eligible under certain Department of Transportation programs (Surface Transportation projects) and projects eligible under Title I of the Housing and Community Development Act of 1974 (Title I projects). The 2023 CAA also provides additional requirements that apply to SLFRF funds used for Surface Transportation and Title I projects.

These additional requirements provided for in the 2023 CAA are outlined below:

- The total amount of SLFRF funds a recipient may direct toward Surface Transportation and Title I projects is capped at the greater of \$10 million and 30% of a recipient's total SLFRF award.
- Except as otherwise determined by the Secretary, the use of SLFRF funds for Surface Transportation and Title I projects is also subject to certain other laws, including the requirements of titles 23, 40, and 49 of the U.S. Code, title I of the Housing and Community Development Act of 1974, and the National Environmental Policy Act of 1969.
- SLFRF funds used for Surface Transportation and Title I projects must supplement, not supplant, other federal, state, territorial, Tribal, and local government funds (as

applicable) that are otherwise available for these projects. This provision does not apply to funds used under the emergency relief from natural disasters eligible use category.

- Recipients must obligate funds used for Surface Transportation projects and Title I projects by December 31, 2024 (the same obligation deadline that applies to the other eligible uses) and must expend funds by September 30, 2026. This expenditure deadline is three months earlier than the expenditure deadline for all other eligible uses.
- Treasury may delegate oversight and administration of the requirements associated with funds used for Surface Transportation projects and Title I projects to the appropriate federal agency. This interim final rule discusses how the Department of Transportation will oversee funds expended for certain Surface Transportation projects.

Sections 602 and 603 of the Social Security Act specify two restrictions on uses of funds: for recipients other than Tribal governments, funds may not be used for deposits into any pension fund and, in the case of states and territories only, funds may not be used to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation during the covered period. The 2023 CAA did not amend these restrictions.

Thus, sections 602(c)(1) and 603(c)(1) of the Social Security Act, as amended by the 2023 CAA, provide that SLFRF funds may be used:

- (a) To respond to the public health emergency or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;

- (b) To respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers;
- (c) For the provision of government services up to an amount equal to the greater of –
 - (i) The amount of the reduction in revenue due to the COVID-19 public health emergency relative to revenue collected in the most recent full fiscal year prior to the emergency; or
 - (ii) \$10,000,000
- (d) To make necessary investments in water, sewer, or broadband infrastructure; or
- (e) To provide emergency relief from natural disasters or the negative economic impacts of natural disasters, including temporary emergency housing, food assistance, financial assistance for lost wages, or other immediate needs.

Sections 602(c)(4) and 603(c)(5) of the Social Security Act, as amended by the Infrastructure Investment and Jobs Act, provide that SLFRF funds may be used for an authorized Bureau of Reclamation project for purposes of satisfying any non-Federal matching requirement required for the project.¹⁰

Sections 602(c)(5) and 603(c)(6) of the Social Security Act, as added by the 2023 CAA, provide that SLFRF funds may be used for Surface Transportation projects and Title I projects, including in some cases to satisfy a non-federal share requirement applicable to certain projects or to repay a loan provided under one of the Surface Transportation programs.

Structure of the Supplementary Information

¹⁰ See section 40909 of Pub. L. 117-58, 135 Stat. 429, 1126 (Nov. 15, 2021).

Following this Introduction, this Supplementary Information is organized into four sections: 1) Eligible Uses, 2) Discussion of Revenue Loss and Program Administration Provisions, 3) Comments and Effective Date, and 4) Regulatory Analyses. Recipients seeking information regarding the original four eligible uses in the SLFRF program generally may reference the 2022 final rule and other SLFRF program guidance.

The Eligible Uses section describes the standards for determining eligible uses of funds in each of the eligible use categories provided in the 2023 CAA:

- 1) Emergency Relief from Natural Disasters
- 2) Surface Transportation projects and Title I projects
 - a. Surface Transportation projects
 - b. Title I projects

As with the 2022 final rule, each eligible use category has separate and distinct standards for assessing whether a use of funds is eligible. Standards, restrictions, or other provisions in one eligible use category do not apply to other categories. Therefore, recipients should first determine which eligible use category a potential use of funds fits within, then assess whether the potential use of funds meets the eligibility standard or criteria for that category. Recipients using funds for Surface Transportation projects receiving funding from the Department of Transportation must consult with the Department of Transportation before using SLFRF funds for these projects.

In the Emergency Relief from Natural Disasters section of this interim final rule, Treasury identifies a non-exhaustive list of specific uses of funds that are eligible, called “enumerated eligible uses,” that provide emergency relief from the physical or negative

economic impacts of natural disasters. The sections discussing Surface Transportation projects and Title I projects specifically describe the eligible projects articulated by the statute.

The Discussion of Revenue Loss and Program Administration Provisions section provides additional information, where relevant, to clarify the availability of the standard allowance, discuss program requirements applicable to the new eligible uses, and describe relevant distinctions between the requirements of the 2022 final rule and this interim final rule.

This section includes:

- 1) Revenue Loss
- 2) Timeline for Use of SLFRF Funds
- 3) Use of Funds for Match or Cost-Share Requirements
- 4) Reporting
- 5) Uniform Guidance

Next, the Comments and Effective Date section discusses the effective date and comment period for this interim final rule. Finally, the Regulatory Analyses section provides Treasury's analysis of the impacts of this rulemaking, as required by several laws, regulations, and Executive Orders. This section discusses the impact of the amendments in the 2023 CAA, where relevant. Please reference the 2022 final rule for the regulatory analyses of the impacts of the 2022 final rule.

Throughout this Supplementary Information, statements using the terms "should" or "must" refer to requirements. Statements using the term "encourage" or "advise" refer to recommendations, not requirements.

This Supplementary Information references three rule-making documents. Statements referencing "the 2021 interim final rule" refer to the rule released May 10, 2021 and published

May 17, 2021. Statements referencing “the 2022 final rule” refer to the rule released January 6, 2022 and published January 27, 2022. Statements referencing “this interim final rule” reference this rule, released August 4, 2023 and published [INSERT DATE PUBLISHED IN THE FEDERAL REGISTER].

Uses of Funds Not Specifically Identified as Eligible in this Interim Final Rule

Even if a use of funds is not specifically identified as eligible in this interim final rule, recipients may still be able to direct SLFRF funds toward that purpose as described further below.

First, the eligible uses described in the 2022 final rule remain available to recipients, and recipients may continue to pursue eligible projects under the 2022 final rule. For example, under the revenue loss eligible use category, recipients have broad latitude to use funds for government services up to their amount of revenue loss due to the pandemic, provided that other restrictions on use do not apply. A potential use of funds that does not fit within the other eligible use categories in this interim final rule or in the 2022 final rule may be permissible as a government service. Please reference the 2022 final rule for further information.

Second, the eligible use category for providing emergency relief from natural disasters provides a non-exhaustive list of enumerated eligible uses, which means that the listed eligible uses include some, but not all, of the uses of funds that could be eligible under this eligible use category. This interim final rule outlines a standard for determining other eligible forms of emergency relief, beyond those specifically enumerated. If a recipient would like to pursue a use of funds to provide emergency relief that is not specifically enumerated, the recipient should use the standards and associated guidance to assess whether the use of funds is eligible.

Third, as described further below, many of the uses in the Title I projects eligible use category are also eligible in the public health and negative economic impacts eligible use category, discussed in the 2022 final rule, where there is no cap on the amount of SLFRF funds that may be directed toward an eligible use. Furthermore, the public health and negative economic impacts eligible use category also offers a standard for determining if other uses of funds, beyond those specifically enumerated, are eligible. Recipients seeking to use SLFRF funds for Title I projects may consider the relevant eligible uses and available funding levels to determine which eligible use category best supports their community's needs. As noted above, this interim final rule did not alter the public health and negative economic impacts eligible use category. Please see the 2022 final rule for more information.

Request for Comments

Treasury seeks comment on sections addressing the new eligible uses, Emergency Relief from Natural Disasters, Surface Transportation projects, and Title I projects. To better facilitate public comment, Treasury has included specific questions in the relevant sections of this SUPPLEMENTARY INFORMATION. Treasury encourages state, local, and Tribal governments in particular to provide feedback and to engage with Treasury regarding issues that may arise regarding the new eligible uses.

II. ELIGIBLE USES

A. EMERGENCY RELIEF FROM NATURAL DISASTERS

Background

The 2023 CAA amended sections 602 and 603 of the Social Security Act to permit recipients to use SLFRF funds to “provide emergency relief from natural disasters or the negative economic impacts of natural disasters, including temporary emergency housing, food assistance, financial assistance for lost wages, or other immediate needs.” As state, local, and Tribal governments spend billions of dollars a year to respond to the impacts of natural disasters that are growing in size, scale, and frequency, often as a result of climate change,¹¹ this new eligible use supports recipients in responding to the varied and evolving needs of their communities with SLFRF funds already on hand.

Since 1980, there have been 341 natural disasters in the United States that reached or exceeded damages valued at \$1 billion, causing 15,821 deaths and resulting in nearly \$2.5 trillion in damages.¹² In recent years, costly U.S. natural disasters have become even more frequent, in part due to the impacts of climate change, which are known to create more frequent and intense droughts and storms,¹³ lengthen wildfire seasons in the Western States,¹⁴ and increase heavy rainfall events in the contiguous 48 states.¹⁵ In 2020, 2021, and 2022, there were an average of 20 weather and climate disasters each year that reached or exceeded damages valued

¹¹ Billion-dollar disaster events account for the majority (>80%) of the damage from all recorded U.S. weather and climate events per NCEI and Munich Re. NOAA National Centers for Environmental Information (NCEI), U.S. Billion-Dollar Weather and Climate Disasters (2023), <https://www.ncei.noaa.gov/access/billions/>, DOI: 10.25921/stkw-7w73.

¹² *See id.*

¹³ U.S. Department of the Interior, US Geological Survey, Climate FAQ: How can climate change affect natural disasters? (2023), <https://www.usgs.gov/faqs/how-can-climate-change-affect-natural-disasters#:~:text=With%20increasing%20global%20surface%20temperatures.more%20powerful%20storms%20to%20develop.>

¹⁴ NOAA NCEI, U.S. Billion-Dollar Weather and Climate Disasters (2023), <https://www.ncei.noaa.gov/access/billions/>, DOI: 10.25921/stkw-7w73.

¹⁵ In recent years, a larger percentage of precipitation has come in the form of intense single-day events. Environmental Protection Agency, “Climate Change Indicators: Heavy Precipitation,” Figure 1: Extreme One-Day Precipitation Events in the Contiguous 48 states, 1910-2020 (Aug. 1, 2022). <https://www.epa.gov/climate-indicators/climate-change-indicators-heavy-precipitation>.

at \$1 billion, compared to an average of 12.8 weather and climate disasters annually from 2010 to 2019.¹⁶ From 2020 to 2022 alone, these billion-dollar natural disasters caused 1,460 deaths and resulted in damages valued at \$434.6 billion.¹⁷

The impacts of natural disasters range from loss of life and other consequences for health and safety to destruction of property and infrastructure and disruption of economic activity. The increasing prevalence of natural disasters and corresponding increased costs of responding to and recovering from natural disasters places additional burden on state, local, and Tribal governments.¹⁸ This burden is experienced throughout communities, including through strains placed on public infrastructure and on households, ranging from impacts to housing, food, water, wages, and other needs.

The U.S. Census Bureau found that approximately 3.3 million people were displaced from their homes by natural disasters in 2022.¹⁹ Even when individuals and families in an impacted area are not displaced after a natural disaster, they may face significant costs to repair homes to become livable again.²⁰ Natural disasters also can disrupt regular access to food and water, causing food insecurity and reliance on support from disaster relief organizations.²¹ Furthermore, the damage caused by natural disasters can cause short-term earnings losses, as it

¹⁶ NOAA NCEI, U.S. Billion-Dollar Weather and Climate Disasters (2023), <https://www.ncei.noaa.gov/access/billions/>, DOI: 10.25921/stkw-7w73.

¹⁷ *See id.*

¹⁸ *See id.*

¹⁹ U.S. Census Bureau. Household Pulse Survey: Displaced in Last Year by Natural Disaster (2023). <https://www.census.gov/data-tools/demo/hhp/#/?measures=DISPLACED>.

²⁰ Harvard University's Joint Center for Housing Studies estimates that disaster-related home repairs and improvements cost \$300 million in annual spending for every \$10 billion in disaster losses incurred in the three years prior. Kermit. Baker & Alexander Hermann, Joint Center for Housing Studies of Harvard University. *Rebuilding from 2017's Natural Disasters: When, For What, and How Much?*, <https://www.jchs.harvard.edu/blog/rebuilding-from-2017s-natural-disasters-when-for-what-and-how-much>.

²¹ Centers for Disease Control and Prevention, Natural Disaster and Severe Weather, *Food and Water Needs: Preparing for a Disaster or Emergency* (Jan. 29, 2019).

may physically prevent individuals from working, whether due to housing displacement, physical barriers in accessing their place of employment or business, sustained damage to their place of employment or business, or injuries sustained as a result of the natural disaster.²²

Natural disasters also can generate a significant volume of debris²³ and damage buildings and infrastructure that provide critical or essential services to the general public, such as educational, utility, emergency, medical, and other services, creating strains on local governments and other responders.

While the impacts of a natural disaster can be widespread, communities that are historically underserved often experience heightened impacts as a result of underlying disparities and ability to prepare for disasters,²⁴ resiliency of homes to natural disasters,²⁵ risk of food insecurity,²⁶ ability to recover financially after a natural disaster,²⁷ and ultimately their ability to quickly return to social and economic life after a natural disaster.²⁸ Tribal governments, for example, are the first and sometimes the only responders to natural disasters that impact their communities.²⁹ Despite this responsibility, Tribal emergency management capacity has been

²² Jeffrey A. Groen et al, Census Bureau, Center for Economic Studies. *Storms and Jobs: The Effect of Hurricanes on Individuals' Employment and Earnings over the Long Term*, <https://www2.census.gov/ces/wp/2015/CES-WP-15-21.pdf>.

²³ Linda Luther, Congressional Research Service, R44941, *Disaster Debris Management: Requirements, Challenges, and Federal Agency Roles* (2017).

²⁴ Federal Emergency Management Agency (FEMA), *2022-2026 FEMA Strategic Plan* (2023).

²⁵ Substance Abuse and Mental Health Services Administration, *Disaster Technical Assistance Center Supplemental Research Bulletin, Greater Impacts: How Disasters Affect People of Low Socioeconomic Status* (2017).

²⁶ Kevin M. Fitzpatrick et al., *Food Insecurity in the Post-Hurricane Harvey Setting: Risks and Resources in the Midst of Uncertainty*, 17(22), *Int. J. Environ. Res. Public Health* 8424, (2020).

²⁷ Caroline Ratcliffe et al., Urban Institute, *Insult to Injury Natural Disasters and Residents' Financial Health* 7 (2019).

²⁸ FEMA, *2022-2026 FEMA Strategic Plan* (2023).

²⁹ National Congress of American Indians, *Indian Country FY 2022 Budget Request* (2023), 47-54.

https://www.ncai.org/resources/ncai-publications/NCAI_IndianCountry_FY2022_BudgetRequest.pdf.

underfunded over the years, limiting Tribal governments' access to disaster resources before, during, or after the disaster strikes.³⁰

This interim final rule provides significant flexibility for recipients to use SLFRF funds to provide emergency relief from the widespread physical and negative economic impacts of natural disasters. Recognizing that communities that have been historically underserved often experience deeper impacts of natural disasters due in part to differences that exist prior to the occurrence of a natural disaster, Treasury encourages recipients to consider how the emergency relief they provide supports all communities in resuming their lives after a natural disaster and building resiliency to future natural disasters.

In the section that follows, this interim final rule discusses how recipients may use SLFRF funds to provide emergency relief from the physical or negative economic impacts of natural disasters, including the standards for identifying a natural disaster and responsive emergency relief.

1. STANDARDS FOR PROVIDING EMERGENCY RELIEF FROM NATURAL DISASTERS

This section of the interim final rule discusses the standards for providing emergency relief from the physical or negative economic impacts of natural disasters. Generally, a recipient should undertake the following two-step process:

1. Identify a natural disaster that has occurred or is expected to occur imminently, or a natural disaster that is threatened to occur in the future.

³⁰ *See Id.*

2. Identify emergency relief that responds to the physical or negative economic impacts, or potential physical or negative economic impacts, of the identified natural disaster. The emergency relief must be related and reasonably proportional to the impact identified.

This interim final rule implements the framework described above by defining natural disaster, defining emergency relief, and providing a non-exhaustive list of examples of emergency relief that may be provided. In addition to this non-exhaustive list, recipients may use the two-step framework above to identify and provide additional types of emergency relief in response to the physical or negative economic impacts, or the potential for such impacts, of an identified natural disaster.

The eligible uses set forth in this interim final rule provide flexibility to recipients to respond to the widespread physical and economic impacts of natural disasters in their communities. Treasury encourages recipients to consider how the provision of emergency relief can support communities that have been historically underserved and are more at risk of the impacts of natural disasters.

2. IDENTIFYING NATURAL DISASTERS

This interim final rule explains that for the purposes of the SLFRF program, a natural disaster is defined as a hurricane, tornado, storm, flood, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, drought, or fire, in each case attributable to natural causes, that causes or may cause substantial damage, injury, or imminent threat to civilian property or persons. A natural disaster may also include another type of natural catastrophe, attributable to natural causes, that causes, or may cause substantial damage, injury, or imminent threat to civilian property or persons. This definition provides

recipients the flexibility to determine an event to be a natural disaster even if it is not of a type specifically listed in the definition. This definition is based on the definition of natural disaster under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.) (the Stafford Act), which provides the statutory authority for most federal disaster response activities, including as they pertain to Federal Emergency Management Agency (FEMA) assistance and programs.³¹ The Stafford Act provides the framework for an orderly means of assistance by the federal government to state, local, and Tribal governments in carrying out their responsibilities to alleviate the suffering and damage that result from such disasters.³²

3. IDENTIFYING EMERGENCY RELIEF

This interim final rule defines emergency relief as assistance that is needed to save lives and to protect property and public health and safety, or to lessen or avert the threat of catastrophe. This definition of emergency relief is based on the Stafford Act’s definition of “emergency.”³³

Emergency relief must be related and reasonably proportional to the physical or negative economic impacts of a natural disaster that has occurred or is expected to occur imminently, or to the potential physical or negative economic impacts of a natural disaster that is threatened to occur in the future. Emergency relief that bears no relation or is grossly disproportionate to the type or extent of the impacts of the natural disaster would not be an eligible use.

³¹ See 42 U.S.C. 5195a(a)(2).

³² FEMA, Stafford Act, as *Amended*, P-592 vol. 1 (2021).

³³ See 42 U.S.C. 5122(1) (“‘Emergency’ means any occasion or instance for which, in the determination of the President, Federal assistance is needed to supplement State and local efforts and capabilities to save lives and to protect property and public health and safety, or to lessen or avert the threat of a catastrophe in any part of the United States.”)

In the case of a response to a natural disaster that has occurred or is expected to occur imminently, communities, individuals, or areas that did not or are not expected to experience the natural disaster or its negative economic impacts would not be eligible to receive emergency relief in response to the natural disaster. In evaluating whether a use is reasonably proportional, recipients should consider relevant factors about the natural disaster's actual or imminent physical or negative economic impacts and the emergency relief to be provided, including the availability of other assistance such as insurance or other federal assistance. For more information, recipients should reference the section titled Duplication of Benefits below. Recipients should also consider the efficacy, cost, cost effectiveness, and time to delivery of the response.

When providing emergency relief from a natural disaster that is threatened to occur in the future, mitigation activities to address the potential physical or economic impacts of the natural disaster in a community where the natural disaster is unlikely to occur would not be considered a related and reasonably proportional response because there would not be an established need to provide emergency relief from that natural disaster, for example.

Available emergency relief based on the immediacy of the natural disaster. This section discusses how recipients may distinguish between a natural disaster that has already occurred or is expected to occur imminently, and the threat of a future occurrence of a natural disaster. As discussed, recipients may provide emergency relief from natural disasters in the form of assistance that is needed to save lives and to protect property and public health and safety or to lessen or avert the threat of catastrophe.

To provide emergency relief before, during, or after a natural disaster that has already occurred or is expected to occur imminently, the recipient should first identify how the disaster

meets the definition of natural disaster as described above. The natural disaster that has occurred or is imminent must be, or have been, the subject of an emergency declaration or designation applicable to the recipient's geography and jurisdiction in the form of (1) an emergency declaration pursuant to the Stafford Act; (2) an emergency declaration by the Governor of a state pursuant to state law; or (3) an emergency declaration made by a Tribal government. If one of the declarations listed in (1)-(3) is not available, recipients may satisfy this requirement through the designation of an event as a natural disaster by the chief executive (or equivalent) of the recipient government, provided that the chief executive documents that the event meets the definition of natural disaster provided above. Recipients should maintain documentation consistent with the terms and conditions of the award agreement. Note that if the governor of a state declares an emergency for the entire state, the local governments within that state are not also required to declare an emergency in order to use SLFRF funds to provide emergency relief. A recipient government does not need to submit to Treasury for approval of the designation of a natural disaster; Treasury will defer to the reasonable determination of the recipient's chief executive (or equivalent) in making such a designation. For information about duplication of benefits requirements when responding to natural disasters with Stafford Act declarations, please reference the section titled Duplication of Benefits below.

As discussed above, Treasury's definition of emergency relief includes assistance to lessen or avert the threat of a future natural disaster, based on the Stafford Act definition of "emergency," which enables recipients to provide mitigation activities. By providing mitigation activities that would reduce the threat of a future natural disaster's potential impacts, the recipient will have reduced the severity of threats to life, risks of loss of economic activity, and costs to private and public entities to respond and recover, because less damage will be incurred.

To provide emergency relief in the form of mitigation activities, to lessen or avert the threat of a future natural disaster, a recipient should document evidence of historical patterns or predictions of natural disasters (as defined above) that would reasonably demonstrate the likelihood of the future occurrence of a natural disaster in its community. A recipient should use this evidence to support its determination that mitigation activities would be related and reasonably proportional to the threat of a natural disaster that it is addressing. For example, a recipient could utilize FEMA’s National Risk Index³⁴ to represent the community’s relative risk for hurricanes to establish the likelihood of a future hurricane, or a Tribal government could cite Indigenous Traditional Ecological Knowledge to determine future risks.³⁵

4. ELIGIBLE TYPES OF EMERGENCY RELIEF

Sections 602 and 603 of the Social Security Act, as amended by the 2023 CAA, provide a non-exhaustive list of four types of emergency relief from natural disasters or their negative economic impacts that may be provided using SLFRF funds: temporary emergency housing, food assistance, financial assistance from lost wages, and other immediate needs. This interim final rule discusses and expands on this list, to enable recipients both to complement existing disaster relief funding and to address gaps in assistance.

To facilitate implementation, this interim final rule identifies a non-exhaustive list of eligible emergency relief, which means that the listed eligible uses include some, but not all, of

³⁴ See FEMA’s National Risk Index available at <https://hazards.fema.gov/nri/hurricane>.

³⁵ Memorandum from the White House Office of Science and Technology Policy & the White House Council on Environmental Quality on Indigenous Traditional Ecological Knowledge and Federal Decision Making (Nov. 15, 2021). For example, a Tribe may be able to rely on Indigenous Traditional Ecological Knowledge in considering the threat of wildfires on Tribal lands.

the uses of funds that could be eligible. This non-exhaustive list of eligible emergency relief does not distinguish between emergency relief from the physical impacts of natural disasters and emergency relief from the negative economic impacts of natural disasters. However, the list does distinguish between emergency relief provided from a declared or designated natural disaster that has occurred or is expected to occur imminently, and emergency relief provided from the threat of a future natural disaster. To assess whether additional types of emergency relief would be eligible under this category beyond the non-exhaustive list provided below, recipients should first identify a natural disaster and then identify emergency relief that responds to the natural disaster’s physical or negative economic impacts according to the standards discussed in the prior section.

Treasury has included references to programs currently administered by FEMA in the discussion of the eligible uses below. These references do not impose any of the associated requirements of these FEMA-administered programs. Furthermore, recipients are not required to receive pre-approval from FEMA or Treasury to use SLFRF funds for these eligible uses.

Duplication of Benefits. As a general matter, recipients may not claim use of federal financial assistance to cover a cost that the recipient is covering with another federal award, by insurance, or from another source,³⁶ and subrecipients are bound by the same requirements as recipients.³⁷ Specific requirements apply when recipients use federal funds to provide assistance

³⁶ See, e.g., 2 CFR 200.1 *Definitions* (defining “improper payment” to include “duplicate payments”); 2 CFR 200.403 *Factors affecting allowability of costs* (providing that “in order to be allowable under Federal awards” costs must “[b]e necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles” and “[n]ot be included as a cost ... of any other federally-financed program in either the current or a prior period”).

³⁷ 2 CFR 200.101(b)(2) (“The terms and conditions of Federal awards (including this part [2 CFR part 200, the Uniform Guidance]) flow down to subawards to subrecipients unless a particular section of this part or the terms and conditions of the Federal award specifically indicate otherwise.”).

with respect to losses suffered as a result of a major disaster or emergency declared under the Stafford Act (disaster losses). Under the emergency relief from natural disasters eligible use category, certain duplication of benefits requirements under the Stafford Act, in addition to all relevant Uniform Guidance cost principles requirements, would apply to recipients using funds for events that both a) satisfy this interim final rule's definition of natural disaster and b) form the basis for a Stafford Act declaration of an emergency or major disaster. Accordingly, if a recipient uses SLFRF funds to cover disaster losses under the emergency relief from natural disasters eligible use category, it must abide by the Stafford Act's prohibition on duplication of benefits: Recipients may not provide financial assistance to a person, business concern, or other entity with respect to disaster losses for which such beneficiary will receive financial assistance under any other program or from insurance or any other source.³⁸ A recipient may provide assistance with respect to disaster losses to a person, business concern, or other entity that is or may be entitled to receive assistance for those losses from another source, if such person, business concern, or other entity has not received the other benefits by the time of application for SLFRF funds and the person, business concern, or other entity agrees to repay any duplicative assistance to the SLFRF recipient.³⁹ Recipients may also use SLFRF funds to provide assistance for any portion of disaster losses not covered by other benefits.⁴⁰

To ensure compliance with the Stafford Act's prohibition on duplication of benefits, SLFRF recipients are advised to review FEMA's guidance codified at 44 CFR 206.191.

³⁸ See 5 U.S.C. 5155(a).

³⁹ See 5 U.S.C. 5155(b)(1).

⁴⁰ See 5 U.S.C. 5155(b)(3).

FEMA’s guidance sets forth a “delivery sequence” for assistance with disaster losses, providing that sources of assistance later in the sequence are considered “duplicative” if paid despite the availability of other sources of assistance earlier in the sequence.⁴¹ That is, if two sources provide assistance for the same disaster losses, the assistance provided later in the delivery sequence is considered duplicative and must not be paid or if paid must be repaid when the duplication of benefits occurs. While not listed in section 206.191’s delivery sequence, recipients should treat SLFRF funds as last in the delivery sequence, unless the recipient, in consultation with the appropriate FEMA Regional Administrator or state disaster-assistance administrator, determines that another sequence is appropriate.⁴² For example, assistance with disaster losses would generally be duplicative of insurance covering those same losses because insurance comes first in the delivery sequence. In that case, SLFRF funds should not be used to cover any portion of the disaster losses for which insurance benefits are received. The recipient is responsible for preventing and rectifying duplication of benefits with respect to disaster losses and should coordinate with the relevant FEMA Regional Administrator and state disaster assistance administrator, or other relevant agencies providing disaster assistance, as described in FEMA’s guidance.

To facilitate compliance with the Stafford Act’s prohibition on duplication of benefits, Treasury intends to require recipients to report their use of SLFRF funds to provide assistance with respect to disaster losses. Recipients are further required to notify subrecipients and

⁴¹ 44 CFR 206.191(d).

⁴² As provided in FEMA’s guidance, “If following the delivery sequence concept would adversely affect the timely receipt of essential assistance by a disaster victim, an agency may offer assistance which is the primary responsibility of another agency.” 44 CFR 206.191(d)(4).

contractors that, when providing assistance in response to a Stafford Act Declaration, they are responsible for ensuring that beneficiaries disclose any other assistance received for the same disaster losses prior to receiving assistance with SLFRF funds. Treasury further intends to make the reported information available to FEMA, the relevant FEMA Regional Administrator, and other agencies providing assistance with respect to disaster losses, as appropriate.

Non-Federal Matching Requirements. The emergency relief enumerated eligible uses do not add any new authority for recipients to use SLFRF funds to satisfy non-federal matching requirements of other federal programs. Instead, as described in the 2022 final rule, recipients may use SLFRF funds under the revenue loss eligible use category to satisfy non-federal matching requirements. The newly eligible Surface Transportation projects and Title I projects, discussed later in this interim final rule, also provide recipients the ability to use funds to satisfy non-federal cost share requirements in certain instances. Recipients seeking to use SLFRF funds for non-federal matching requirements should reference the section titled Use of Funds for Match or Cost-Share Requirements in this interim final rule and the 2022 final rule for additional information.

a. DECLARED OR DESIGNATED NATURAL DISASTERS

Below, Treasury is providing a non-exhaustive list of eligible uses that recipients may provide as emergency relief from the physical or negative economic impacts of a natural disaster that has a declaration or designation, as described above.

Temporary emergency housing. Recipients may provide emergency relief from the physical or negative economic impacts of a natural disaster in the form of temporary emergency housing to individuals and households including by providing funds for temporary housing for households who are unable to live in their home following a natural disaster. Examples of

temporary emergency housing could include rental assistance or reimbursement for hotel costs; providing a temporary housing unit when individuals are facing challenges finding permanent housing due to shortages caused by a natural disaster; establishing other temporary emergency housing, including congregate and non-congregate shelter (i.e., sheltering individuals in motels, hotels, dorms, etc.) before, during, or after a natural disaster; or providing shelter following an evacuation due to a natural disaster. Given the varying potential impacts of a natural disaster, recipients have flexibility to determine the length of time to provide temporary emergency housing based on the impact of the natural disaster and the housing conditions in their jurisdiction.

Food assistance. Recipients may provide emergency relief from the physical or negative economic impacts of a natural disaster in the form of food assistance. As is the case across the SLFRF program, recipients may administer programs through a range of other entities, including nonprofit and for-profit entities, to carry out eligible uses on behalf of the recipient government, including to provide emergency relief in the form of food assistance.

Financial assistance for lost wages. Recipients may provide emergency relief from the physical or negative economic impacts of a natural disaster in the form of financial assistance for lost wages. As with all forms of emergency relief under this eligible use category, financial assistance for lost wages must be related and reasonably proportional to the impact identified. In making this determination, recipients should consider all sources of available relief and other resources available to the potential beneficiaries of financial assistance.

Generally, federal financial assistance programs directed toward individuals are designed to target individuals with a specific set of circumstances or to provide those who earn up to a specific income threshold with a specified amount of assistance. For example, the Coronavirus

Aid, Relief, and Economic Security Act (CARES Act), Public Law 116-136, 134 Stat. 281 (March 27, 2020) provided an eligible individual a refundable tax credit of up to \$1,200 (\$2,400 for eligible individuals filing a joint tax return), plus \$500 per qualifying child of the eligible individual. The credit was reduced for taxpayers with adjusted gross income that exceeded a threshold. The threshold was \$150,000 in the case of a joint return, \$112,500 in the case of a head of household, and \$75,000 otherwise. An advance refund of this credit, referred to by the IRS as an Economic Impact Payment, was made during 2020.⁴³

Recipients may provide financial assistance for lost wages by providing supplemental benefits to individuals who are participating in state unemployment insurance programs or the Department of Labor's Disaster Unemployment Assistance (DUA) program at the time the natural disaster occurred or following the natural disaster. Supplemental benefits can be provided to any person who is impacted by the natural disaster and receiving state unemployment insurance program benefits or DUA program benefits.

The amount of financial assistance for lost wages paid as a supplemental benefit to participants in the programs discussed above must not exceed \$400 a week for the duration of the need for emergency relief. This limit was determined to be reasonably proportional through the review of other assistance for lost wages, such as the FEMA COVID-19 Assistance Program for Lost Wages,⁴⁴ which offered participants the option to provide claimants a lost wages supplement of up to \$400, providing additional financial assistance for individuals who were

⁴³ For more information on Treasury's Economic Impact Payments provided in response to the COVID-19 public health emergency, see <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-american-families-and-workers/economic-impact-payments>.

⁴⁴ Memorandum from President Trump on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019 (Aug. 8, 2020).

participants in other federal financial assistance programs during the height of the COVID-19 emergency. To provide other types of direct financial assistance to individuals impacted by natural disasters, please refer to the section titled Cash Assistance below.

Other immediate needs. As discussed above, natural disasters cause varied damage to persons, property, and infrastructure. Recipients may provide emergency relief from the physical or negative economic impacts of natural disasters for other immediate needs not discussed above. Below, this interim final rule discusses examples of eligible uses available to state, local, and Tribal governments using SLFRF funds to address other immediate needs.

Emergency Protective Measures. Recipients may use SLFRF funds to provide emergency protective measures, such as those described in Category B of FEMA’s Public Assistance program to respond before, during, or after a natural disaster.⁴⁵ By referencing Category B eligible uses as an illustrative list of the types of emergency protective measure recipients may pursue with SLFRF funds, Treasury is seeking to simplify the administrability of this eligible use through a framework that may already be familiar to recipients. As noted above, recipients are not required to comply with the requirements associated with FEMA’s Public Assistance program and are not required to receive pre-approval from FEMA or Treasury to use SLFRF funds for this purpose. Category B of FEMA’s Public Assistance program includes assistance like emergency access, medical care and transport, emergency operations center related costs and other activities traditionally undertaken as part of emergency response. In considering what “other activities” are eligible under this category, recipients are encouraged to refer to Chapter 7 Section II of FEMA’s Public Assistance Program and Policy Guide, which discusses Category B

⁴⁵ FEMA, FP 104-009-02, Public Assistance Program and Policy Guide Version 4 (2020).

Emergency Protection Measures.⁴⁶ For Category B Emergency Protection Measures that are only eligible under FEMA's Public Assistance program as direct federal assistance, recipients may use SLFRF funds to provide these services directly, such as emergency communications or public transportation.

Other examples of emergency protective measures include: transporting and pre-positioning equipment and resources; flood fighting; firefighting; purchasing and distributing supplies and commodities; provision of medical care and transport; evacuation and sheltering; provision of childcare; demolition of structures; search and rescue to locate survivors, household pets, and service animals requiring assistance; use or lease of temporary generators for facilities that provide essential community services; dissemination of information to the public to provide warnings and guidance about health and safety hazards; searching to locate and recover human remains; storage and interment of unidentified human remains; mass mortuary services; construction of emergency berms or temporary levees to provide protection from floodwaters or landslides; emergency repairs necessary to prevent further damage, such as covering a damaged roof to prevent infiltration of rainwater; buttressing, shoring, or bracing facilities to stabilize them or prevent collapse; emergency slope stabilization; mold remediation; extracting water and clearing mud, silt, or other accumulated debris from eligible facilities; taking actions to save the lives of animals; and snow removal.

Debris Removal. Recipients may use SLFRF funds for debris removal activities.

Generally, this includes the clearance, removal, and disposal of vegetative debris (including tree limbs, branches, stumps, or trees), construction and demolition debris, sand, mud, silt, gravel,

⁴⁶ See *id.*

rocks, boulders, white goods, and vehicle and vessel wreckage. These eligible uses are described further in Category A of FEMA's Public Assistance program.⁴⁷ As noted above, recipients are not required to receive pre-approval from FEMA or Treasury to use SLFRF funds for these eligible uses. Recipients are also not required to comply with the requirements associated with FEMA's Public Assistance program.

Public Infrastructure Repair. Recipients may use SLFRF funds to restore public infrastructure damaged by a natural disaster, including roads, bridges, and utilities. Recipients may restore public infrastructure to its pre-disaster size, capacity, and function in accordance with applicable laws, codes, and standards. As part of restoring public infrastructure damaged by a natural disaster, recipients also may undertake activities that make this restored infrastructure more resilient to future natural disasters, helping to mitigate the impacts of future natural disasters. For more information on how to incorporate mitigation activities into a public infrastructure project, please see the section titled Threat of Future Natural Disaster: Mitigation Activities below.

Increased operational and payroll costs. When providing emergency relief from the physical or negative economic impacts of natural disasters, recipients may need to increase government services due to suddenly lacking or limited resources or may need to leverage existing government services or government facilities to be responsive as quickly and effectively as possible. Recipients may use SLFRF funds for increased operating costs, including payroll costs and costs for government facilities and government services used before, during, or after a

⁴⁷ See *id.*

natural disaster. This may include social services that are directly responsive to an impact from the disaster, representing an increased cost of providing those services due to the disaster.

Cash Assistance. Recipients may use SLFRF funds to provide cash assistance for uninsured or underinsured expenses caused by the disaster such as repair or replacement of personal property and vehicles, or funds for moving and storage, medical, dental, childcare, funeral expenses, behavioral health services, and other miscellaneous items. The eligible uses are generally modeled on FEMA’s Individuals and Households program, which provides money and services to individuals who have experienced a disaster whose property has been damaged or destroyed and whose losses are not covered by insurance.⁴⁸ Consistent with the provision of emergency relief discussed throughout this section, recipients are not required to comply with the requirements associated with FEMA’s Individuals and Households program to use SLFRF funds for these eligible uses. Furthermore, recipients are not required to receive pre-approval from FEMA or Treasury to use SLFRF funds for these eligible uses.

Recognizing that low-income households often experience deeper challenges recovering financially from a natural disaster,⁴⁹ recipients may also design cash assistance programs that serve low-income households that have been impacted by a natural disaster. Consistent with Treasury’s definition of low-income household in the public health and negative economic impacts eligible use category in the 2022 final rule, for this purpose a low-income household is one with (i) income at or below 185 percent of the Federal Poverty Guidelines for the size of its

⁴⁸ FEMA, A guide to the Disaster Declaration process and Federal Disaster Assistance, https://www.fema.gov/pdf/rrr/dec_proc.pdf.

⁴⁹ Caroline Ratcliffe et al., Urban Institute, Insult to Injury Natural Disasters and Residents’ Financial Health 7 (2019).

household based on the most recently published poverty guidelines by the Department of Health and Human Services or (ii) income at or below 40 percent of area median income for its county and size of household based on the most recently published data by the Department of Housing and Urban Development. Treasury will presume that cash assistance provided to low-income households impacted by a natural disaster is related and reasonably proportional emergency relief to address the negative economic impacts of natural disasters.

In designing a cash assistance program targeted to low-income households impacted by a natural disaster, recipients are not required to apply a specific dollar threshold for permissible payments and instead, recipients have flexibility in determining the appropriate level of cash assistance. This approach enables recipients to respond to the particularized natural disaster impacts for their low-income community members.

Home Repairs for Uninhabitable Primary Residences. Recipients may use SLFRF funds to rebuild homes or provide home repairs not covered by insurance to make residences that meet the criteria below habitable again. The residence must be a primary residence and be uninhabitable as a result of a natural disaster. As part of making home repairs, recipients may undertake activities that make restored homes more resilient to future natural disasters, helping to mitigate the impacts of future natural disasters. For more information on how to incorporate mitigation activities into home repair projects, please see the section titled Threat of Future Natural Disaster: Mitigation Activities below. This eligible use is generally modeled off of FEMA's Individuals and Households program, which provides money and services to individuals who have experienced a disaster whose property has been damaged or destroyed and

whose losses are not covered by insurance.⁵⁰ Uses of funds that are eligible under FEMA's Individuals and Households program are eligible under the SLFRF, but recipients are not required to comply with the requirements associated with FEMA's Individuals and Households program and are not required to receive pre-approval from FEMA or Treasury to use SLFRF funds for these eligible uses.

b. THREAT OF FUTURE NATURAL DISASTER: MITIGATION ACTIVITIES

In addition to the emergency relief described above, recipients also may provide emergency relief to lessen or avert the threat of a natural disaster and its potential physical or negative economic impacts through mitigation activities. Some examples of eligible mitigation activities include the eligible project types described in FEMA's Hazard Mitigation Assistance Guidance, such as structure elevation, mitigation reconstruction, dry flood proofing, structural retrofitting, non-structure retrofitting, wind retrofit, and infrastructure retrofit.⁵¹ Recipients are not required to receive pre-approval from FEMA or Treasury to use SLFRF funds for these eligible uses. Recipients are also not required to comply with the other requirements associated with FEMA's Hazard Mitigation Assistance programs.

Mitigation activities may be stand-alone projects that reduce or eliminate the potential impacts of the threat of a natural disaster or may be incorporated into repair or reconstruction projects that address the impacts of a natural disaster. For example, if a recipient is repairing the roof of a home damaged by a wildfire, the roof can be strengthened or fireproofed to make it

⁵⁰ FEMA, A Guide to the Disaster Declaration Process and Federal Disaster Assistance, https://www.fema.gov/pdf/rrr/dec_proc.pdf.

⁵¹ FEMA, Hazard Mitigation Assistance Guide Hazard Mitigation Grant Program, Pre-Disaster Mitigation Program, and Flood Mitigation Assistance Program (2015), https://www.fema.gov/sites/default/files/2020-07/fy15_HMA_Guidance.pdf.

more resilient to future wildfires as well. Similarly, recipients repairing roads damaged by flooding can incorporate drainage or pervious pavement that would result in a reduced or eliminated impact of flooding in the future, thereby decreasing future costs of repair and impact to the community. As discussed above, when identifying the threat of a natural disaster, a recipient must have documented evidence that historical patterns or predictions that reasonably demonstrate the likelihood of future occurrence of a natural disaster in the community.

Mitigation Activities with Capital Expenditures Exceeding \$1 Million. In the case of mitigation activities with total expected capital expenditures of \$1 million or greater, recipients other than Tribal governments must complete and meet the substantive requirements of a Written Justification for the capital expenditures in their project. Recipients will submit this Written Justification to Treasury as part of the Project & Expenditure report. Treasury will amend the Compliance and Reporting Guidance to describe how recipients will submit this information.

As discussed in Timeline for Use of SLFRF Funds section, SLFRF funds for this eligible use must be obligated by December 31, 2024 and expended by December 31, 2026. Capital expenditures may involve long lead-times, and the Written Justification may support recipients in analyzing proposed capital expenditures to confirm that they conform to the obligation and expenditure timing requirements. Further, such large projects may be less likely to be reasonably proportional to the potential impacts identified. Treasury is adopting the Written Justification requirement in recognition of this and the need for consistent documentation and reporting to support monitoring and compliance with the ARPA and this interim final rule. For projects with capital expenditures that only repair or restore infrastructure to pre-disaster conditions and do not include mitigation activities, recipients are not required to complete a Written Justification.

As noted above, Tribal governments are not required to complete the Written Justification for mitigation activities with total capital expenditures of \$1 million or greater. Tribal governments generally have limited administrative capacity due to their small size and corresponding limited ability to supplement staffing for short-term programs. In addition, Tribal governments are already subject to unique considerations that require additional administrative processes and administrative burden for Tribal government decision making, including capital expenditures. Tribal governments generally are subject to a jurisdictionally complex set of rules and regulations in the case of improvements to land for which the title is held in trust by the United States for a Tribe (Tribal Trust Lands). This includes the requirement in certain circumstances to seek the input or approval of one or more federal agencies such as the Department of the Interior, which holds fee title of Tribal Trust Lands.

As a result of their limited administrative capacity and the unique and complex rules and regulations applicable to Tribal governments operating on Tribal Trust Lands, Tribal governments would experience significant and redundant administrative burden by also being required to complete a Written Justification for applicable capital expenditures. While Tribal governments are not required to complete the Written Justification, associated substantive requirements continue to apply, including the requirement that a capital expenditure must be related and reasonably proportional to the extent and type of the threat or impact being addressed. Note that, as a general matter, Treasury may also request further information on SLFRF expenditures and projects, including capital expenditures, as part of the regular SLFRF reporting and compliance process, including to assess their eligibility under this interim final rule.

Written Justification Requirements for Mitigation Capital Expenditures. For non-Tribal government recipients pursuing mitigation activities where a Written Justification is required, the Written Justification must (1) describe the emergency relief provided by the mitigation activity; (2) explain why a capital expenditure is appropriate to address the need for emergency relief; and (3) compare the proposed mitigation activity capital expenditure against alternative capital expenditures that could be made. The information required by the Written Justification reflects the framework applicable to all uses under the emergency relief from natural disasters eligible use category, providing justification for the relatedness and reasonable proportionality of the capital expenditure in response to the potential impact identified.

1. *Description of emergency relief to be provided and potential impact to be addressed:*

Recipients should provide a description of the specific mitigation activities that provide emergency relief and explain why emergency relief is needed to lessen or avert the potential impacts of the natural disaster that is threatened to occur in the future. When appropriate, recipients may provide quantitative information on the extent and type of assistance needed to provide emergency relief, such as the number of individuals or entities that may be affected. As discussed above, when recipients identify a natural disaster that is threatened to occur in the future, recipients must document evidence of historical patterns or predictions of natural disasters that would reasonably demonstrate the likelihood of future occurrence of a natural disaster in their communities. In the Written Justification, recipients should use this evidence, along with considerations of efficacy, cost, cost effectiveness, and time to delivery, to support their determinations that mitigation activities would be related and reasonably proportional.

2. *Explanation of why a mitigation capital expenditure is appropriate:* Recipients should provide an assessment demonstrating why a mitigation activity capital expenditure is appropriate to address the specified potential impact identified. This should include an explanation of why existing capital equipment, property, or facilities would be inadequate to addressing the potential impact of the threat of a natural disaster and why policy changes or additional funding to pertinent programs or services would be insufficient without the corresponding capital expenditures. Recipients are not required to demonstrate that the potential impacts would be irreparable but for the additional capital expenditure; rather, they may show that other interventions would be inefficient, costly, or otherwise not reasonably designed to remedy the need for emergency relief without additional capital expenditure.
3. *Comparison of the proposed capital expenditure against alternative capital expenditures:* Recipients should provide an objective comparison of the proposed mitigation capital expenditure against at least two alternative capital expenditures and demonstrate why their proposed capital expenditure is superior to alternative capital expenditures that could be made. Specifically, recipients should assess the proposed capital expenditure against at least two alternative types or sizes of capital expenditures that are potentially effective and reasonably feasible. Where relevant, recipients should compare the proposal against the alternative of improving existing capital assets already owned or leasing other capital assets. Recipients should use quantitative data when available, although they are encouraged to supplement with qualitative information and narrative description. Recipients that complete analyses with minimal or no quantitative data should provide an explanation for doing so.

In determining whether their proposed mitigation activity capital expenditure is superior to alternative capital expenditures, recipients should consider the following factors against each selected alternative.

- a. A comparison of the effectiveness of the capital expenditures in addressing the need for mitigation identified.* Recipients should generally consider the effectiveness of the mitigation capital expenditures in addressing the potential impacts of the threatened natural disasters over the useful life of the capital asset and may consider metrics such as the number of individuals or entities served, when such individuals or entities are estimated to be served, the relative time horizons of the project, and consideration of any uncertainties or risks involved with the capital expenditure.
- b. A comparison of the expected total cost of the capital expenditures.* Recipients should consider the expected total cost of the mitigation capital expenditure required to construct, purchase, install, or improve the capital assets intended to address the need for emergency relief from the threat of the natural disaster identified. Recipients should include pre-development costs in their calculation and may choose to include information on ongoing operational costs, although this information is not required. Recipients should balance the effectiveness and costs of the proposed capital expenditure against alternatives and demonstrate that their proposed capital expenditure is superior. Further, recipients should choose the most cost-effective option unless it substantively reduces the effectiveness of the capital investment in addressing the need for emergency relief from the threat of the natural disaster identified.

Because, in all cases, uses of SLFRF funds to provide emergency relief from natural disasters must be related and reasonably proportional to actual or potential physical or negative economic impacts of a natural disaster, some capital expenditures may not be eligible.

In selecting the \$1 million threshold, Treasury recognized that mitigation activity capital expenditures vary widely in size and therefore would benefit from tiered treatment to implement eligibility standards while minimizing administrative burden. The \$1 million threshold for whether a recipient needs to complete a Written Justification will allow recipients a simplified pathway to complete smaller projects.

Expenditures from closely related activities directed toward a common purpose are considered part of the scope of one project. These expenditures can include capital expenditures, as well as expenditures on related programs, services, or other interventions. A project includes expenditures that are interdependent (e.g., acquisition of land, construction of the facility on the land, and purchase of equipment), or are of the same or similar type and would be utilized for a common purpose (e.g., acquisition of barricades that would be used to provide emergency relief from natural disasters). Recipients must not segment a larger project into smaller projects in order to evade review. A recipient undertaking a set of identical or similar projects may complete one Written Justification comprehensively addressing the entire set of projects.

Treasury employs a risk-based approach to overall program management and monitoring, which may result in heightened scrutiny on larger projects. Accordingly, recipients pursuing projects with larger mitigation capital expenditures should complete more detailed analyses for their Written Justification, commensurate with the scale of the project.

Strong Labor Standards in Construction. As discussed in the 2022 final rule, Treasury continues to encourage recipients to carry out public infrastructure and mitigation activities in

ways that produce high-quality work, avert disruptive and costly delays, and promote efficiency. Treasury encourages recipients to use strong labor standards, including project labor agreements and community benefits agreements that offer wages at or above the prevailing rate and include local hire provisions. Treasury also recommends that recipients prioritize in their procurement decisions employers that can demonstrate that their workforce meets high safety and training standards (e.g., professional certification, licensure, and/or robust in-house training), that hire local workers and/or workers from historically underserved communities, and that directly employ their workforce or have policies and practices in place to ensure contractors and subcontractors meet high labor standards. Treasury further encourages recipients to prioritize employers (including contractors and subcontractors) without recent violations of federal and state labor and employment laws.

Treasury believes that such practices will promote effective and efficient delivery of high-quality projects and support the economic recovery through strong employment opportunities for workers. Such practices will reduce likelihood of potential project challenges like work stoppages or safety accidents, while ensuring a reliable supply of skilled labor and minimizing disruptions, such as those associated with labor disputes or workplace injuries. That will, in turn, promote on-time and on-budget delivery.

Furthermore, among other requirements contained in 2 CFR Part 200, Appendix II, all contracts made by a recipient or subrecipient in excess of \$100,000 with respect to projects that involve employment of mechanics or laborers must include a provision for compliance with certain provisions of the Contract Work Hours and Safety Standards Act, 40 U.S.C. 3702 and 3704, as supplemented by Department of Labor regulations (29 CFR Part 5). Treasury will

continue to seek information from recipients on their workforce plans and public infrastructure and mitigation activities undertaken with SLFRF funds.

5. ADMINISTRATION

As discussed above, generally, the emergency relief from natural disasters eligible use category is subject to the same program administration requirements as the existing eligible uses in the SLFRF program, as discussed in the 2022 final rule, including the obligation deadline of December 31, 2024 and expenditure deadline of December 31, 2026. As discussed in this interim final rule, recipients may use SLFRF funds under this eligible use category for costs incurred beginning December 29, 2022, regardless of the date of the declared disaster. As with all other eligible uses in the SLFRF program, the general restrictions on use outlined in the 2022 final rule apply to funds expended under the emergency relief from natural disasters eligible use category. Additionally, recipients may reference the section titled Distinguishing Subrecipients versus Beneficiaries of the 2022 final rule for clarification of the distinction between subrecipients and beneficiaries.

Recipients are not required to obtain project pre-approval from Treasury or any other federal agency when using SLFRF funds for natural disaster projects unless otherwise required by federal law. While reference to FEMA, the Department of Labor, or other federal emergency assistance programs is provided to assist recipients in understanding the types of emergency relief projects eligible to be funded with SLFRF funds, recipients do not need to apply for funding from the applicable state programs or through any federal programs. Similarly, this interim final rule generally does not incorporate program requirements or guidance that attach to other federal emergency programs. However, as noted above, recipients should be aware of other

federal or state laws or regulations that may apply to projects, independent of SLFRF funding conditions, that may require approval from another federal or state agency.

Question 1: Are there other types of services or costs that Treasury should consider as enumerated eligible uses to provide emergency relief from the physical or negative economic impacts of natural disasters? Describe how these provide emergency relief from natural disasters.

Question 2: What, if any, additional criteria should Treasury consider to ensure that emergency relief responds to the physical or negative economic impacts of natural disasters?

Question 3: What additional clarity or guidance would benefit recipients in identifying eligible mitigation activities?

B. USING FUNDS FOR SURFACE TRANSPORTATION AND TITLE I PROJECTS

To support SLFRF recipients in meeting the infrastructure needs of their communities, the 2023 CAA also provided the authority for recipients to use SLFRF funds for certain infrastructure projects, including projects eligible under certain programs administered by the Department of Transportation (Surface Transportation projects) and projects eligible under Title I of the Housing and Community Development Act of 1974 (Title I projects).⁵² The 2023 CAA imposes requirements on SLFRF funds used for Surface Transportation projects and Title I projects beyond those requirements that apply to all other SLFRF eligible use categories. In the sections separately discussing Surface Transportation projects and Title I projects below, this interim final rule summarizes the types of eligible projects within each category, provides

⁵² See 42 U.S.C. 802(c)(5) and 803(c)(6).

references to relevant guidance for the projects, and discusses how the requirements imposed by the 2023 CAA apply to each category.

The 2023 CAA provides that the total amount of SLFRF funds that a recipient may use for Surface Transportation projects and Title I projects together shall not exceed the greater of \$10 million and 30% of a recipient's SLFRF allocation. This limitation does not apply to SLFRF funds used for the other eligible uses in the SLFRF program, including funds used for the provision of government services under the revenue loss eligible use category.

This limitation applies to the total amount of SLFRF funds that a recipient may use for Surface Transportation projects and Title I projects taken together. For example, an SLFRF recipient with an allocation of \$20 million would have \$10 million (as \$10 million is greater than 30% of the recipient's allocation—\$6 million) to direct to Surface Transportation projects and Title I projects. This recipient could direct, for example, \$5 million toward Surface Transportation projects and \$5 million toward Title I projects, or \$3 million toward Surface Transportation projects and \$7 million toward Title I projects. This same recipient may choose to spend additional funding over and above this \$10 million on projects that might otherwise be eligible as Surface Transportation or Title I projects under a different eligible use category, such as the revenue loss eligible use category, under which recipients may use SLFRF funds for the provision of government services.

The 2023 CAA provides that, except as otherwise determined by the Secretary or the head of a federal agency to whom oversight and administration of the requirements have been delegated, the requirements of other laws, including titles 23, 40, and 49 of the U.S. Code, title I of the Housing and Community Development Act of 1974 (HCDA), and the National Environmental Policy Act of 1969 (NEPA), apply to recipients' use of SLFRF funds for Surface

Transportation projects and Title I projects. These requirements include the project approval and certification requirements of titles 23, 40, and 49 of the U.S. Code and title I of the HCDA and the regulations adopted thereunder.⁵³ The application of the Surface Transportation project approval requirements to the SLFRF program means that recipients must obtain the approval of the Secretary or the head of the federal agency to whom authority has been delegated by the Secretary prior to obligating and expending funds on Surface Transportation projects. Title I of the HCDA provides for project-level approval only in the case of project environmental review. The application of this requirement to the SLFRF program means that recipients must comply with the environmental review requirements set forth in the HUD statute and regulations, submit a certification to Treasury, and receive approval prior to obligating and expending funds on Title I projects, as discussed below.

The provisions of the 2023 CAA reflect an intent that the usual requirements that apply to Surface Transportation projects funded by DOT should generally also apply to such projects as funded by Treasury under the SLFRF program but also a recognition that the DOT regulatory requirements would need to be harmonized with the particular structure of the SLFRF program. Treasury interprets the “except as otherwise determined” clause referenced above to permit Treasury to determine not to apply certain requirements of the cross-referenced statutes when such requirements would conflict with the existing SLFRF framework or otherwise would be

⁵³ The application of these approval and certification requirements to SLFRF for these projects is indicated by the statute's specific reference to NEPA. NEPA only applies to federal actions such as a federal agency approval. Without application of the approval requirements of the cross-referenced statutes, there would be no generally applicable federal action associated with the use of SLFRF funds for Surface Transportation projects and Title I projects.

likely to preclude recipients from exercising the additional authorities provided by the 2023 CAA.

As a general matter, DOT must approve recipients' use of funds for projects funded by DOT. However, under the existing SLFRF framework, Treasury provided funds to recipients either in full or in two tranches rather than disbursing funds to recipients after approving the use of funds for particular projects, and recipients must obligate and expend such funds by set deadlines. If the SLFRF program did not have obligation and expenditure deadlines, recipients might have time to go through a process of receiving Treasury approval under Pathway Two prior to using the funds that they had already received on Surface Transportation projects. But it is possible that recipients will seek to use funds under Pathway Two for hundreds of Surface Transportation projects in total, and application of the statutory and regulatory approval requirements to such a large volume of projects likely would preclude recipients from carrying out such projects while meeting the statutory deadlines for obligation and expenditure of funds. To ensure that recipients are able to exercise the additional authorities provided by the 2023 CAA prior to the December 31, 2024 obligation deadline, Treasury has determined not to require recipients to obtain the approval of the Secretary prior to obligating and expending funds on Surface Transportation projects that present less risk, as described under the streamlined framework of Pathway Two in the section that follows. Treasury expects far fewer recipients to seek to use SLFRF funds for higher-risk projects involving greater complexity. By not applying the approval requirements to the more numerous but less risky types of projects, Treasury will avoid the likelihood that most recipients would effectively be unable to engage in any Surface Transportation projects other than those qualifying for Pathway One.

The approval requirements will apply to Surface Transportation projects that do not meet the streamlined framework criteria, and as discussed further below, Treasury will design a process, based in part on the comments to this interim final rule, for recipients seeking to fund these larger, more complex projects. Similarly, as discussed further below, project-level certification requirements related to environmental review contemplated by title I of the HCDA will apply to the use of SLFRF funds for the Title I projects eligible use category. Treasury provides more information regarding approval and certification requirements applicable to Surface Transportation projects and Title I projects, respectively, in the sections titled Pathway Two: Surface Transportation Projects Not Receiving Funding from DOT and Applicable Requirements for Title I Projects below.

Recipients using funds for Surface Transportation projects that are subject to approval requirements must satisfy NEPA environmental review requirements. Recipients using funds for Surface Transportation projects that are not subject to approval requirements (pursuant to the streamlined approach described under Pathway Two in the section that follows) are not required to conduct NEPA environmental reviews. Recipients using funds for Title I projects must satisfy NEPA environmental review requirements based on the procedures set forth in title I of the HCDA, the associated regulations, and as implemented by Treasury. For more information about how the requirements of NEPA apply to Surface Transportation projects and Title I projects, respectively, refer to the sections titled Pathway Two: Applicable Requirements and Applicable Requirements for Title I Projects below. As discussed in Treasury's guidance to date, NEPA does not apply to the other eligible uses in the SLFRF program as described in the 2022 final

rule, though recipients that blend SLFRF funds with other federal funds may be subject to additional requirements associated with the other federal funds.⁵⁴

As is the case with all projects using SLFRF funds, projects must comply with applicable federal statutes, regulations, and executive orders, including environmental laws and federal civil rights and nondiscrimination requirements,⁵⁵ which include prohibitions on discrimination on the basis of race, color, national origin, sex (including sexual orientation and gender identity), religion, disability, age, or familial status (having children under the age of 18).⁵⁶ State, Tribal, and local procurement, contracting, and conflicts-of-interest laws and regulations, including, for example, required procurement processes for contractor selection or competitive price setting, also may apply to recipients' use of SLFRF funds.

The 2023 CAA provides that SLFRF funds used for Surface Transportation projects and Title I projects must supplement, not supplant other federal, state, territorial, Tribal, and local government funds (as applicable) that are otherwise available for these projects. This interim final rule discusses below how the supplement, not supplant provision applies to uses of funds for Surface Transportation projects and Title I projects. The non-supplant requirement does not apply to the other SLFRF eligible use categories, including the emergency relief from natural disasters eligible use category.

⁵⁴ For additional information about blending and braiding SLFRF funds with other funding sources, refer to SLFRF Final Rule FAQ 4.8, available at <https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf>.

⁵⁵ Applicable federal civil rights and non-discrimination laws include Title VI of the Civil Rights Act of 1964, 42 U.S.C. 2000d; Title VIII of the Civil Rights Act of 1968 (the Fair Housing Act), as amended by the Fair Housing Amendments Act of 1988, 42 U.S.C. 3602, et seq; Section 504 of the Rehabilitation Act of 1973, 29 U.S.C. 794; Title IX of the Education Amendments Act of 1972, 20 U.S.C. 1681; and the Age Discrimination Act of 1975, 42 U.S.C. 6101 et. seq.

⁵⁶ As described in SLFRF Final Rule FAQ 12.1, award terms and conditions for Treasury's pandemic recovery programs, including SLFRF, do not impose antidiscrimination requirements on Tribal governments beyond what would otherwise apply under federal law.

The 2023 CAA provides that funds used for Surface Transportation projects and Title I projects must be obligated by December 31, 2024 and expended by September 30, 2026. The expenditure deadline for these eligible uses provided by the 2023 CAA is earlier than the December 31, 2026 expenditure deadline associated with the other eligible uses in the program, including emergency relief from natural disasters.

The 2023 CAA provides that Treasury may delegate to the appropriate federal agency oversight and administration of the requirements associated with the use of funds for Surface Transportation projects and Title I projects. As discussed below, Treasury is delegating oversight and administration of Surface Transportation projects under Pathway One (described below) to the Department of Transportation (DOT). Recipients that direct SLFRF funds toward Surface Transportation projects under Pathway One will be required to complete the existing DOT reporting requirements that already apply to projects funded by DOT and to report certain information to Treasury. See the sections titled Pathway One: Delegation of Authority and Discussion of Revenue Loss and Program Administration Provisions for further information.

Below, this interim final rule discusses how recipients may use SLFRF funds for Surface Transportation projects and Title I projects, respectively.

1. SURFACE TRANSPORTATION PROJECTS

Background

As added by the 2023 CAA, sections 602(c)(5) and 603(c)(6) of the Social Security Act provide that state, local, and Tribal governments may use SLFRF funds, subject to limitations, for surface transportation infrastructure projects (Surface Transportation projects) eligible under certain programs administered by DOT. As described above, recipients may only use the greater of 30% of their SLFRF award and \$10 million, not to exceed a recipient's allocation, for all

Surface Transportation projects (described in this section) and Title I projects (described in the section that follows) taken together.

Under the Surface Transportation projects eligible use category, SLFRF funds may be used for a project eligible under any of sections 117, 119, 124, 133, 148, 149, 151(f), 165, 167, 173, 175, 176, 202, 203, and 204 of title 23 of the U.S. Code; an activity to carry out section 134 of title 23 of the U.S. Code; a project eligible under the Rebuilding American Infrastructure with Sustainability and Equity (RAISE) grant program; a project eligible for credit assistance under the Transportation Infrastructure Finance and Innovation Act (TIFIA) program under chapter 6 of title 23 of the U.S. Code; a project that furthers the completion of a designated route of the Appalachian Development Highway System under section 14501 of title 40 of the U.S. Code; a project eligible under any of sections 5307, 5309, 5311, 5337, 5339, and 6703 of title 49 of the U.S. Code; or a project eligible under the bridge replacement, rehabilitation, preservation, protection, and construction program under paragraph (1) under the heading “HIGHWAY INFRASTRUCTURE PROGRAM” under the heading “FEDERAL HIGHWAY ADMINISTRATION” under the heading “DEPARTMENT OF TRANSPORTATION” under title VIII of division J of the Infrastructure Investment and Jobs Act.

The statute also provides that, to the extent consistent with guidance or rules issued by the Secretary or the head of a federal agency to which the Secretary has delegated authority, recipients may use SLFRF funds to satisfy a non-federal share requirement applicable to a project eligible under section 117 of title 23, sections 5309 or 6701 of title 49, or a project eligible for credit assistance under the TIFIA program under chapter 6 of title 23. Additionally, in the case of a project eligible for credit assistance under the TIFIA program, recipients may use SLFRF funds to repay a loan provided under such program.

The 2023 CAA provides that the requirements of the relevant titles of the U.S. Code and the National Environmental Policy Act of 1969 apply to the use of the SLFRF for Surface Transportation projects, except as otherwise determined by the Secretary or the head of a federal agency to whom oversight and administration of the requirements have been delegated. Additionally, SLFRF funds may only be used to supplement, and not supplant, other federal, state, territorial, Tribal, and local government funds (as applicable) that are otherwise available for the eligible project.

Overview

There are different ways in which recipients may use SLFRF funds for Surface Transportation projects under the new authority provided by the 2023 CAA. In this interim final rule, Treasury has organized discussion of the Surface Transportation projects eligible use category in terms of three “pathways.”

First, recipients may use SLFRF funds (i) in the case of existing eligible projects that receive funding from DOT, to expand the project or to cover additional unexpected costs associated with the project and (ii) in the case of eligible projects that have not yet received but will receive funding from DOT prior to December 31, 2024, the obligation deadline for the SLFRF program, to contribute SLFRF funds to expand the scope of the project, to cover additional unexpected costs, or in other ways that supplement DOT funding, as described in the section titled Prohibition on Supplanting Other Funds. In each case, the Surface Transportation project must be subject to DOT’s oversight during the period that SLFRF funds are used for the project. Recipients pursuing Surface Transportation projects that are receiving or will receive funding from DOT should be prepared to work with DOT to determine whether the use of SLFRF funds for a particular project meets the relevant requirements. In addition, the project

must meet the requirements and restrictions that apply to Surface Transportation projects funded through the SLFRF program described further below. Furthermore, in the case of projects funded under certain DOT programs like INFRA and RAISE, the addition of federal funds – including SLFRF funds – to an existing project is subject to approval from DOT. Throughout this interim final rule, Treasury refers to this eligible use as “Pathway One.”

Second, this interim final rule lays out a pathway for all SLFRF recipients, including those that may not typically or currently be a direct recipient of DOT funding, to use SLFRF funds to finance Surface Transportation projects that will be overseen and administered by Treasury. Within this pathway, Treasury is articulating a streamlined framework for recipients to use up to \$10 million in SLFRF funds per project on Surface Transportation projects that do not include DOT funding but meet certain parameters. Though these projects do not include DOT funding, recipients may choose to blend SLFRF funds with other sources of funds to carry out the projects. Recipients using SLFRF funds for these projects are not required to consult with DOT and instead these projects will be administered and overseen by Treasury. Throughout this interim final rule, Treasury refers to this eligible use as “Pathway Two.” For additional information, refer to the section titled Pathway Two: Surface Transportation Projects not Receiving Funding from DOT.

Recipients interested in financing Surface Transportation projects outside of the parameters of the streamlined framework in Pathway Two may submit a notice of intent to Treasury, as described further below in the section titled Pathway Two: Surface Transportation Projects not Receiving Funding from DOT. Based on these notices of intent and comments to this interim final rule, Treasury will provide instructions as to how recipients may apply for

approval to carry out their proposed projects and guidance as to any additional requirements associated with such projects.

Third, recipients may use SLFRF funds to repay a TIFIA loan or to satisfy a non-federal share requirement for projects under four Surface Transportation programs: INFRA Grants, Fixed Guideway Capital Investment Grants, Mega Grants, and projects eligible for credit assistance under the TIFIA program. Recipients should consult with DOT before pursuing projects under this third pathway. Throughout this interim final rule, Treasury refers to this eligible use as “Pathway Three.” For more information, refer to the section titled Pathway Three: Non-Federal Share Requirements for Certain Surface Transportation Requirements.

In the following sections, this interim final rule discusses the specific types of Surface Transportation projects that are eligible uses of SLFRF funds and the applicable requirements and limitations.

Prohibition on supplanting other funds

For all three pathways for Surface Transportation projects, recipients must comply with the requirement provided in the 2023 CAA that funds used for Surface Transportation projects shall “supplement, and not supplant, other Federal, State, territorial, Tribal, and local government funds (as applicable) otherwise available for such uses.” The phrase “other ... funds available for such uses” refers to (i) in the case of non-federal funds, non-SLFRF funds that have been obligated for specific uses that are eligible under the Surface Transportation projects eligible use category or (ii) in the case of federal funds, funds that a federal agency has committed to a particular project pursuant to an award agreement or otherwise, including funds identified in an awarded DOT grant agreement for use on Surface Transportation projects.

Under prong (i), for the purpose of identifying non-federal funds that have been obligated for specific uses, the definition of “obligation” used in the 2022 final rule applies, which is “an order placed for property and services and entering into contracts, subawards, and similar transactions that require payment.”⁵⁷ As such, a recipient may not de-obligate funds that were obligated for specific uses that are eligible under this section (e.g., by cancelling, amending, renegotiating, or otherwise revising or abrogating a contract, subaward, or similar transaction that requires payment) and replace those previously obligated funds with SLFRF funds under this eligible use category.

The restriction in prong (ii) on replacing funds that a federal agency has committed to a particular project pursuant to an award agreement or otherwise applies to all funding sources covered by the commitment. For example, for DOT-funded projects subject to a grant agreement, the restriction extends to DOT funds, other federal funds, and any other funds identified by the recipient for the purpose of satisfying cost-share requirements of the project.

Thus, a recipient may not de-obligate funds and replace those previously obligated funds with SLFRF funds under this eligible use category. Nor may a recipient use SLFRF to replace federal or non-federal funds identified in a federal commitment, such as an award agreement. However, a recipient may use SLFRF funds under this eligible use category:

(1) to provide additional funding to a project without reducing the amount of other funds obligated to such project, thereby funding additional activities or expanding the scope of projects; or

⁵⁷ See Final Rule FAQ 13.17 for additional information about obligations. This approach applies a concrete standard that is known to SLFRF recipients and administrable by Treasury.

(2) to undertake a project for which funds have not been previously obligated or identified in a federal commitment, such as an award agreement.

For example, consider a municipal road project. The recipient has not yet entered into an award agreement with DOT but is expecting that federal funds from DOT will make up a certain amount of the project funds and is planning on using local funds to satisfy cost-share requirements. Because the recipient has not yet entered into an award agreement with DOT, even if the project is included in the transportation improvement program (TIP) or a statewide transportation improvement program (STIP), the recipient may choose to alter the funding mixture to include SLFRF funding, after consulting with DOT. However, if in that same scenario, the recipient had entered into an award agreement with DOT that included a certain amount of DOT funding and a remaining amount of funds from local sources, then the funds for the project may not be replaced with SLFRF funds. The recipient could not supplant federal or non-federal funds identified to DOT as part of the grant award or terminate or renegotiate an existing contract for the construction of the project and use SLFRF funds to replace the funds previously identified or obligated for that purpose. In this scenario, recipients would be able to use SLFRF funds to expand the scope of a project or cover unexpected costs, after consulting with DOT.

In the case of projects previously included within a TIP or STIP that have received funding from DOT, recipients should reflect increased overall project funding resulting from the addition of SLFRF funds within the STIP or TIP, even when the sources of project funding may have changed prior to identification in the DOT grant award or obligation.

a. *PATHWAY ONE: SURFACE TRANSPORTATION PROJECTS RECEIVING FUNDING FROM DOT*

This section of the interim final rule describes how recipients may use SLFRF funds under Pathway One (i) in the case of existing eligible projects that are receiving funding from DOT to expand the project or to cover additional unexpected costs associated with the project and (ii) in the case of eligible projects that have not yet but will receive funding from DOT prior to December 31, 2024, the obligation deadline for the SLFRF program, to contribute SLFRF funds to the project, to expand the project, to cover additional unexpected costs, or in other ways that supplement DOT funding. In each case, the Surface Transportation project must be subject to DOT's oversight during the period that SLFRF funds are used for the project. Recipients seeking to use SLFRF funds for Surface Transportation projects under Pathway One should consult with DOT and refer to the requirements discussed in the following subsection. Generally, and as discussed further below, when using SLFRF funds under Pathway One, the statutory requirements that normally apply when carrying out Surface Transportation projects funded by DOT continue to apply. In the case of some DOT-funded programs like INFRA and RAISE, the addition of other federal funds – including SLFRF funds – to an existing project is subject to approval from DOT. This interim final rule describes how recipients may use SLFRF funds under Pathway One, summarizes the programs under which recipients may direct SLFRF funds toward eligible projects, and outlines the requirements associated with this pathway. Recipients using SLFRF funds under Pathway One must comply with the requirement that SLFRF funds supplement and not supplant other funds, described above.

In the case of existing projects currently receiving funding from DOT, recipients may use SLFRF funds to expand the project and to cover additional unexpected costs associated with the project. Using SLFRF funds for these purposes is a way for recipients to supplement but not

supplant funds in existing projects receiving funding from DOT. In each case, the project must meet the requirements and restrictions that apply to Surface Transportation projects funded through the SLFRF program.

For eligible projects that have not yet but will receive funding from DOT prior to the SLFRF program's December 31, 2024 obligation deadline, recipients also may contribute SLFRF funds to the project, as long as the project meets the requirements and restrictions that apply to Surface Transportation projects funded through the SLFRF program, including the non-supplant requirements. For these projects that have not yet been funded, recipients may have more flexibility to contribute SLFRF funds for purposes beyond expanding the scope of the project and covering additional unexpected costs, because there may be more ways to supplement DOT funding without supplanting other funds. For example, in addition to using SLFRF funds to expand project scope or to cover additional unexpected costs that may arise, recipients may also be able to commit SLFRF funds in the initial planning phase of the project as part of the recipient's cost-share obligation, to the extent that DOT rules permit federal funds to constitute a portion of the project's cost sharing or matching requirement. Recipients should note that planned contributions of SLFRF funds to a project that has not yet received funding from DOT will affect the determination of total federal funds that would support the project and may affect calculations of the non-federal funds cost-share contribution required in order to be in compliance with DOT requirements.

Under Pathway One, recipients may use SLFRF funds for projects eligible under the programs described below. This interim final rule briefly summarizes each program and references existing implementation guidance, where available. Recipients should refer to the

relevant program guidance for DOT programs of interest for further information and detail about the types of projects eligible under those programs.

- INFRA Grants⁵⁸ – 602(c)(5)(B)(i) of the Social Security Act – Also known as Nationally Significant Multimodal Freight & Highway Projects, INFRA awards are competitive grants for multimodal freight and highway projects of national or regional significance to improve the safety, efficiency, and reliability of the movement of freight and people in and across rural and urban areas. For additional information about INFRA Grants, see *USDOT INFRA Grant Program*.⁵⁹
- National Highway Performance Program (NHPP)⁶⁰ – 602(c)(5)(B)(ii) of the Social Security Act – The NHPP provides formula funding with the purposes of providing support for the condition and performance of the National Highway System (NHS) or for the construction of new facilities on the NHS; ensuring that investments of federal-aid funds in highway construction are directed to support progress toward the achievement of performance targets established in an asset management plan of a state for the NHS; and providing support for activities to increase the resiliency of the NHS to mitigate the cost of damages from sea level rise, extreme weather events, flooding, wildfires, or other natural disasters. For additional information about NHPP, see *Implementation Guidance*

⁵⁸ See 23 U.S.C. 117.

⁵⁹ See the U.S. Department of Transportation’s INFRA Grants Program website at <https://www.transportation.gov/grants/infra-grants-program>.

⁶⁰ See 23 U.S.C. 119.

*for the National Highway Performance Program (NHPP) as Revised by the Bipartisan Infrastructure Law.*⁶¹

- Bridge Investment Program (BIP)⁶² – 602(c)(5)(B)(iii) of the Social Security Act – The BIP awards competitive discretionary grants to improve the safety, efficiency, and reliability of the movement of people and freight by funding projects to replace, rehabilitate, preserve, or protect bridges in the National Bridge Inventory, including projects to replace or rehabilitate bridge-sized culverts for the purpose of improving flood control and improved habitat connectivity. It has a focus on improving the condition of bridges in poor condition and supporting activities to prevent bridges in fair condition from dropping to poor condition. For additional information on the BIP, see *Bridge Investment Program (BIP) Questions and Answers (Q&As)*.⁶³
- Surface Transportation Block Grant Program (STBG)⁶⁴ – 602(c)(5)(B)(iv) of the Social Security Act – The STBG provides flexible funding that may be used for projects to preserve and improve the conditions and performance on any federal-aid highway, bridge and tunnel projects on any public road, pedestrian and bicycle infrastructure, and transit capital projects, including intercity bus terminals. For additional information on the

⁶¹ U.S. Department of Transportation, Federal Highway Administration, Implementation Guidance for the National Highway Performance Program (NHPP) as Revised by the Bipartisan Infrastructure Law (Jun. 1, 2022), https://www.fhwa.dot.gov/specialfunding/nhpp/bil_nhpp_implementation_guidance-05_25_22.pdf.

⁶² See 23 U.S.C. 124.

⁶³ U.S. Department of Transportation, Federal Highway Administration, Bridge Investment Program (BIP) Questions and Answers (Q&As) (Aug. 18, 2022), <https://www.fhwa.dot.gov/bridge/bip/qa.cfm>.

⁶⁴ See 23 U.S.C. 133.

STBG, see *Implementation Guidance for the Surface Transportation Block Grant Program (STBG) as Revised by the Bipartisan Infrastructure Law*.⁶⁵

- Highway Safety Improvement Program (HSIP)⁶⁶ – 602(c)(5)(B)(vi) of the Social Security Act – The HSIP provides formula funding with the purpose of helping to achieve a significant reduction in traffic fatalities and serious injuries on all public roads, including non-state-owned public roads and roads on Tribal land. HSIP funds are typically available for defined highway safety improvement projects, as well as “specified safety projects.” For additional information on the HSIP, see the *Highway Safety Improvement Program (HSIP) Eligibility Guidance*.⁶⁷
- Congestion Mitigation and Air Quality Improvement Program (CMAQ)⁶⁸ – 602(c)(5)(B)(vii) of the Social Security Act – The CMAQ provides a flexible funding source for transportation projects and programs to help meet the requirements of the Clean Air Act. Funding is available to reduce congestion and improve air quality for areas that do not meet the National Ambient Air Quality Standards for ozone, carbon monoxide, or particulate matter (nonattainment areas) and for former nonattainment areas that are now in compliance (maintenance areas). A wide range of transportation projects leading to reduction in emissions are eligible for support under the CMAQ, including projects involving new transit, alternative fuels, shared micro-mobility, traffic flow

⁶⁵ U.S. Department of Transportation, Federal Highway Administration, *Implementation Guidance for the Surface Transportation Block Grant Program (STBG) as Revised by the Bipartisan Infrastructure Law* (Jun. 1, 2022), https://www.fhwa.dot.gov/specialfunding/stp/bil_stbg_implementation_guidance-05_25_22.pdf.

⁶⁶ See 23 U.S.C. 148.

⁶⁷ U.S. Department of Transportation, Federal Highway Administration, *Highway Safety Improvement Program (HSIP) Eligibility Guidance* (Feb. 2, 2022), https://safety.fhwa.dot.gov/hsip/rulemaking/docs/BIL_HSIP_Eligibility_Guidance.pdf.

⁶⁸ See 23 U.S.C. 149.

improvements, and demand management. For additional information on CMAQ, see the *Congestion Mitigation and Air Quality (CMAQ) Improvement Program Fact Sheet*.⁶⁹

- Charging and Fueling Infrastructure Discretionary Grant Program (CFI Program)⁷⁰ – 602(c)(5)(B)(viii) of the Social Security Act – Established in the Bipartisan Infrastructure Law, the CFI Program provides competitive grants to strategically deploy publicly accessible electric vehicle charging and alternative fueling infrastructure in the places people live and work - urban and rural areas alike - in addition to along designated Alternative Fuel Corridors. For additional information about the CFI Program, see *Charging and Fueling Infrastructure Grant Program*.⁷¹
- Territorial and Puerto Rico Highway Program⁷² – 602(c)(5)(B)(ix) of the Social Security Act – The Territorial and Puerto Rico highway program allocates funds to the Commonwealth of Puerto Rico for a highway program, as well as to American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands to assist in constructing and improving a system of arterial and collector highways and necessary inter-island connectors. For additional information on the Territorial and Puerto Rico Highway program, see the *Territorial and Puerto Rico Highway Program Fact Sheet*.⁷³

⁶⁹ U.S. Department of Transportation, Federal Highway Administration, Congestion Mitigation and Air Quality (CMAQ) Improvement Program Fact Sheet (Feb. 8, 2022), <https://www.fhwa.dot.gov/bipartisan-infrastructure-law/cmaq.cfm>.

⁷⁰ See 23 U.S.C. 151(f).

⁷¹ U.S. Department of Transportation, Federal Highway Administration, Charging and Fueling Infrastructure Grant Program (Mar. 30, 2023), <https://www.fhwa.dot.gov/environment/cfi/>.

⁷² See 23 U.S.C. 165

⁷³ U.S. Department of Transportation, Federal Highway Administration, Territorial and Puerto Rico Highway Program Fact Sheet (Feb. 24, 2022), https://www.fhwa.dot.gov/bipartisan-infrastructure-law/territorial_puerto_rico_hp_fact_sheet.cfm.

- National Highway Freight Program (NHFP)⁷⁴ – 602(c)(5)(B)(x) of the Social Security Act – The NHFP provides funding intended to improve the condition and performance of the National Highway Freight Network (NHFN) and support several goals, including:
 - investing in infrastructure and operational improvements that strengthen economic competitiveness, reduce congestion, reduce the cost of freight transportation, improve reliability, and increase productivity;
 - improving the safety, security, efficiency, and resiliency of freight transportation in rural and urban areas;
 - improving the state of good repair of the NHFN;
 - using innovation and advanced technology to improve NHFN safety, efficiency, and reliability;
 - improving the efficiency and productivity of the NHFN;
 - improving State flexibility to support multi-State corridor planning and address highway freight connectivity; and
 - reducing the environmental impacts of freight movement on the NHFN.

For additional information on the NHFP, see *Implementation Guidance for the National Highway Freight Program as Revised by the Bipartisan Infrastructure Law*.⁷⁵

- Rural Surface Transportation Grant Program⁷⁶ – 602(c)(5)(B)(xi) of the Social Security Act – The Rural Surface Transportation Grant Program provides competitive grants to

⁷⁴ See 23 U.S.C. 167.

⁷⁵ U.S. Department of Transportation, Federal Highway Administration, *Implementation Guidance for the National Highway Freight Program as Revised by the Bipartisan Infrastructure Law* (Dec. 14, 2022), https://ops.fhwa.dot.gov/freight/documents/NHFP_Implementation_Guidance.pdf.

⁷⁶ See 23 U.S.C. 173.

support projects to improve and expand the surface transportation infrastructure in rural areas to increase connectivity, improve the safety and reliability of the movement of people and freight, and generate regional economic growth and improve quality of life. Grant funds typically support highway, bridge, or tunnel projects eligible under the NHPP, the STBG program, or the Tribal Transportation Program; highway freight projects eligible under the NHFP; highway safety improvement projects; projects on a publicly-owned highway or bridge improving access to certain facilities that support the economy of a rural area; integrated mobility management systems, transportation demand management systems, or on-demand mobility services. For additional information about the Rural Surface Transportation Grant Program, see *the Rural Surface Transportation Grant website*.⁷⁷

- Carbon Reduction Program (CRP)⁷⁸ – 602(c)(5)(B)(xii) of the Social Security Act – Established in the Bipartisan Infrastructure Law,⁷⁹ CRP provides funds by formula for a wide-range of projects designed to reduce transportation emissions, defined as carbon dioxide emissions from on-road highway sources. For additional information on eligible projects under CRP, see the *Carbon Reduction Program (CRP) Implementation Guidance*.⁸⁰

⁷⁷ See the U.S. Department of Transportation’s Rural Surface Transportation Grant website at <https://www.transportation.gov/grants/rural-surface-transportation-grant>.

⁷⁸ See 23 U.S.C. 175.

⁷⁹ Pub. L. 117-58.

⁸⁰ U.S. Department of Transportation, Federal Highway Administration, Carbon Reduction Program (CRP) Implementation Guidance (Apr. 21, 2022), https://www.fhwa.dot.gov/environment/sustainability/energy/policy/crp_guidance.pdf.

- Promoting Resilient Operations for Transformative, Efficient, and Cost-Saving Transportation (PROTECT)⁸¹ – 602(c)(5)(B)(xiii) of the Social Security Act – Established in the Bipartisan Infrastructure Law, the PROTECT Program provides both formula funding and competitive funding for projects that, among other activities, provide resilience improvements; strengthen and protect evacuation routes; and protect at-risk coastal infrastructure. For additional information on the PROTECT Formula Program, see *Promoting Resilient Operations for Transformative, Efficient, and Cost-Saving Transportation (PROTECT) Formula Program Implementation Guidance*.⁸²
- Tribal Transportation Program (TTP)⁸³ – 602(c)(5)(B)(xiv) of the Social Security Act – TTP provides formula funding to Tribal governments to aid in providing safe and adequate transportation and public road access to and within Indian reservations, Indian lands, and Alaska Native Village communities, contributing to the economic development, self-determination, and employment of Indians and Native Americans. TTP funds a wide range of eligible transportation activities including the construction and maintenance of roads and bridges. For additional information about TTP, see *Tribal Transportation Program Fact Sheet*.⁸⁴

⁸¹ See 23 U.S.C. 176.

⁸² U.S. Department of Transportation, Federal Highway Administration, Promoting Resilient Operations for Transformative, Efficient, and Cost-Saving Transportation (PROTECT) Formula Program Implementation Guidance (Jul. 29, 2022), https://www.fhwa.dot.gov/environment/sustainability/resilience/policy_and_guidance/protect_formula.pdf.

⁸³ See 23 U.S.C. 202.

⁸⁴ U.S. Department of Transportation, Federal Highway Administration, Tribal Transportation Program Fact Sheet (Oct. 26, 2022), <https://www.fhwa.dot.gov/bipartisan-infrastructure-law/ttp.cfm>.

- Federal Lands Transportation Program (FLTP)⁸⁵ – 602(c)(5)(B)(xv) of the Social Security Act – FLTP provides funds to improve the transportation infrastructure owned and maintained by federal agencies with land and natural resource management responsibilities. Eligible projects under FLTP include construction and maintenance of transit facilities and transportation projects eligible under Title 23 that are on a public network that provides access to, adjacent to, or through federal lands. For additional information on FLTP, see *Implementation Guidance for the Federal Lands Transportation Program*.⁸⁶
- Federal Lands Access Program (FLAP)⁸⁷ – 602(c)(5)(B)(xvi) of the Social Security Act – FLAP provides formula funding to improve transportation facilities that provide access to, are adjacent to, or are located within federal lands. FLAP supplements state and local resources for public roads, transit systems, and other transportation facilities, with an emphasis on high-use recreation sites and economic generators. For additional information on FLAP, see the *Implementation Guidance for the Federal Lands Access Program*.⁸⁸
- Rebuilding American Infrastructure with Sustainability and Equity (RAISE) Grant Program – 602(c)(5)(B)(xvii) of the Social Security Act – The RAISE Grant Program helps communities build transportation projects that have significant local or regional

⁸⁵ See 23 U.S.C. 203.

⁸⁶ U.S. Department of Transportation, Federal Highway Administration, Implementation Guidance for the Federal Lands Transportation Program (Jun. 29, 2022), <https://highways.dot.gov/sites/fhwa.dot.gov/files/docs/federal-lands/programs/federal-lands-transportation-program/8186/fltp-guidance-cleared.pdf>.

⁸⁷ See 23 U.S.C. 204.

⁸⁸ U.S. Department of Transportation, Federal Highway Administration, Implementation Guidance for the Federal Lands Access Program (Aug. 6, 2018), <https://highways.dot.gov/sites/fhwa.dot.gov/files/docs/federal-lands/programs/federal-lands-access-program/6971/flap-implem-guidance.pdf>.

impact and improve safety and equity. RAISE provides funds through competitive grants to state, local, Tribal, and territorial governments, among others, for surface transportation capital projects, including highway, bridge, or other road projects eligible under title 23 of the U.S. Code; public transportation projects eligible under chapter 53 of title 49 of the U.S. Code; passenger and freight rail transportation projects; port infrastructure investments; the surface transportation components of an airport project eligible for assistance under part B of subtitle VII of title 49 of the U.S. Code; intermodal projects; projects to replace or rehabilitate a culvert or prevent stormwater runoff; projects investing in surface transportation facilities that are located on Tribal land; and other surface transportation infrastructure projects that the Secretary of Transportation considers to be necessary to advance the goals of the program – including public road and non-motorized projects that are not otherwise eligible under title 23 of the U.S. Code, transit-oriented development projects, mobility on-demand projects that expand access and reduce transportation cost burden, and intermodal projects. The addition of federal funds, including SLFRF funds, to an existing RAISE project is subject to the Department of Transportation’s approval. For more information on RAISE grants, see *Notice of Funding Opportunity for the Department of Transportation’s National Infrastructure Investments (i.e., the Rebuilding American Infrastructure with Sustainability and Equity*

(RAISE) Grant Program) under the Infrastructure Investment and Jobs Act (“Bipartisan Infrastructure Law”), Amendment No. 2.⁸⁹

- Transportation Infrastructure Finance and Innovation Act (TIFIA)⁹⁰ – 602(c)(5)(B)(xviii) of the Social Security Act – The TIFIA Program provides federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance. Eligible projects typically include highways and bridges; intelligent transportation systems; intermodal connectors; transit vehicles and facilities; intercity buses and facilities; freight transfer facilities; pedestrian bicycle infrastructure networks; transit-oriented development; rural infrastructure projects; passenger rail vehicles and facilities; surface transportation elements of port projects; and airports that meet certain standards of credit worthiness and readiness. For additional information about TIFIA, see *TIFIA Program Overview*.⁹¹
- Urbanized Formula Grants⁹² – 602(c)(5)(B)(xx) of the Social Security Act – The Urbanized Area Formula Funding Program makes federal resources available for transit capital assistance in urbanized areas and for transportation-related planning.⁹³ Eligible activities under the Urbanized Formula grants typically include: planning, engineering,

⁸⁹ U.S. Department of Transportation, Notice of Funding Opportunity for the Department of Transportation’s National Infrastructure Investments (i.e., the Rebuilding American Infrastructure with Sustainability and Equity (RAISE) Grant Program) under the Infrastructure Investment and Jobs Act (“Bipartisan Infrastructure Law”), Amendment No. 2 (Jan. 3, 2023), <https://www.transportation.gov/sites/dot.gov/files/2023-02/RAISE%202023%20NOFO%20Amendment2.pdf>.

⁹⁰ See 23 U.S.C. Chapter 6.

⁹¹ See the U.S. Department of Transportation’s TIFIA Program Overview website at <https://www.transportation.gov/buildamerica/financing/tifia>.

⁹² See 49 U.S.C. 5307.

⁹³ While Urbanized Area Formula Grants typically may be used to support operating expenses, operating expenses are not an eligible use of SLFRF spending for projects eligible under section 602(c)(5)(B)(xx) of the Social Security Act. See operating expenses within the Pathway One applicable requirements section for more information.

design, and evaluation of transit projects and other technical transportation-related studies; capital investments in bus and bus-related activities such as replacement, overhaul, and rebuilding of buses, crime prevention and security equipment and construction of maintenance and passenger facilities; and capital investments in new and existing fixed guideway systems including rolling stock, overhaul and rebuilding of vehicles, track, signals, communications, and computer hardware and software. In addition, associated transit improvements and certain expenses associated with mobility management programs are eligible under the program. For additional information about Urbanized Formula Grants, see *Urbanized Area Formula Program Guidance*.⁹⁴

- Fixed Guideway Capital Investment Grants⁹⁵ – 602(c)(5)(B)(xxi) of the Social Security Act – The Fixed Guideway Capital Investment Grants Program is a discretionary grant program that funds transit capital investments, including heavy rail, commuter rail, light rail, streetcars, and bus rapid transit. More details are available in the Federal Transit Administration’s *Capital Investment Grants Policy Guidance*.⁹⁶
- Formula Grants for Rural Areas⁹⁷ – 602(c)(5)(B)(xxii) of the Social Security Act – The Formula Grants for Rural Areas Program provides capital and planning assistance to support public transportation in rural areas with populations of less than 50,000, where

⁹⁴ U.S. Department of Transportation, Federal Transit Administration, Urbanized Area Formula Program Guidance, 79 Fed. Reg. 2930 (Feb. 27, 2020), <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/urbanized-area-formula-program-program-guidance-and>.

⁹⁵ See 49 U.S.C. 5309.

⁹⁶ U.S. Department of Transportation, Federal Transit Administration, Capital Investment Grants Policy Guidance (Jan. 12, 2023), <https://www.transit.dot.gov/sites/fta.dot.gov/files/2023-01/CIG-Policy-Guidance-January-2023.pdf>.

⁹⁷ See 49 U.S.C. 5311.

many residents often rely on public transit to reach their destinations.⁹⁸ The program also provides funding for training and technical assistance through the Rural Transportation Assistance Program. Eligible activities typically include planning, capital, job access and reverse commute projects, and the acquisition of public transportation services. For additional information about Formula Grants for Rural Areas, see *Formula Grants Rural Areas Program Guidance*.⁹⁹

- State of Good Repair Grants¹⁰⁰ – 602(c)(5)(B)(xxiii) of the Social Security Act – The State of Good Repair Grants Program provides capital assistance for maintenance, replacement, and rehabilitation projects of high-intensity fixed guideway and bus systems to help transit agencies maintain assets in a state of good repair. Capital projects eligible for State of Good Repair Grants funds typically include projects to replace and rehabilitate rolling stock; track; line equipment and structures; signals and communications; power equipment and substations; passenger stations and terminals; security equipment and systems; maintenance facilities and equipment; and operational support equipment computer hardware and software. For additional information about State of Good Repair Grants, see *State of Good Repair Grant Program Guidance*.¹⁰¹

⁹⁸ While Rural Area Formula Grants typically may be used to support operating expenses, operating expenses are not an eligible use of SLFRF spending for projects eligible under section 602(c)(5)(B)(xxii) of the Social Security Act. See operating expenses within the Pathway One applicable requirements section for more information.

⁹⁹ U.S. Department of Transportation, Federal Transit Administration, Formula Grants Rural Areas Program Guidance and Application Instructions, 79 Fed. Reg. 63663 (Feb. 27, 2020), <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/formula-grants-rural-areas-program-guidance-and-application>.

¹⁰⁰ See 49 U.S.C. 5337.

¹⁰¹ U.S. Department of Transportation, Federal Transit Administration, State of Good Repair Grant Program Guidance and Application Instructions (May 29, 2020), <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/state-good-repair-grant-program-guidance-and-application>.

- Grants for Buses and Bus Facilities¹⁰² – 602(c)(5)(B)(xxiv) of the Social Security Act – The Grants for Buses and Bus Facilities Program provides funding to help support capital projects to replace, rehabilitate, and purchase buses, vans, and related equipment, and to construct bus-related facilities, including technological changes or innovations to modify low or no emission vehicles or facilities. For additional information about Grants for Buses and Bus Facilities, see *Buses and Bus Facilities Program Guidance*.¹⁰³
- National culvert removal, replacement, and restoration grant program (Culvert AOP Program)¹⁰⁴ – 602(c)(5)(B)(xxv) of the Social Security Act – Established by the Bipartisan Infrastructure Law, the Culvert AOP Program awards grants for projects for the replacement, removal, and repair of culverts or weirs that meaningfully improve or restore fish passage for anadromous fish. Anadromous fish species are born in freshwater such as streams and rivers, spend most of their lives in the marine environment, and migrate back to freshwater to spawn. For additional information on the Culvert AOP Program, see the *National Culvert Removal, Replacement, and Restoration Grants (Culvert AOP Program) website*.¹⁰⁵
- Bridge Replacement, Rehabilitation, Preservation, Protection, and Construction Program (Bridge Formula Program or BFP)¹⁰⁶ – 602(c)(5)(B)(xxvii) of the Social Security Act –

¹⁰² See 49 U.S.C. 5339.

¹⁰³ U.S. Department of Transportation, Federal Transit Administration, Buses and Bus Facilities Program Guidance and Application Instructions (Feb. 27, 2020), <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/bus-and-bus-facilities-program-guidance-and-application>.

¹⁰⁴ See 49 U.S.C. 6703.

¹⁰⁵ U.S. Department of Transportation, Federal Highway Administration, National Culvert Removal, Replacement, & Restoration Grants (Culvert Hydraulics Aquatic Organisms Passage Program) website Program Overview (Jan. 31, 2023), <https://www.fhwa.dot.gov/engineering/hydraulics/culverthyd/aquatic/culvertaop.cfm>.

¹⁰⁶ See title VIII of division J of Pub. L. 117-58.

Established by the Bipartisan Infrastructure Law, BFP provides formula funds for highway bridge replacement, rehabilitation, preservation, protection, and construction projects on public roads. For additional information of BFP, see *Bridge Formula Program (BFP) Implementation Guidance*.¹⁰⁷

- Additionally, as provided by section 602(c)(5) of the Social Security Act, Surface Transportation projects also include activities to carry out metropolitan transportation planning¹⁰⁸ and projects that further the completion of a designated route of the Appalachian Development Highway System (ADHS)¹⁰⁹ – a system of designated corridors and roadways within the 13 States that make up the Appalachian Region. With regard to metropolitan transportation planning, requirements leading to the development of transportation improvement plans are described in section 134 of title 23 of the U.S. Code and section 5303 of title 49 of the U.S. Code.

b. PATHWAY ONE: APPLICABLE REQUIREMENTS

Recipients using SLFRF funds for Surface Transportation projects under Pathway One must comply with certain requirements and restrictions established by the 2023 CAA, in addition to the other applicable provisions of section 602 and 603 of the Social Security Act, the 2022 final rule, and recipients' award terms and conditions. As described earlier in this interim final rule, recipients may only use the greater of 30% of their award and \$10 million (not to exceed

¹⁰⁷ U.S. Department of Transportation, Federal Highway Administration, Bridge Formula Program (BFP) Implementation Guidance (Jan. 14, 2022), <https://www.fhwa.dot.gov/bridge/bfp/20220114.cfm>.

¹⁰⁸ See section 602(c)(5)(B)(v) of the Social Security Act. See also 23 U.S.C. 134 for more details.

¹⁰⁹ See section 602(c)(5)(B)(xix) of the Social Security Act. See also 40 U.S.C. 14501 for more details on the Appalachian Development Highway System.

their total award) for Surface Transportation projects (described in this section) and Title I projects (described in the following section), taken together. As also described earlier in this interim final rule, recipients using SLFRF funds for Surface Transportation projects must obligate funds by December 31, 2024 and expend funds by September 30, 2026. In the section that follows, this interim final rule describes the additional requirements that apply to Surface Transportation projects funded with SLFRF funds under Pathway One.

Pathway One: Application of Titles 23, 40, and 49 of the U.S. Code. Sections 602(c)(5)(C)(iii) and 603(c)(6)(B)(iii) of the Social Security Act provide that the requirements of titles 23, 40, and 49 of the U.S. Code apply to Surface Transportation projects, except as otherwise determined by the Secretary or the head of a federal agency to which the Secretary has delegated authority. When using SLFRF funds under Pathway One, the statutory requirements that normally apply when carrying out such projects continue to apply. Recipients should consult with DOT before using SLFRF funds for these projects. The responsibility for completing or ensuring compliance with all requirements falls to the recipient, as would typically be the case for a DOT-funded project in the absence of SLFRF funds. Immediately below, this interim final rule summarizes some of the requirements that generally apply:

- Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (Uniform Act)¹¹⁰ – The Uniform Act is a federal law that establishes minimum standards for federally funded programs and projects that require the acquisition of real property or displace persons from their homes, businesses, or farms. The Act’s protections and assistance apply to the acquisition, rehabilitation, or demolition of real property for

¹¹⁰ 42 U.S.C. 4601 *et seq.*

federal or federally funded projects. The provisions of the Uniform Act and its implementing regulations apply to all activities funded with a recipient's SLFRF award, as described in the SLFRF award terms and conditions.

- Prevailing Wage and Employee Protection Requirements – The Surface Transportation projects are generally subject to wage and employee protection requirements, including the requirements of 23 U.S.C. 113 and 49 U.S.C. 5333(a) and (b), applying Davis-Bacon prevailing wage protections for highway and transit projects, respectively, receiving federal financial assistance.
- Title VI of the Civil Rights Act of 1964 – Title VI of the Civil Rights Act of 1964 states that no person in the United States shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under any program or activity for which the recipient receives federal assistance. As with all activities funded with a recipient's SLFRF award, the requirements of Title VI and Treasury's implementing regulations at 31 CFR Part 22 apply to SLFRF funds used for Surface Transportation projects.
- Buy America Provisions – Buy America requirements were established pursuant to section 165 of the Surface Transportation Assistance Act of 1982 to ensure that transportation infrastructure projects are built with American-made products.¹¹¹ These

¹¹¹ See Pub. L. 97-424, 96 Stat. 2097 (Jan. 6, 1983).

requirements have been implemented by various DOT modes through statute and regulation.¹¹²

- **Planning Requirements** – Generally, projects that are eligible for funding under title 23 of the U.S. Code or 49 U.S.C. Chapter 53 must meet planning requirements laid out in law or regulation, including the requirement that the project be included within a Statewide Transportation Improvement Program, which is a statewide prioritized listing or program of transportation projects covering a period of four years that is consistent with the long-range statewide transportation plan, metropolitan transportation plans, and relevant Transportation Improvement Program. Recipients using SLFRF funds for Surface Transportation projects under Pathway One must continue to comply with applicable planning requirements.

Pathway One: Limitations on Operating Expenses. Sections 602(c)(5) and 603(c)(6) of the Social Security Act provide that SLFRF funds may not be used for operating expenses of the Surface Transportation projects. Specifically, recipients that use SLFRF funds for projects eligible under Urbanized Formula Grants, Fixed Guideway Capital Investment Grants, Formula Grants for Rural Areas, State of Good Repair Grants, or Grants for Buses and Bus Facilities may not use SLFRF funds for operating expenses of these projects. DOT typically defines operating expenses as those costs necessary to operate and manage a public transportation system. Operating expenses usually include costs such as driver salaries, the cost of fuel, and the cost of

¹¹² See, e.g., 23 U.S.C. 313 (Federal Highway Administration Buy America statute); 49 U.S.C. 5323(j) (Federal Transit Administration Buy America statute); 49 CFR part 661 (Federal Transit Administration Buy America regulation); and 23 CFR 635.410 (Federal Highway Administration Buy America regulation).

equipment and supplies having a useful life of less than one year. For this purpose, operating expenses do not include preventive maintenance activities. This limitation does not apply to other Surface Transportation projects or to other uses of SLFRF funds, including under the revenue loss eligible use category.

Pathway One: Projects that Demonstrate Progress Towards a State of Good Repair or Support Achieving Performance Targets. Section 602(c)(5)(C)(iii)(III) of the Social Security Act provides that, except as otherwise determined by the Secretary or the head of the federal agency to which the Secretary has delegated authority, states may use funds for Surface Transportation projects, as applicable, that demonstrate progress in achieving a state of good repair as required by the state’s asset management plan under 23 U.S.C. 119(e) and that support the achievement of one or more performance targets of the state established under 23 U.S.C. 150. Treasury interprets this provision to impose a mandatory requirement for states to comply with one of the two prongs in section 602(c)(5)(C)(iii)(III). Treasury understands the statute’s provision that states “may” use funds for applicable projects that meet this requirement to mean that states may only use funds for such projects that meet this requirement, because this provision is included in the section titled “Application of Requirements” alongside two other subparagraphs that impose mandatory requirements when recipients use funds on Surface Transportation projects and because otherwise, the provision would have no practical effect.¹¹³ But Treasury reads the word

¹¹³ To treat the provisions of section 602(c)(5)(C)(iii)(III) as completely optional would give these provisions no meaning, because states would be permitted to carry out projects in the manner contemplated by the provision regardless of whether the statute identified this ability or not. Such a reading would render the provisions as surplusage. Instead, statutes should be read to give effect to all provisions, “so that no part will be inoperative or superfluous.” *See, e.g., Ysleta Del Sur Pueblo v. Texas*, 596 U.S. ___, 124 S. Ct. 1929, 1939 (2022) (internal citation omitted).

“and” as disjunctive, such that states need only comply with either subparagraph (aa) or (bb).¹¹⁴

While it may be possible for a state to carry out some types of Surface Transportation projects in a way that both demonstrates progress in achieving a state of good repair as required by the state’s asset management plan under 23 U.S.C. 119(e) and that supports the achievement of one or more performance targets of the state established under 23 U.S.C. 150, Treasury is concerned that an interpretation that requires states to meet both criteria would effectively read certain programs out of the list of programs that Congress specifically provided in section 602(c)(5)(B) of the Social Security Act.

This interim final rule provides that only projects eligible under title 23 of the U.S. Code, or that otherwise would be subject to the requirements of title 23, will be subject to the requirement to either demonstrate progress in achieving a state of good repair under 23 U.S.C. 119(e) or support the achievement of one or more state performance targets under 23 U.S.C. 150. Section 602(c)(5)(C)(iii)(III) of the Social Security Act provides that this requirement applies to Surface Transportation projects “as applicable,” and it would not make sense for these conditions to apply to projects eligible under titles 40 or 49 of the U.S. Code as that would effectively make such projects unavailable to states, despite the inclusion of these types of projects in section 602(c)(5)(B) of the Social Security Act.

Pathway One: Application of Non-Federal Cost Share Requirements to SLFRF Funds.

Generally, the non-federal cost share provisions associated with projects and programs

¹¹⁴ As discussed in *United States v. Fisk*, 70 U.S. 445, 447 (1865), it can be necessary “to construe ‘or’ as meaning ‘and,’ and again ‘and’ as meaning ‘or’” (emphasis omitted). While the word “and” usually is conjunctive and the literal meaning of the words “and” and “or” generally should be followed, it may be appropriate to interpret “and” as disjunctive when the statutory meaning is questionable or confusing. *See also* Singer, Norman J. et al., *Sutherland Statutes and Statutory Construction* § 21:14 (7th ed. 2010).

administered by DOT require a certain percentage of funds to be contributed from non-federal sources. When other federal funds are added to a transportation infrastructure project, the total amount of federal funds associated with the project increases. In the case of some programs, this addition increases the overall amount of funds required from non-federal sources, as is the case with the State of Good Repair Grant Formula Program (49 U.S.C. 5337(e)), the Railcar Vehicle Replacement Program (49 U.S.C. 5337(f)), and Grants for Buses and Bus Facilities Program (49 U.S.C. 5339). In the case of other programs, the addition of federal funds, like SLFRF, will not increase the overall amount of funds required from non-federal sources.

As described above, the requirements of titles 23, 40, and 49 of the U.S. Code apply to recipients using SLFRF funds for Surface Transportation projects under Pathway One, except as otherwise determined by the Secretary. This provision permits Treasury to determine not to apply certain requirements of the cross-referenced statutes when such requirements would conflict with the existing SLFRF framework or otherwise are likely to preclude recipients from exercising the additional authorities provided by the statute. For these reasons, recipients using SLFRF funds for Surface Transportation projects under Pathway One will not be required to contribute cost-sharing or matching funds alongside those SLFRF funds. In other words, the use of SLFRF funds on its own will not result in the application of an additional cost-share requirement beyond the cost-share requirement that already applies to DOT grantees carrying out projects with DOT funds. This approach is consistent with the way recipients are permitted to use SLFRF funds under the 2022 final rule, which does not require recipients to provide cost sharing or matching funds in order to use their SLFRF funds.¹¹⁵ If Treasury were to apply cost-

¹¹⁵ See section 7 of the SLFRF Award Terms and Conditions.

share requirements to the SLFRF funds used in Pathway One, on top of the cost-share requirements that already apply to the projects as funded by DOT, recipients would be required to source additional matching funds before being able to carry out a Surface Transportation project, which would frustrate the flexibility provided by the statutory framework and inhibit SLFRF recipients' ability to use funds already received prior to the approaching obligation and expenditure deadlines.

Because SLFRF funds are federal funds, using SLFRF funds under Pathway One will still impact the cost-share requirements that apply to certain Surface Transportation projects due to differences in applicable non-federal cost share requirements across DOT projects and programs. In some cases, DOT programs are capped in the amount of federal funds that may be used in a project, regardless of whether those funds are provided by DOT or another federal source. This is true, for example, of the State of Good Repair Grant Formula Program (49 U.S.C. 5337(e)), the Railcar Vehicle Replacement Program (49 U.S.C. 5337(f)), and Grants for Buses and Bus Facilities Program (49 U.S.C. 5339) noted above. In those and other similar scenarios, recipients can contribute SLFRF funds up to the maximum federal funds limit without an accompanying increase in non-federal share, but once that maximum is reached, the statutory cost share applicable to the project will apply to the SLFRF funds. However, in the case of many other programs, the approach described above will provide an avenue for recipients to use funds for Surface Transportation projects under Pathway One without requiring additional non-federal share contributions. Recipients using SLFRF funds for Surface Transportation projects under Pathway One must consult with DOT to determine the applicable non-federal cost share requirements.

Pathway One: Delegation of Authority. Sections 602(c)(5)(C)(iv) and 603(c)(6)(B)(iv) of the Social Security Act provide that the Secretary may delegate oversight and administration of the requirements applicable to Surface Transportation projects to the appropriate federal agency. Given DOT's expertise and experience with oversight and administration of their own infrastructure projects, Treasury is delegating authority for oversight and administration of Surface Transportation projects under Pathway One. As such, recipients proposing to spend SLFRF on such projects must follow DOT guidance for determining the eligibility of using SLFRF funds for a proposed project. Recipients using SLFRF funds for such projects will be required to comply with the relevant existing DOT reporting requirements associated with an existing Surface Transportation project that is receiving DOT funds. Recipients using SLFRF funds under Pathway One will also be required to report certain information to Treasury, including, among other things, the amount of SLFRF funds directed toward Surface Transportation projects and Title I projects to ensure that recipients comply with the cap on funds associated with these eligible use categories. See the section titled Reporting for additional information. Treasury and DOT will work together to issue guidance to provide recipients additional clarity on how the delegation of oversight and administration will apply to Pathway One projects.

c. **PATHWAY TWO: SURFACE TRANSPORTATION PROJECTS NOT RECEIVING FUNDING FROM DOT**

This section describes Pathway Two, through which recipients may use SLFRF funds for Surface Transportation projects that are not receiving funding from DOT, whether or not SLFRF funds are blended with other sources of funds. This second pathway is available to all SLFRF recipients, including those that do not routinely apply for or receive funding directly from DOT.

In this interim final rule, Treasury is articulating a streamlined framework under Pathway Two for recipients to undertake certain projects that are expected to pose less financial, compliance, and environmental risk. In this streamlined framework, Treasury has determined not to require recipients to submit an application to, or receive approval from, Treasury to conduct a project that meets certain criteria, as discussed further below.

To pursue projects outside the thresholds described in the streamlined framework, recipients must submit a notice of intent to Treasury through the process described further below. Treasury will evaluate the projects included in these notices of intent, along with comments to this interim final rule, to design and implement the framework for approving these projects. For information, refer to the section titled Pathway Two: Notice of Intent for Projects Outside Streamlined Framework.

As summarized earlier, Treasury has determined to adopt a streamlined approach for projects that qualify for the RAISE grant program and that meet criteria that indicate lower risk. Projects eligible under the DOT RAISE program are among the types of projects added by the 2023 CAA as eligible uses of SLFRF. Under the RAISE program, as detailed in the RAISE Notice of Funding Opportunity, recipients must submit applications to DOT and receive approval from DOT for their proposed projects.

In this streamlined approach, Treasury has determined not to require recipients to submit an application to, or receive approval from, Treasury to conduct a project that would be eligible under the RAISE grant program and meets the other criteria applicable to the streamlined framework, as would normally be required when DOT administers the program pursuant to the RAISE Notice of Funding Opportunity. Depending on the nature of the project, a recipient may nevertheless be required to obtain approval pursuant to a specific requirement under titles 23, 40

or 49 or the regulations adopted by DOT thereunder. For example, a project that involves new construction, reconstruction, resurfacing (except for maintenance resurfacing), restoration, or rehabilitation of a national highway must meet the design standards approved by DOT; if the recipient wishes to vary from these standards, it must apply to DOT for an exception.¹¹⁶

The eligibility of projects under the RAISE program is described in the “*Notice of Funding Opportunity for the Department of Transportation’s National Infrastructure Investments (i.e., the Rebuilding American Infrastructure with Sustainability and Equity (RAISE) Grant Program) under the Infrastructure Investment and Jobs Act (“Bipartisan Infrastructure Law”), Amendment No. 2*” (2023 RAISE Grant NOFO) under “3. Other” in “C. Eligibility Information.”¹¹⁷ These projects include highway, bridge, or other road projects eligible under title 23 of the U.S. Code; public transportation projects eligible under chapter 53 of title 49 of the U.S. Code; passenger and freight rail transportation projects; port infrastructure investments; the surface transportation components of an airport project eligible for assistance under part B of subtitle VII of title 49 of the U.S. Code; intermodal projects; projects to replace or rehabilitate a culvert or prevent stormwater runoff; projects investing in surface transportation facilities that are located on Tribal land; and other surface transportation infrastructure projects that the Secretary of Transportation considers to be necessary to advance the goals of the RAISE program – including public road and non-motorized projects that are not otherwise eligible under title 23 of the U.S. Code, transit-oriented development projects, mobility on-demand projects that expand access and reduce transportation cost burden, and intermodal projects.

¹¹⁶ See 23 CFR part 625.

¹¹⁷ U.S. Department of Transportation, FY 2023 RAISE Grants Notice of Funding Opportunity, <https://www.transportation.gov/sites/dot.gov/files/2023-02/RAISE%202023%20NOFO%20Amendment2.pdf>.

For a RAISE-eligible project to qualify for the streamlined approach, it must satisfy the following criteria:

- *Contribute no more than \$10 million in SLFRF funds.* The recipient's contribution of SLFRF funding to the project under Pathway Two must not exceed \$10 million.
- *Limited to activities that typically do not have a significant environmental impact.* The entire project scope must be limited to the set of actions or activities identified by DOT as meeting the criteria for categorical exclusion as listed under 23 CFR 771.116(c)(1)-(22), 771.117(c)(1)-(30), and 771.118(c)(1)-(16). The recipient also must determine that those actions do not involve unusual circumstances, as described in 23 CFR 771.116(b), 771.117(b), and 771.118(b). Such unusual circumstances include significant environmental impacts; substantial controversy on environmental grounds; significant impact on properties protected by section 4(f) of the Department of Transportation Act of 1966¹¹⁸ or section 106 of the National Historic Preservation Act (NHPA)¹¹⁹; or inconsistencies with any federal, state, or local law, requirement, or administrative determination relating to the environmental aspects of the action. In considering whether the effects of a proposed action are significant, recipients should analyze the potentially affected environment and degree of the effects of the action consistent with how a federal agency would analyze it, as described in 40 CFR 1501.3(b). For example, an action may be significant if—in the short-term or the long-term and either individually or cumulatively—it greatly alters or impacts planned growth or land use for the area;

¹¹⁸ See 23 U.S.C. 138.

¹¹⁹ See 54 U.S.C. 306108.

requires the relocation of large numbers of people; has a strong effect on any natural, cultural, recreational, historic, or other resource; significantly impacts air, noise, or water quality; greatly affects travel patterns; or has some other form of environmental impact that is significant.

Without the streamlined framework, recipients likely would not be able to engage within required timelines in the types of projects that Congress has authorized.¹²⁰ As approximately 30,000 SLFRF recipients could seek to use funds for hundreds of Surface Transportation projects under Pathway Two, application of the statutory and regulatory approval requirements to such a volume of projects likely would preclude recipients from carrying out such projects while meeting the statutory deadlines for obligation and expenditure of funds. By contrast, Treasury expects far fewer recipients to seek to use SLFRF funds for higher-risk projects involving greater complexity, given the approaching obligation deadline of December 31, 2024. The approval requirements apply to Surface Transportation projects that do not meet the above streamlined framework criteria, and Treasury will design a process for recipients seeking to finance larger projects, based in part on the comments to this interim final rule, as discussed further below.

Recipients using SLFRF funds for an eligible project under Pathway Two must maintain records to support their determination that the project meets the relevant requirements and the criteria described above, including qualifying as an “eligible project” under the RAISE grant program, not exceeding \$10 million in SLFRF funds, and being limited to activities that typically do not have a significant environmental impact as outlined above. Recipients should be prepared

¹²⁰ Although Treasury is only adopting the streamlined approach for projects eligible for the RAISE program, as discussed above, this program includes most eligible types of projects.

to attest to having completed these determinations as part of their ongoing reporting to Treasury. Treasury will amend its reporting guidance to provide reporting requirements applicable to projects conducted under Pathway Two.

Treasury aligned the streamlined framework for projects under Pathway Two with the projects available under the RAISE grant program because these projects substantially overlap with the projects available under the other programs referenced in section 602(c)(5)(B) of the Social Security Act. Furthermore, the RAISE program's availability on a competitive basis to most SLFRF recipients means that the program and its requirements are already familiar to many recipients, enabling them to quickly and clearly assess the eligibility of a proposed project and meet the obligation and expenditure deadlines.

Based on Treasury's initial conversations with DOT and stakeholders with an interest in Surface Transportation projects, it is Treasury's expectation that compliance with the streamlined framework will substantially address the risks and policy concerns associated with projects that the requirement to submit an application for DOT approval under the RAISE program is meant to address.

The requirement to obtain DOT approval allows DOT to assess whether the project meets eligibility requirements, whether a recipient has the financial and technical capability to design and carry out the project, whether the recipient has received required permits and will comply with applicable law, and how the project will impact the environment.¹²¹ Environmental risk is addressed by the requirement to qualify for one of the NEPA categorical exclusions, absent any

¹²¹ Given that RAISE is a competitive grant program, the approval process also involves the selection of the most meritorious projects, but this objective is not relevant to the SLFRF program, under which recipients are provided funds by Treasury in advance for projects of their own choosing.

unusual circumstances, which is cross-referenced in the third criterion. Categorical exclusions (absent unusual circumstances) represent the class of actions that DOT has determined, after review by the Council on Environmental Quality, do not typically individually or cumulatively have a significant effect on the human environment and for which, therefore, neither an environmental assessment nor an environmental impact statement is normally required under DOT's environmental review process.¹²² Further, the risk of a project being ineligible for a specific DOT program is less of a concern under Pathway Two than it would be under certain specific DOT programs, given that the scope of eligible projects as added by the 2023 CAA is so wide. There is generally less risk of a recipient not having the financial or technical capabilities to complete a project in the case of a project that would meet the \$10 million threshold.

As noted above, projects eligible under the RAISE grant program substantially overlap with the projects available under the other programs referenced in section 602(c)(5)(B) of the Social Security Act, and the program is available on a competitive basis to most SLFRF recipients. These projects, therefore, represent the types of projects that SLFRF recipients may be expected to undertake under Pathway Two, and Treasury qualitatively reviewed recent RAISE grants as well as earlier grants awarded through the similar TIGER and BUILD programs, covering fiscal years 2012 through 2022, to develop a better understanding of the types of projects that recipients may choose to undertake.¹²³ Treasury observed that projects funded by these grants generally present reduced financial complexity and compliance risk and

¹²² See 23 CFR 771.116, 771.117, and 771.118.

¹²³ The TIGER, BUILD, and RAISE grant programs are discretionary grants awarded by DOT to fund road, rail, transit, and port projects that promise to achieve national objectives. The programs have different names but share similar goals and eligibility requirements. The names reflect the changing priorities and themes of the DOT over time. The programs were first created in 2009 as part of the American Recovery and Reinvestment Act of 2009 and have since funded hundreds of projects in all 50 states, the District of Columbia, and Puerto Rico.

are narrower in scope. Adjusted for inflation, applicants awarded less than \$10 million in TIGER, BUILD, or RAISE grant funding have generally carried out a wide range of projects including: road repairs, sidewalk installment and replacement, bike and pedestrian trails, pedestrian bridges, replacement of existing vehicle bridges, intermodal or transit-oriented infrastructure build-outs, marine facility investments, and railway repairs and expansion. These projects were generally focused on maintenance or upgrades of existing infrastructure and thus were significantly less likely to expand the overall footprint of surface transportation projects. This suggests that these types of projects tend to carry fewer complexities and are the types of Surface Transportation projects with which nearly all SLFRF recipients are familiar as part of the normal course of maintaining surface transportation in their respective geographic areas.

Approximately half of TIGER, BUILD, and RAISE awards under \$10 million fund transportation infrastructure; the other half are planning or research grants. Treasury observed in its review that nearly 80% of the transportation infrastructure awards under \$10 million did not meaningfully expand the footprint of existing infrastructure. Furthermore, of the awards that may have required a footprint expansion, nearly half of those awards were for bike and pedestrian trails and bridges, which are expected to be less environmentally impactful, time intensive, and complex than new roads, vehicle bridges, rail lines, or multimodal infrastructure. Based on this analysis, nearly 90% of awards did not require an expansion of the footprint of a project and over 75% of projects were maintenance or upgrade oriented. When reviewing awards above \$10 million, Treasury found increasing complexity among awards that was not present in significant numbers below the \$10 million threshold. This complexity involved awards that crossed multi-jurisdictional boundaries or significantly expanded the footprint, such as bridge reconstruction

and widening over a major river between two states and a project for a multimodal transportation center.

Although compliance with the streamlined framework criteria does not alone address these risks as fully as agency review of the project would, Treasury believes it reasonable to permit projects funded with \$10 million or less in SLFRF funds and that fit within the DOT NEPA categorical exclusions to go forward without the application of approval requirements to enable recipients to successfully pursue these projects within the time remaining in the program.

Pathway Two: Notice of Intent for Projects Outside Streamlined Framework. As described earlier, Treasury recognizes that recipients may want to use SLFRF funds (without any funding from DOT) to pursue projects that do not meet the three criteria for the streamlined framework described above (i.e., a project not eligible under the RAISE program, a project above the \$10 million threshold, or a project including activities that do not fall within the categorical exclusions). To do so, recipients must submit a notice of intent to Treasury. The notice of intent must be submitted to NOI-SLFRF@Treasury.gov and is due by [INSERT DATE THAT IS 30 CALENDAR DAYS AFTER THE END OF THE IFR COMMENT PERIOD].

Ideally, the notice of intent will provide the following information:

- Project description, including description of how the project meets the applicable requirements under the relevant Surface Transportation program;
- Dollar value of SLFRF-financed portion of the project, including confirmation that the SLFRF-funded portion will not exceed the greater of \$10 million or 30% of the recipient's total SLFRF award;
- Total expected project cost;
- Presence of other federal funding;

- Status of NEPA review;
- Recipients' plans to source the project in accordance with the Buy America requirements set forth in titles 23, 40, and 49 of the U.S. Code, as applicable;
- Brief assessment of project readiness, including recipient's assessment of its ability to obligate and expend funds for the SLFRF-financed portion of the project in accordance with the December 31, 2024 obligation deadline and September 30, 2026 expenditure deadline; and
- Brief assessment of recipient's institutional, managerial, and financial capability to ensure proper planning, management, and completion of the project.

Treasury will evaluate the projects included in these notices of intent, along with comments to this interim final rule, to design and implement a framework for approving these projects.

d. PATHWAY TWO: APPLICABLE REQUIREMENTS

Recipients using SLFRF funds under Pathway Two must comply with certain requirements and restrictions. These requirements and restrictions are in addition to the eligibility criteria applicable to the streamlined Pathway Two framework discussed above. As described earlier in this interim final rule, recipients may only use the greater of 30% of their award and \$10 million (not to exceed their award) for Surface Transportation projects (described in this section) and Title I projects (described in the following section), taken together. For example, an SLFRF recipient with an allocation of \$20 million would have \$10 million (as \$10 million is greater than 30% of the allocation, or \$6 million) to direct to Surface Transportation projects and Title I projects. If this recipient chose to expend \$10 million toward a Surface

Transportation project under the streamlined framework in Pathway Two, it would have expended the full amount of SLFRF funds available under the cap and would not be able to pursue any additional Surface Transportation projects or any Title I projects. Recipients using SLFRF funds under Pathway Two must also comply with the requirement that SLFRF funds supplement and not supplant other funds, described earlier in this interim final rule. Also as described earlier in this interim final rule, for Surface Transportation projects, recipients must obligate funds by December 31, 2024, and expend funds by September 30, 2026. In the section that follows, this interim final rule describes how the requirements of NEPA and titles 23, 40, and 49 of the U.S. Code apply to SLFRF funds used for Surface Transportation projects under Pathway Two.

Pathway Two: NEPA. As described above, recipients using funds for Surface Transportation projects that qualify for the streamlined framework under Pathway Two, and that are therefore not subject to approval requirements, are not required to conduct NEPA environmental reviews. Recipients are reminded, however, that projects supported with payments from SLFRF may still be subject to NEPA review and other environmental statutes such as section 106 of the NHPA that impose conditions on a federal agency's approval of a project if they are also funded by other federal financial assistance programs or have certain federal licensing or registration requirements. In addition, a project that qualifies for the streamlined framework may still be subject to limitations or prohibitions as a result of the application of other environmental statutes.

For projects under Pathway Two outside of the streamlined framework, recipients must submit a notice of intent as outlined above, and the requirements of NEPA and other environmental laws, such as section 106 of the NHPA, that impose limits on a federal agency's

approval of a project, apply to these Surface Transportation projects. Treasury will provide additional information about the application and administration of environmental requirements to projects under Pathway Two not qualifying for the streamlined framework at a later date, following review of the comments to this interim final rule and the notices of intent submitted by recipients.

Pathway Two: Application of Titles 23, 40, and 49 of the U.S. Code. The 2023 CAA provides that, except as otherwise determined by the Secretary, the requirements of titles 23, 40, and 49 of the U.S. Code apply to SLFRF funds used for Surface Transportation projects. Generally, the requirements provided within the following sections of titles 23, 40, and 49 apply to recipients' use of SLFRF funds under Pathway Two, because these sections govern the types of Surface Transportation projects that recipients may undertake pursuant to the 2023 CAA:

- Title 23: All parts of title 23
- Title 40: Chapters 141 and 145
- Title 49: Chapters 53, 55, 67, 471, and subtitle V

More specifically, applicable provisions include those relating to the following requirements:

- Underlying project requirements. For example, if a recipient intends to use SLFRF funds under Pathway Two for an INFRA project that would be eligible under title 23 (as contemplated by the RAISE program), then in addition to complying with the requirements established in the RAISE NOFO, the recipient must also comply with the project eligibility and execution requirements that govern the INFRA program, set forth at 23 U.S.C. 117.

- Design, planning, construction, operation, maintenance, vehicle weight limit, and toll requirements with respect to particular projects. For a discussion of planning requirements specifically related to STIPs and TIPs, please see below.
- Location requirements for particular projects. For example, pursuant to 23 U.S.C. 133(c), recipients of the Surface Transportation Block Grant program may not undertake a project on a road functionally classified as a local road or a rural minor collector unless the road was on a federal-aid highway system on January 1, 1991, subject to certain exceptions. Recipients using SLFRF funds for projects pursuant to sections 602(c)(5)(B)(iv) and 603(c)(6)(A) of the Social Security Act as added by the 2023 CAA, which provided that projects eligible under the Surface Transportation Block Grant program are eligible uses of the SLFRF, must comply with the location requirements of 23 U.S.C. 133(c) with respect to such projects. Recipients seeking to use funds under the streamlined framework under Pathway Two are reminded that the “public road and nonmotorized projects not otherwise eligible under title 23” prong of the 2023 RAISE NOFO would include local road projects.
- Project approval requirements. The approval requirements of titles 23, 40, and 49 of the U.S. Code apply to Pathway Two projects other than those that qualify for the streamlined framework described above. Treasury has determined not to require recipients to submit an application to, or receive approval from, Treasury to conduct a project that would be eligible under the RAISE grant program and meets the criteria of the streamlined framework of Pathway Two. As discussed above, depending on the nature of the project, a recipient may nevertheless be required to obtain approval pursuant

to a specific requirement under titles 23, 40 or 49 or the regulations adopted by DOT thereunder.

- Procurement requirements. For example, the requirements of 23 U.S.C. 112 generally apply. Please see discussion below in the section titled Pathway Two: Buy America Requirements for a discussion of the specific applicability of Buy American requirements under 23 U.S.C. 313 and the Infrastructure Investment and Jobs Act.
- Wage and labor requirements. For example, the requirements of 23 U.S.C. 113, imposing Davis-Bacon prevailing wage protections for highway projects, apply.
- Compliance requirements. Compliance provisions apply to the extent that they require recipients to establish and maintain measures to oversee the eligible projects that they are undertaking.
- Definitions of terms used in the provisions above.

In addition, the RAISE program includes eligibility for projects with applicable requirements that are found outside of titles 23, 40, and 49. If a recipient would like to use SLFRF funds for a project eligible under the RAISE program but governed by laws outside titles 23, 40, and 49, the general principles described above for titles 23, 40, and 49 will apply, and recipients may ask Treasury for more detail about the specific requirements that apply to the particular project.

Recipients using SLFRF funds for Surface Transportation projects under Pathway Two must meet the relevant requirements outlined above, which will depend on the project type and whether the project ordinarily would be overseen by the Federal Highway Administration (FHWA), Federal Transit Administration (FTA), Federal Railroad Administration (FRA), or other relevant DOT administrations. For example, for projects that ordinarily would be overseen

by FHWA, applicable federal laws include those set forth in title 23 of the U.S. Code, chapters 141 and 145 of title 40 of the U.S. Code (if undertaking a project related to the completion of a designated route of the Appalachian Development Highway System), chapter 67 of title 49 of the U.S. Code (if undertaking a project related to national culvert removal, replacement, or restoration), and applicable regulations.¹²⁴ For projects that ordinarily would be overseen by the FTA, applicable federal laws include the requirements of chapters 53, 55, and 67 of title 49 of the U.S. Code and chapter VI of title 49 of the Code of Federal Regulations. For projects that ordinarily would be overseen by the FRA, applicable federal laws include those described in chapters 55 and 67 and subtitle V of title 49 of the U.S. Code.

Restrictions that apply to projects regardless of the source of funds of the project apply as they would to any other project carried out by a recipient. For example, the design and construction standards set forth in 23 CFR part 625 apply to construction, reconstruction, resurfacing (except for maintenance resurfacing), restoration, or rehabilitation of a highway that is part of the national highway system, regardless of what funds are used for such activities.¹²⁵ For all of the requirements under titles 23, 40, and 49 that apply to recipients' use of funds to undertake projects under this framework, the associated DOT regulations also apply, unless Treasury states otherwise.¹²⁶

¹²⁴ For an illustrative list of the other applicable laws, rules, regulations, executive orders, polices, guidelines, and requirements as they relate to a RAISE grant project overseen by the FHWA, *see* <https://www.transportation.gov/grants/raise/raise-fy2022-fhwa-exhibits-october-18-2022>.

¹²⁵ *See* 23 CFR 625.3(d). Application of these requirements to projects funded under the SLFRF includes the provision for determinations by the Division Administrator in certain instances as provided for by 23 CFR 625.3(e).

¹²⁶ The 2023 CAA provides that the requirements of titles 23, 40, and 49 of the U.S. Code apply to funds used for Surface Transportation projects, except as otherwise determined by the Secretary. Treasury is also applying the associated regulations because they generally inform and provide context for how to apply with the requirements set forth in the statute.

Pathway Two: Inapplicable requirements of title 23 40, and 49 of the U.S. Code. The Secretary has determined that certain sections of the relevant chapters of titles 23, 40, and 49 of the U.S. Code do not apply to recipients' use of SLFRF funds for Surface Transportation projects under Pathway Two when such requirements would conflict with the existing SLFRF framework or otherwise are likely to preclude recipients from exercising the additional authorities provided by the statute. For these reasons, the following types of provisions generally do not apply:

- Grant size requirements. Limitations on the size of grants that DOT can award to grantees do not apply to SLFRF recipients using funds to carry out Surface Transportation projects. For example, under the Rural Surface Transportation Grant Program, DOT generally may only award grants in amounts not less than \$25 million.¹²⁷ SLFRF recipients are not subject to this funding minimum when using SLFRF funds for projects eligible under the Rural Surface Transportation Grant Program. These limitations conflict with the SLFRF statutory framework and are likely to preclude recipients from exercising the additional authorities provided by the statute: they apply by their terms to DOT rather than to recipients, and recipients have already received their SLFRF payments from Treasury. Instead, recipients are subject to the aggregate limit on the use of SLFRF for Surface Transportation projects and Title I projects discussed above. Recipients wishing to use the streamlined framework for a particular project are also limited to using \$10 million of the SLFRF for such project.
- Allocation requirements that require states to distribute funds received under certain programs to their local governments or to spend funds received under certain programs

¹²⁷ See 23 U.S.C. 173(i).

for the benefit of particular areas. Treasury has determined for example, that the requirements of 23 U.S.C. 133(h) are not applicable to the SLFRF program, as they conflict with the SLFRF statutory framework and are likely to preclude certain recipients from exercising the additional authorities provided by the statute. The 2023 CAA amendments make clear that SLFRF recipients are permitted to use funds for projects carried out by the recipient itself. Furthermore, all SLFRF recipients are eligible to use their funds for Surface Transportation projects, so it is unnecessary to require states to further distribute amounts for the specific benefit of their localities that may not receive DOT funding directly. Finally, even if Treasury were to apply these allocation requirements to the SLFRF program, a state that wanted to use SLFRF funds for a project eligible under a program subject to an allocation requirement could in most if not all cases avoid the requirement by citing a different program without an allocation requirement as the authority for its uses of funds.

- Non-federal cost-share requirements. As discussed under Pathway One, titles 23, 40, and 49 include cost-share requirements that generally apply to projects under transportation programs. However, recipients using SLFRF funds for Surface Transportation projects under Pathway Two are not required to contribute cost-sharing or matching funds alongside those SLFRF funds. This approach is consistent with the way recipients spend SLFRF funds under the 2022 final rule, which does not require recipients to provide cost sharing or matching funds in order to use their SLFRF funds.¹²⁸ If Treasury were to apply cost-share requirements to the SLFRF funds used in Pathway Two, recipients

¹²⁸ See section 7 of the SLFRF Award Terms and Conditions.

would be required to source additional matching funds before being able to carry out a Surface Transportation project, which would frustrate the flexibility provided by the 2023 CAA and inhibit recipients' ability to use funds already received prior to the approaching obligation and expenditure deadlines.

- Reporting requirements that would normally apply when DOT provides funding for a project. SLFRF recipients generally are not required to report their use of SLFRF funds for a project under Pathway Two to DOT or any other agency other than Treasury. Instead, recipients are required to provide a detailed accounting of their uses of funds and report such information as Treasury shall require pursuant to section 602(d)(2) and 603(d). Treasury will amend its reporting guidance to provide reporting requirements applicable to projects conducted under Pathway Two.

Pathway Two: STIP and TIP. The statutory provisions of titles 23, 40, and 49 related to STIP and TIP inclusion, generally do not apply to SLFRF funds used for Surface Transportation projects under Pathway Two. Typically, applicants for RAISE funding need to demonstrate that a project that is required to be included in the relevant state, metropolitan, and local planning documents has been or will be included in such documents. Such local planning documents include the STIP or TIP. This requirement for inclusion in planning documents provides useful context on how specific projects fit within broader transportation investments. The requirement that certain projects be addressed in these planning documents, however, is inconsistent with the 2023 CAA amendments' provision of authority to local governments themselves to undertake Surface Transportation projects with funds on hand rather than through funding overseen by state or regional entities and therefore would likely preclude certain recipients from exercising the

additional authorities provided by the statute. Accordingly, these planning requirements do not apply to recipients' use of SLFRF funds for Surface Transportation projects under Pathway Two.

However, as discussed above, requirements that apply to projects regardless of the source of funds of the project apply as they would to any other project carried out by a recipient.

Pursuant to 23 CFR 450.218(h), a STIP must contain all regionally significant projects requiring an action by the FHWA or FTA despite source of funds, and must also contain (if appropriate and included in any TIPs), all regionally significant projects proposed to be funded with federal funds, among others.¹²⁹ For this reason, if a project receiving SLFRF funds under this framework is regionally significant and requires an action by the FHWA or the FTA, it will still be required to be included in the STIP or TIP. If a project receiving SLFRF funds under this framework is included in a TIP, for informational and conformity purposes, it also may be required to be included in the STIP.

Pathway Two: Buy America Requirements. Under titles 23 and 49 of the U.S. Code, programs overseen by the FHWA, FTA, and FRA are subject to Buy America domestic content procurement preference provisions related to steel, iron, and manufactured goods. These Buy America provisions provide that DOT shall not obligate funds to carry out projects under titles 23 and 49 unless steel, iron, and manufactured products used in such project are produced in the United States.¹³⁰ Recipients generally must satisfy the Buy America requirements of titles 23, 40,

¹²⁹ “Regionally significant project” is defined in 23 CFR 450.104 to mean “a transportation project...that is on a facility that serves regional transportation needs (such as access to and from the area outside the region; major activity centers in the region; major planned developments such as new retail malls, sports complexes, or employment centers; or transportation terminals) and would normally be included in the modeling of the metropolitan area's transportation network. At a minimum, this includes all principal arterial highways and all fixed guideway transit facilities that offer an alternative to regional highway travel.”

¹³⁰ See 23 U.S.C. 313 for FHWA, 49 U.S.C. 5323 for FTA, and 49 U.S.C. 22905(a) and 49 U.S.C. 24395 for FRA.

and 49 of the U.S. Code when funds are used on Surface Transportation projects under Pathway Two. However, recipients are not required to satisfy the Buy America requirements in the case of Surface Transportation projects meeting the criteria for streamlined projects under Pathway Two that result in lower-risk uses of funds. Treasury expects that recipients may seek to use funds for hundreds of lower-risk projects, and application of the Buy America requirements to such a volume of projects likely would preclude recipients from carrying out such projects while meeting the statutory deadlines for obligation and expenditure of funds. Treasury expects that developing the recipient compliance process and addressing requests for waivers for potentially hundreds of lower-risk projects in time for recipients to carry out such projects while meeting the statutory deadlines for obligation and expenditure of funds could inhibit recipients' ability to use SLFRF funds in the time remaining in the program in line with the flexibility provided by the statutory framework. By contrast, Treasury expects far fewer recipients to seek to use SLFRF funds for higher-risk projects involving greater complexity, in light of the approaching obligation deadline of December 31, 2024, and expenditure deadline of September 30, 2026. The Buy America requirements apply to Surface Transportation projects that do not meet the criteria, and Treasury will work with recipients seeking to fund projects outside of the streamlined framework, as discussed further above.

Pathway Two: Projects that demonstrate progress towards a state of good repair or support achieving performance targets. Consistent with the requirements applicable to Pathway One, states using SLFRF funds under Pathway Two for Surface Transportation projects eligible under title 23 of the U.S. Code, or that otherwise would be subject to the requirements of title 23, must either demonstrate progress in achieving a state of good repair or support the achievement of one or more performance targets. This requirement would not apply when states use SLFRF

funds for Surface Transportation projects eligible under programs authorized by laws outside of title 23 of the U.S. Code, for the reasons discussed above.

Pathway Two: Limitations on Operating Expenses. Consistent with the requirements described in Pathway One, recipients may not use SLFRF funds under this pathway for operating expenses in projects that would be eligible under Urbanized Formula Grants, Fixed Guideway Capital Investment Grants, Formula Grants for Rural Areas, State of Good Repair Grants, or Grants for Buses and Bus Facilities. For this purpose, operating expenses do not include preventive maintenance activities. Public transportation projects eligible under chapter 53 of title 49 of the U.S. Code are eligible projects under the RAISE grant program and therefore are available for SLFRF recipients to pursue under Pathway Two, pursuant to other requirements as outlined above. Given the statutory limitation on using SLFRF funds for operating expenses on projects eligible under the above-mentioned programs, such limits also apply to projects eligible under the programs with statutory limitations on using SLFRF funds for operating expenses that recipients may pursue under Pathway Two. This limitation does not apply to other Surface Transportation projects under Pathway Two or to other uses of SLFRF funds, including under the revenue loss eligible use category.

e. PATHWAY THREE: NON-FEDERAL SHARE REQUIREMENTS FOR CERTAIN SURFACE
TRANSPORTATION PROJECTS

This section discusses the third pathway for using SLFRF funds for Surface Transportation projects. Sections 602(c)(5)(A) and 603(c)(6)(A) of the Social Security Act provide that SLFRF funds may be used to satisfy non-federal share requirements for projects eligible under INFRA Grants (23 U.S.C. 117), Fixed Guideway Capital Investment Grants (49

U.S.C. 5309), or Mega Grants (49 U.S.C. 6701), as well as projects eligible for credit assistance under the TIFIA program (23 U.S.C. chapter 6). Recipients may also use SLFRF funds to repay a loan provided under the TIFIA program. These eligible activities are referred to as Pathway Three.

Recipients may use SLFRF funds under Pathway Three for projects that have, or will prior to the SLFRF obligation deadline, receive funding from DOT under one of the above-referenced programs. Recipients must comply with the requirement that they may only use the greater of 30% of their award and \$10 million for Surface Transportation projects and Title I projects, taken together. Recipients using SLFRF funds under Pathway Three must also comply with the requirement that SLFRF funds supplement and not supplant other funds, described earlier in this interim final rule.

As discussed above, the requirements of titles 23, 40, and 49 of the U.S. Code include cost-share requirements that generally apply to projects under transportation programs, and these requirements apply to the use of SLFRF for Surface Transportation projects. However, given the specific provision in sections 602(c)(5)(A) and 603(c)(6)(A) of the Social Security Act that SLFRF may be used to meet the non-federal share requirements of the three programs referenced above, if a recipient uses SLFRF funds to satisfy the non-federal share requirements for projects eligible under one of those programs, DOT will not treat the SLFRF funds as federal funds for this limited purpose and will credit SLFRF toward applicable cost-share or non-federal match requirements accordingly. For example, under the INFRA program, federal funds other than the participating DOT funds generally do not satisfy non-federal cost share requirements, and federal funds together must contribute not more than 80% of a project's costs. SLFRF funds used to cover the applicable non-federal cost share requirements of a project under Pathway Three will

not be treated as federal funds and therefore are not considered against the 80% limit on federal funding sources. Recipients using SLFRF funds to satisfy non-federal cost share requirements under Pathway Three must consult with DOT to understand the applicable non-federal cost share requirements and how SLFRF funds may be used for these purposes.

Although the statute expressly permits recipients to use SLFRF funds to satisfy non-federal cost share requirements for the above-referenced programs, as with any use of funds to meet non-federal cost share requirements, the requirements associated with the project, as administered by DOT, continue to apply to the use of all the funding for the project unless otherwise provided by DOT.

Under Pathway Three, recipients will be required to comply with the relevant existing DOT reporting requirements associated with the Surface Transportation project for which they are using SLFRF funds for non-federal share requirements. Recipients will be required to report certain information to Treasury, including the amount of SLFRF funds directed toward Surface Transportation projects and Title I projects, to ensure that recipients comply with the cap on funds associated with these eligible use categories.

As discussed in the 2022 final rule, recipients may continue to use SLFRF funds available under the revenue loss eligible use category to satisfy non-federal matching requirements. See the 2022 final rule for further information.

Question 1: What, if any, additional clarification should Treasury provide as relates to determining whether Surface Transportation projects are eligible uses of the SLFRF?

Question 2: What additional information or clarification is needed for recipients to understand the applicable program requirements for Pathway One for Surface Transportation projects?

Question 3: What are the advantages and disadvantages of the eligibility criteria for the streamlined framework outlined in Pathway Two? Do these criteria adequately account for project risk in a manner that is both accurate and administrable? Why or why not?

Question 4: What additional information or clarification is needed for recipients to understand the applicable program requirements for Pathway Two?

Question 5: With respect to Pathway Two, what information should Treasury consider in developing the framework for projects outside the streamlined framework, in addition to the information that recipients will provide in the notices of intent? What types of projects do recipients intend to pursue under Pathway Two that would not be covered by the streamlined approach?

2. TITLE I PROJECTS

Background

The 2023 CAA amends sections 602 and 603 of the Social Security Act to permit recipients to use SLFRF funds for certain infrastructure projects, including projects eligible under Title I of the Housing and Community Development Act of 1974 (Title I projects).¹³¹ As described earlier in this interim final rule, recipients may only use the greater of 30% of their SLFRF award and \$10 million, not to exceed a recipient's allocation, for all Surface Transportation projects (described in the prior section) and Title I projects (described in this section) taken together.

In title I of the HCDA (Title I), Congress consolidated several complex and overlapping federal assistance programs focused on community development into a more flexible block of

¹³¹ See 42 U.S.C. 5301 et seq.

funds distributed through a formula allocation, known as the Community Development Block Grant (CDBG) and administered by the Department of Housing and Urban Development (HUD).¹³² Annual allocations through the CDBG program are based on population and various other measures, including poverty, age of housing, and housing overcrowding.¹³³ CDBG funds are available to states and units of general local government (cities and counties); Tribal governments are eligible for Indian CDBG (ICDBG) grants that are awarded on a mainly competitive basis in the form of single purpose grants, and occasionally on a noncompetitive, first-come first-served basis to alleviate imminent threats to public health or safety.¹³⁴

There are varied ways that different government entities may be eligible for CDBG.¹³⁵ To reflect the structure of the SLFRF program, under which each recipient received an individual award from Treasury and expends funds on its own behalf, Treasury's implementation of the Title I eligible use category for non-Tribal recipients aligns to HUD's treatment of entitlement grants under CDBG. For Tribal governments using SLFRF funds under the Title I eligible use category, Treasury's implementation generally reflects HUD's treatment of Tribal government grantees under ICDBG single purpose grants, as further described below.

As discussed in the 2022 final rule, various types of activities that are eligible under the CDBG program are also eligible uses of the SLFRF program under the public health and

¹³² See 42 U.S.C. 5301.

¹³³ See 42 U.S.C. 5306.

¹³⁴ See 24 CFR 1003.100(a).

¹³⁵ HUD's implementation of CDBG varies based on the type of CDBG grantees, with specific treatment for entitlement grants (including metropolitan city and urban county grantees), nonentitlement funds (including HUD-administered Small Cities and Insular Area programs), and state-administered CDBG nonentitlement funds. For example, in the state CDBG program, a state's primary function is to administer CDBG grants for non-entitlement units of government, rather than to undertake eligible activities as grantees themselves. Meanwhile, entitlement grantees of CDBG are able to expend their CDBG allocations directly and without being subject to certain limitations that exist under the state CDBG program.

negative economic impacts eligible use category, including homeownership assistance, investing in affordable housing preservation and repairs, and rehabilitation or demolition of blighted or abandoned properties. As noted above, the 2023 CAA did not alter the existing four eligible use categories under the SLFRF program, and the eligible uses articulated in the 2022 final rule in the public health and negative economic impacts eligible use category remain unchanged. As such, recipients wishing to pursue these types of projects with SLFRF funds may want to continue doing so under the public health and negative economic impacts eligible use category rather than complying with the additional requirements of the new Title I projects eligible use category.

The new Title I projects eligible use category makes additional activities available to SLFRF recipients, up to the cap on funds for this eligible use category. As described in the section titled Use of Funds to Satisfy Non-Federal Share Requirements, this includes using SLFRF funds for non-federal match or cost-share requirements of a federal financial assistance program in support of activities that would be eligible under Title I.¹³⁶ By permitting state, local, and Tribal governments to use SLFRF funds for Title I projects, the statute provides additional flexibility for recipients to use SLFRF funds to meet the needs of their communities and provides clarity for recipients that may already have experience pursuing projects under Title I. The Title I requirements for programs administered by HUD are already familiar to many SLFRF recipients, which will help state, local, and Tribal governments to supplement funding more easily for

¹³⁶ SLFRF funds also remain available under the revenue loss eligible use category up to the amount of revenue lost due to the pandemic for the provision of government services. As described in the 2022 final rule, the provision of government services means any service traditionally provided by a government, which means that recipients could also choose to use SLFRF funds in the revenue loss eligible use category for community development activities.

existing projects under Title I or to pursue new projects using a familiar set of program requirements. Below, this interim final rule discusses eligible projects and applicable requirements for the Title I eligible use category.

Unlike Pathway Two for Surface Transportation projects, discussed in the previous section, the interim final rule does not provide a “streamlined framework” for Title I projects. Title I projects differ from Surface Transportation projects in several meaningful ways. First, as discussed above, the project approval and certification requirements of titles 23, 40, and 49 of the U.S. Code and title I of the HCDA generally must be satisfied prior to recipients obligating and expending funds on Surface Transportation projects and Title I projects. However, under CDBG, there is no formal approval on a project-by project-basis by HUD other than in the case of projects subject to certain environmental reviews.¹³⁷ Accordingly, it is more feasible for recipients to determine to use SLFRF funds for Title I projects, to submit required environmental information prior to undertaking projects, and to obtain Treasury approval, all in time for the 2024 obligation and 2026 expenditure deadlines, even if a large number of SLFRF recipients decide to spend funds under this eligible use category. Second, as mentioned above, many of the eligible activities under Title I projects are already available to SLFRF recipients under the public health and negative economic impacts eligible use category, including using funds for capital expenditures, for which recipients are able to use their full SLFRF award toward eligible

¹³⁷ While CDBG activities are outlined in planning documents submitted to HUD, these planning documents cover a grantee’s programmatic plans for all HUD awards (not just those authorized under Title I) on an annual basis with respect to action plans and a multi-year basis with respect to consolidated plans. Based on the structure of the SLFRF program, certification and approval requirements associated with these plans are irrelevant for the SLFRF program. In any event, HUD does not affirmatively approve CDBG grantees’ planning documents, but the agency may disapprove plans as necessary.

uses and are not subject to the limitations discussed in this section. In the case of Surface Transportation projects, recipients are only able to undertake similar activities as a government service through the revenue loss eligible use category. For these reasons, Treasury anticipates that recipients will undertake fewer projects under the Title I projects eligible use category.

Prohibition on Supplanting Other Funds. The 2023 CAA provides that funds used for Title I projects shall “supplement, and not supplant, other Federal, State, territorial, Tribal, and local government funds (as applicable) otherwise available for such uses.” The phrase “other ... funds available for such uses” refers to (i) in the case of non-federal funds, non-SLFRF funds that have been obligated for specific uses that are eligible under the Title I eligible use category or (ii) in the case of federal funds, funds that a federal agency has committed to a particular project pursuant to an award agreement or otherwise.

Under prong (i), for the purpose of identifying non-federal funds that have been obligated for specific uses, the definition of "obligation" used in the 2022 final rule applies, which is "an order placed for property and services and entering into contracts, subawards, and similar transactions that require payment."¹³⁸ As such, under prong (i), a recipient may not de-obligate funds that were obligated for specific uses that are eligible under this section (e.g., by cancelling, amending, renegotiating, or otherwise revising or abrogating a contract, subaward, or similar transaction that requires payment) and replace those previously obligated funds with SLFRF funds under this eligible use category.

¹³⁸ See Final Rule FAQ 13.17 for additional information about obligations. This approach applies a concrete standard that is known to SLFRF recipients and administrable by Treasury.

The restriction in prong (ii), on replacing funds that a federal agency has committed to a particular project pursuant to an award agreement or otherwise, applies to all funding sources covered by the commitment. Prong (ii) does not apply to HUD funds provided to a CDBG grantee for activities included in its annual action plan, because imposition of this restriction would be inconsistent with the substantial flexibility that the CDBG program otherwise provides its grantees. For example, a CDBG grantee's annual action plan reflects planned spending on activities across multiple HUD-administered programs, and grantees have significant flexibility to amend plans to reflect adjusted planned spending throughout the year.

Thus, a recipient may not de-obligate funds and replace those previously obligated funds with SLFRF funds under this eligible use category. Nor may a recipient use SLFRF funds to replace federal or non-federal funds identified in a federal commitment, such as an award agreement.

However, a recipient may use SLFRF funds (1) to provide additional funding to a project without reducing the amount of other funds obligated to such project, thereby funding additional activities or expanding the scope of projects; (2) to undertake a project for which funds have not been previously obligated or identified in a federal commitment, such as an award agreement. For example, if a recipient had obligated non-SLFRF funds for the construction of a community garden, SLFRF funds under this eligible use category could be used to provide additional resources to that project or to undertake a separate eligible project, but the recipient could not terminate or renegotiate an existing contract for the construction of that garden and use SLFRF funds to replace the funds previously obligated for that purpose. SLFRF recipients that are also CDBG grantees (but not ICDBG grantees) should note that HUD program requirements related to timely expenditures of CDBG funds – providing that “a grantee cannot have more than

1.5 times their annual allocation sitting in their line of credit at the U.S. Treasury” – continue to apply to CDBG funds.¹³⁹ Accordingly, Treasury encourages SLFRF recipients that are also CDBG grantees to continue to spend their CDBG funds in compliance with such requirements.

a. ELIGIBLE TITLE I PROJECTS

Recipients may use SLFRF funds for Title I projects, which includes any projects that are currently eligible activities, programs, and projects under CDBG and ICDBG, as described further below. Principally, Title I authorizes CDBG and ICDBG, as well as several other grant programs with largely overlapping eligible activities as CDBG.¹⁴⁰ As discussed below, grants made under these other Title I programs do not cover eligible activities incremental to what is allowable under CDBG and ICDBG, and thus their incorporation here would not make any additional eligible uses under Title I available to SLFRF recipients.

In the Title I eligible use category, recipients may use SLFRF funds for any of the activities listed in section 105(a) of the HCDA (42 U.S.C. 5305(a)). When carrying out these activities, recipients should comply with the related eligibility requirements set forth at 24 CFR 570.201 – 570.209 with respect to recipients that are not Tribal governments and 24 CFR 1003.201 – 1003.209 with respect to Tribal governments. Recipients may refer to additional HUD guidance for further information about the projects eligible under CDBG, including

¹³⁹ CDBG grantees have a line of credit that includes the amount of CDBG funds that are available for those grantees. According to program rules on timely expenditures, “a grantee cannot have more than 1.5 times their annual allocation sitting in their line of credit at the U.S. Treasury.” Moreover, if a grantee “chronically has more than 1.5 times their allocation in their line of credit as of 60 days prior to the end of the grantee's program year, HUD can withhold future grants until the grantee effectively spends their existing resources.” For more information, see *Basically CDBG for Entitlements*, Chapter 11: Financial Management, Section 11.7 (“Timely Expenditure of Funds”) (Sept. 2017), available at https://www.hud.gov/sites/documents/DOC_16480.PDF.

¹⁴⁰ See 42 U.S.C. 5301 et seq.

guidance about complying with the national objectives and other program requirements.¹⁴¹

Below is an illustrative list of Title I projects for which recipients may use SLFRF funds pursuant to section 105(a) of the HCDA:

- Acquisition of certain real property for a public purpose, subject to certain limitations;
- Disposition of certain property, subject to certain limitations and rules;
- Acquisition, construction, reconstruction, rehabilitation, or installation of public facilities and improvements, clearance and remediation activities;
- Public services, subject to the limitation discussed below;
- Interim assistance where immediate action is required for certain activities such as street repair, and costs to complete an urban renewal project under Title I;
- Relocation payments for relocated families, businesses, nonprofit organizations, and farm operations, under certain conditions;
- Payments to housing owners for loss of certain rental income;
- Certain housing services;
- Acquisition, construction, reconstruction, rehabilitation, or installation of privately owned utilities;
- Rehabilitation and reconstruction of housing, conversion of structures to housing, or construction of certain housing;
- Homeownership assistance;
- Technical assistance to entities to increase capacity to carry out CDBG-eligible projects;

¹⁴¹ See e.g., Department of Housing and Urban Development, Guide to National Objectives and Eligible Activities for CDBG Entitlement Communities, Chapter 2: Categories of Eligible Activities (Jan. 2014), available at https://www.hud.gov/sites/documents/DOC_17133.PDF.

- Assistance to certain institutions of higher education to carry out eligible activities;
- Administration activities including general management, oversight, and coordination costs, fair housing activities, indirect costs, and submission of applications for federal programs;
- Planning activities including the development of plans and studies, policy planning, and management and capacity building activities; and
- Satisfying the non-federal share requirements of a federal financial assistance program in support of activities that would be eligible under the CDBG and ICDBG programs, as discussed below.

Use of SLFRF Funds to Satisfy Non-Federal Match of Cost-Share Requirements Under Title I. As noted above, recipients may use SLFRF funds, subject to the cap on funds for this eligible use category, to meet the non-federal match or cost-share requirements of a federal financial assistance program in support of activities that would be eligible under the CDBG and ICDBG programs and would comply with all applicable CDBG and ICDBG requirements. Recipients should analyze the projects and activities for which they intend to use SLFRF funds to meet non-federal share requirements to confirm that the project or activity would constitute an eligible activity under section 105 of the HCDA and would comply with HUD's statutory, regulatory, and other requirements applicable to CDBG and ICDBG activities.

As articulated in the 2022 final rule, SLFRF funds remain available under the revenue loss eligible use category to meet non-federal matching requirements. For discussion of the use of SLFRF funds for non-federal matching requirements under the revenue loss eligible use category or as otherwise authorized by statute, see the 2022 final rule. For discussion of the use

of SLFRF funds for non-federal matching requirements for Surface Transportation projects, see the Surface Transportation projects section.

Use of Loans and Revolving Loan Funds Towards Eligible Activities Under Title I.

CDBG and ICDBG grantees generally may utilize financing vehicles such as loans and revolving loan funds to carry out eligible activities. For example, sections 105(a)(14), (22), and (25) of the HCDA provide that CDBG recipients may use their funds to provide loans or finance revolving loan funds for certain activities.¹⁴²

Recipients using SLFRF funds for Title I projects may extend credit, by making loans using SLFRF funds or using SLFRF to establish revolving loan funds, to support activities that are eligible uses of funds under CDBG. Such activities are subject to Treasury's existing guidance on loans under the SLFRF program,¹⁴³ as well as Treasury's guidance on program income, in light of the nature of the SLFRF program where these funds are available for a limited time, not on a recurring basis, and subject to approaching obligation and expenditure deadlines.¹⁴⁴ As a reminder, extensions of credit with SLFRF funds are subject to program requirements as described in the Applicable Requirements for Title I Projects section of this interim final rule and the cap on funds that applies to this eligible use category.

Other Supplemental Assistance. From time to time, Congress appropriates additional funding for certain activities that are generally available under CDBG but are limited to addressing specific challenges that communities face. Even though these activities largely mirror those eligible under Title I, this supplemental assistance is not authorized under Title I.

¹⁴² See 42 U.S.C. 5305(a).

¹⁴³ See *id.*

¹⁴⁴ See *id.* at FAQ 13.11. How does Treasury treat program income?

Accordingly, they are not separately eligible categories of activities under Title I for purposes of the SLFRF program. For example, recipients may be familiar with CDBG-Disaster Recovery (CDBG-DR) and CDBG-Mitigation (CDBG-MIT). These forms of supplemental assistance appropriate emergency supplemental funds on a case-by-case basis for specific disasters and permit recipients, in addition to their regular CDBG credit line or ICDBG grants, to spend funds on certain eligible activities related to disaster relief, long-term recovery, restoration of housing and infrastructure, economic revitalization and mitigation. When additional funds are appropriated through CDBG-DR or CDBG-MIT, HUD is typically granted authority to grant waivers and impose alternative requirements to those existing Title I requirements that govern the CDBG and ICDBG programs. Such waivers or alternative requirements are not applicable to this eligible use category, as this supplemental assistance is not a project under Title I and such authority is not provided for in the HCDA, but rather in the individual CDBG-DR or CDBG-MIT appropriations.

Nonetheless, recipients considering using SLFRF funds to respond to both the near- and long-term consequences of disasters are reminded that the eligible activities under section 105 of Title I are very flexible and may address certain disaster relief and disaster mitigation needs. Accordingly, SLFRF recipients may pursue such activities under the Title I projects eligible use as long as all requirements are met. In addition, recipients may provide emergency relief from the physical and negative economic impacts of natural disasters, including mitigation activities, through the eligible use category discussed in the section titled Emergency Relief from Natural Disasters of this interim final rule.

Other Title I Programs Not Available Under the SLFRF Program. Certain sections of Title I authorize HUD to make grants and loans to governments under different programs in

addition to CDBG. These programs are listed below and, other than the section 108 Loan Guarantee program, are considered inactive by HUD:

- Special Purpose Grants¹⁴⁵
- Urban Development Action Grant Program¹⁴⁶
- John Heinz Neighborhood Development Program¹⁴⁷
- Section 108 Loan Guarantee Program¹⁴⁸

While the 2023 CAA amended the SLFRF program to permit recipients to use SLFRF funds for Title I projects, some of these programs address HUD’s programmatic authorities rather than expanding eligible uses available to HUD grantees. Therefore, these programs are not relevant for purposes of implementing this Title I eligible use under the SLFRF program. For example, Special Purpose Grants are competitively awarded by HUD to the same recipients as CDBG and ICDBG, as well as an expanded set of recipient types (e.g., Historically Black Colleges and Universities as direct recipients of grants) to undertake certain of the activities available under CDBG. This program expands HUD’s grantmaking authority rather than expanding eligible uses available to grantees under Title I, and therefore is not included as a new eligible project under the SLFRF program. Similarly, the John Heinz Neighborhood Development Program authorizes HUD to provide federal matching funds to eligible neighborhood development organizations on a competitive basis, expanding the entities to which HUD may award grants rather than expanding eligible uses for Title I grantees.

¹⁴⁵ See 42 U.S.C. 5307.

¹⁴⁶ See 42 U.S.C. 5318.

¹⁴⁷ See 42 U.S.C. 5318a.

¹⁴⁸ See 42 U.S.C. 5308.

Similarly, the Section 108 Loan Guarantee Program authorizes HUD to provide loan guarantees to recipients of CDBG, as opposed to authorizing an eligible activity by grantees themselves.¹⁴⁹ The Urban Development Action Grant program authorizes HUD to issue grants to cities and urban counties experiencing severe economic distress to help stimulate economic development activity needed to aid in economic recovery by undertaking eligible activities under CDBG, as enumerated under section 105(a) of the HCDA.¹⁵⁰ Both of these programs address HUD's programmatic authority and do not provide HUD grantees eligible activities beyond those already available under CDBG and ICDBG, and therefore these programs are not relevant for purposes of implementing this Title I eligible use under the SLFRF program.

Additionally, HUD can award imminent threat grants under ICDBG to Tribal governments. Imminent threat grants alleviate an imminent threat to public health or safety that requires immediate resolution and are awarded only after the HUD Office of Native American Programs determines that such conditions exist and if funds are available for such grants.¹⁵¹ Grants made under this program do not authorize eligible activities incremental to what is allowable under ICDBG single purpose grants, and thus their incorporation here would not make any additional eligible uses under Title I available to SLFRF recipients. Accordingly, imminent threat grants are not separately eligible as Title I projects. Given the eligible activities available to ICDBG grantees under imminent threat grants are the same as are available under single purpose grants, Tribal government recipients of SLFRF are still able to use SLFRF funds for projects they generally could fund with ICDBG imminent threat grants under the Title I projects

¹⁴⁹ See 42 U.S.C. 5308.

¹⁵⁰ See 42 U.S.C. 5318.

¹⁵¹ See 24 CFR 1003.100(a).

eligible use category. As described further below, the applicability of program requirements for Tribal governments will mirror the program requirements grantees comply with under ICDBG single purpose grants. As noted above, recipients may provide emergency relief from the physical and negative economic impacts of natural disasters, including mitigation activities, through the eligible use category discussed in the section titled Emergency Relief from Natural Disasters of this interim final rule.

Ineligible Activities Under Title I. The HUD regulations implementing the eligible activities under CDBG and ICDBG provide that certain projects are generally not eligible CDBG activities, and accordingly, SLFRF recipients may not use SLFRF funds for those projects.¹⁵² The activities that are generally ineligible under CDBG and ICDBG are the following, subject to certain exceptions as described more fully at 24 CFR 570.207 with respect to SLFRF recipients that are not Tribal governments and 24 CFR 1003.207 with respect to Tribal government recipients:

- Buildings or portions thereof used for the general conduct of government
- General government expenses
- Political activities
- Purchase of equipment
- Operating and maintenance expenses
- New housing construction
- Income payments

¹⁵² See 24 CFR 570.207 and 1003.207.

Recipients may reference the “Activities Specified as Ineligible” section of HUD’s Guide to National Objectives and Eligible Activities for CDBG Entitlement Communities for more information.¹⁵³ However, while the projects listed above are not eligible uses of SLFRF funds as a Title I project, they still may be eligible uses of SLFRF funds under other SLFRF eligible use categories. See the 2022 final rule for additional information. As with all other eligible uses in the SLFRF program, the general restrictions on use outlined in the 2022 final rule apply to SLFRF funds used for Title I projects, unless the applicable requirements of Title I provide otherwise.

b. APPLICABLE REQUIREMENTS FOR TITLE I PROJECTS

Recipients using SLFRF funds for Title I projects must comply with certain requirements and restrictions. These requirements and restrictions are in addition to the eligibility requirements discussed above. As described earlier in this interim final rule, recipients may only use the greater of 30% of their award and \$10 million (not to exceed their award) for Title I projects (described in this section) and Surface Transportation projects (described above), taken together. Also as described earlier in this interim final rule, for Title I projects, recipients must obligate funds by December 31, 2024 and expend funds by September 30, 2026. In the section that follows, this interim final rule describes how the requirements of Title I, NEPA, and the associated implementing regulations apply to SLFRF funds used for Title I projects.

¹⁵³ See e.g., Department of Housing and Urban Development, Guide to National Objectives and Eligible Activities for CDBG Entitlement Communities, Chapter 2: Categories of Eligible Activities, 2-87 (Jan. 2014), available at https://www.hud.gov/sites/documents/DOC_17133.PDF.

The 2023 CAA provides that, except as otherwise determined by the Secretary, the requirements of Title I and NEPA apply to SLFRF funds used for Title I projects. Accordingly, state, local, and Tribal governments that use SLFRF funds for Title I projects generally must comply with Title I requirements and the associated regulations, except where noted below.¹⁵⁴ In addition, recipients must comply with NEPA requirements, as implemented by Title I and the associated HUD regulations, and as adapted to the SLFRF program by Treasury. Unless Title I provides otherwise or Treasury has otherwise clarified, SLFRF recipients should continue to comply with SLFRF regulations and guidance as found in the 2022 final rule, SLFRF Compliance and Reporting Guidance, and other guidance released by Treasury for SLFRF. In the section that follows, this interim final rule discusses the requirements of Title I that apply to recipients using SLFRF funds under this eligible use category and the requirements of Title I that do not apply to recipients using SLFRF funds under this eligible use category.

Treasury has determined not to apply certain requirements of Title I when such requirements conflict with the existing SLFRF framework or otherwise are likely to preclude recipients from exercising the additional authorities provided by the statute. For example, and as discussed above, Treasury determined that the project-level approval and certification requirements generally must be satisfied prior to recipients obligating and expending funds on Title I projects. Under CDBG, while projects are outlined in planning documents submitted to HUD, there is no formal approval on a project-by project-basis by HUD other than projects subject to certain environmental reviews.¹⁵⁵ Accordingly, only these project-level requirements

¹⁵⁴ Treasury is applying the regulations associated with the applicable provisions of Title I because they generally inform and provide context for how to apply with the requirements set forth in the statute.

¹⁵⁵ See 42 U.S.C. 5304(g) and 24 CFR Part 58.

must be satisfied, as described further below. On the other hand, recipients are not required to provide the Title I certification requirements that apply at the consolidated and annual planning level, because that level of planning and the associated certifications conflict with the SLFRF program framework under which recipients already have funds in hand and are authorized to use funds for discrete projects, rather than being required to design an annual process for how funding will be used. Furthermore, to require recipients to prepare consolidated and annual plans and undergo a public review process likely would preclude recipients from exercising the additional authorities provided by the statute, under which recipients have limited time remaining to determine how to obligate and expend funds. In contrast, certain of the applicable requirements discussed below also would apply at the aggregate CDBG funding level, like the primary objective, but those requirements are more readily adaptable as project-level requirements, consistent with the SLFRF framework, and Treasury has taken that approach as described further below. The requirements of Title I generally apply to recipients using SLFRF funds for Title I projects, with some modification to harmonize the provisions with the SLFRF framework, as discussed further below. The statutory requirements include the following:

- Activity eligibility requirements, including the following requirements articulated in section 105 of the HCDA:
 - CDBG Primary Objective requirement
 - CDBG National Objectives requirement
 - Public Services Cap
- Definitions relevant for project administration, oversight, and execution
- Procurement requirements
- Wage and labor requirements

- Environmental requirements and related project approval requirements (environmental certifications)

For each of the applicable requirements, the associated HUD regulations generally will apply as well. Specifically, HUD regulations related to these requirements apply where they:

- Enumerate and clarify eligible activities under CDBG
- Specify cost caps or the method to calculate costs caps
- Direct recipients to the applicability of other federal laws and regulations

CDBG Primary Objective. Section 101(c) of the HCDA describes the “primary objective” of Title I as “the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.”¹⁵⁶ Section 101(c) of the HCDA further provides that not less than 70% of the aggregate funds provided to non-Tribal CDBG grantees under section 106 of the HCDA shall be used for the support of activities that benefit persons of low and moderate income. Under ICDBG, Tribal governments must use not less than 70% of each single purpose grant to principally benefit low- and moderate-income persons.¹⁵⁷ This 70% threshold requirement is referred to as the “primary objective” requirement.

Section 102(a)(20) of the HCDA defines low- and moderate-income persons to mean families and individuals whose incomes do not exceed 80% of median income of the area

¹⁵⁶ See 42 U.S.C. 5301(c).

¹⁵⁷ See 24 CFR 1003.208.

involved, based on data published most recently by HUD, with adjustments for smaller and larger families;¹⁵⁸ it also authorizes HUD to establish income thresholds that are higher or lower because of unusually high or low incomes in such area.¹⁵⁹ HUD regulations for CDBG grantees implement the statutory definition by aligning low- and moderate-income designations for CDBG activities to Section 8's very low- and low-income thresholds respectively,¹⁶⁰ which HUD publishes annually.¹⁶¹ CDBG grantees are then required to comply with the requirements of 24 CFR 570.200(a)(3) and its cross-referenced provisions to determine compliance with the primary objective, including requirements associated with area benefit activities, limited clientele activities, housing activities, and job creation or retention activities.

With respect to Tribal governments, HUD awards ICDBG single-purpose grants on a competitive basis and determines that an applicant sufficiently addresses the primary objective based, in part, on data made available by the federal government, including HUD, and on data provided by Tribes. Specifically, HUD regulations for ICDBG grantees implement the statutory definition of low- and moderate-income persons by defining a “low and moderate income beneficiary” as a family, household, or individual whose income does not exceed 80 percent of the median income for the area, as determined by HUD, with adjustments for smaller and larger households or families.¹⁶² The regulations permit HUD to adjust the ceiling based on HUD's findings that such variations are necessary because of unusually high or low household or family

¹⁵⁸ See 42 U.S.C. 5302(a)(20)(a).

¹⁵⁹ See 42 U.S.C. 5302(a)(20)(b).

¹⁶⁰ See 24 CFR 570.3.

¹⁶¹ HUD's Office of Policy Development and Research publishes annual income limits for certain housing-related programs, and develops these limits based on Median Family Income estimates and Fair Market Rent area definitions. See https://www.huduser.gov/portal/datasets/il.html#2022_data.

¹⁶² See 24 CFR 1003.4.

incomes. ICDBG grantees then follow the provisions of 24 CFR 1003.208 to determine compliance with the primary objective, including requirements associated with area benefit activities, limited clientele activities, housing activities, and job creation or retention activities. In each of these activity areas, the regulations provide criteria for the activity to be considered to benefit low- and moderate-income persons. In some instances, the criteria rely on Census Bureau data or instead Tribes may provide survey data.¹⁶³

Under the HUD CDBG regulations, non-Tribal CDBG grantees may elect to apply the 70% requirement to their CDBG funds expended over a 1-, 2-, or 3-year period, and a majority of these CDBG grantees elect a 3-year period. For example, a non-Tribal CDBG grantee that elects a 3-year period must use at least 70% of its CDBG funds over that 3-year period to principally benefit low- and moderate- income persons. For ICDBG grants, the 70% requirement applies to each single purpose grant.¹⁶⁴

Treasury is implementing the primary objective requirement by requiring recipients to direct at least 70% of their SLFRF funds used for Title I projects over the course of the SLFRF program to projects that principally benefit low- and moderate-income persons. Non-Tribal recipients must refer to low- and moderate-income thresholds as defined by HUD regulations at 24 CFR 570.3, which align such income thresholds to data published most recently by HUD for

¹⁶³ See *e.g.*, 24 CFR 1003.208(a)(3), which states that “in determining whether there is a sufficiently large percentage of low- and moderate- income persons residing in the area served by an activity ... the most recently available decennial census information shall be used to the fullest extent feasible, together with the Section 8 income limits that would have applied at the time the income information was collected by the Census Bureau. Grantees that believe that the census data does not reflect current relative income levels in an area, or where census boundaries do not coincide sufficiently well with the service area of an activity, may conduct (or have conducted) a current survey of the residents of the area to determine the percent of such persons that are low and moderate income.”

¹⁶⁴ See 24 CFR 1003.208.

Section 8 low- and very low-income levels. To determine if an activity principally benefits low- and moderate-income persons, the requirements of 24 CFR 570.200(a)(3) apply.

Tribal government recipients must refer to the low- and moderate-income thresholds as defined by HUD at 24 CFR. 1003.4, and to the requirements of 24 CFR 1003.208 to determine if an activity principally benefits low- and moderate-income persons, subject to the following clarification. Recognizing that some Tribes do not have access to the above-referenced Census Bureau data and may not have the ability to conduct a survey within the short-time frame necessary to meet SLFRF obligation deadlines, Treasury is providing an alternative to satisfy the definition of “low and moderate income” as part of complying with the primary objective requirement. Instead of relying on Census data, Tribal governments may demonstrate that beneficiaries of Title I assistance are low or moderate income based on an attestation by the Tribe that these beneficiaries are receiving or are eligible to receive needs-based services provided by the Tribe. Needs-based services are defined as services administered by the Tribal government on the basis of an individual’s income. Tribal governments undertaking Title I projects may rely on this self-attestation, in lieu of relying on Census Bureau or Section 8 data, when complying with the primary objective requirement. If a Tribal government prefers to demonstrate that its project satisfies the primary objective in accordance with the terms of 24 CFR 1003.4 and 1003.208, rather than providing the alternative attestation, the Tribe may do so. As described earlier in this section, recipients may use SLFRF funds to supplement, but not supplant, an existing CDBG or ICDBG project. Accordingly, where Tribal governments use SLFRF funds to supplement funds for existing ICDBG projects, the Tribal government may rely on HUD’s prior determination of compliance with the requirements of 24 CFR 1003.208 for the

existing project, since HUD would have already vetted the existing projects during the ICDBG application process.

As discussed in the 2021 interim final rule, many Tribal communities have households with a wide range of income levels due in part to non-Tribal member, high income residents living in the community.¹⁶⁵ Further, mixed income communities, with a significant share of Tribal members at the lowest levels of income, are often not included in eligible qualified census tracts. Additionally, as discussed in the 2022 final rule, Tribal governments may face administrability challenges with operationalizing an income-based standard, and data on incomes of Tribal members in a respective Tribe is not readily available as presently this data is not collected at the Tribal membership level.¹⁶⁶

For these reasons, using decennial Census Bureau data in determining if an activity benefits low- and moderate-income beneficiaries as described in 24 CFR 1003.208(a)(3) would present similar challenges for many of the SLFRF Tribal government recipients, where location-based Census data may inaccurately portray the income and economic conditions of a Tribe. Additionally, requiring Tribes to conduct and provide survey data on residents of their areas would frustrate their ability to utilize SLFRF funds for Title I projects within the obligation and expenditure timelines provided by the 2023 CAA. If a Tribe delivers needs-based services (e.g., housing services, child assistance, etc.), the Tribe generally also has verified income eligibility of

¹⁶⁵ See 86 Fed. Reg. 26786 (May 17, 2021).

¹⁶⁶ For instance, data from the American Community Survey is based on geographical location rather than Tribal membership. U.S. Census Bureau, My Tribal Area, https://www.census.gov/Tribal/Tribal_glossary.php.

the recipients of those services, as Tribes ordinarily restrict eligibility for these activities based on the income of applicants.

The total amount of SLFRF funds used for Title I projects from the cost incurred date of December 29, 2022 through September 30, 2026 must meet the primary objective requirements as described above. By applying these requirements over the course of the SLFRF program, this interim final rule aligns CDBG primary objective compliance for SLFRF funds used for Title I projects with the obligation and expenditure deadlines on SLFRF funds in general. Although CDBG state and local government grantees have the option to elect their own 1-, 2-, or 3- year reporting periods, and ICDBG Tribal grantees apply the CDBG primary objective requirement for their specific grant allocations, SLFRF recipients are not required to obligate or expend SLFRF funds on an annual basis and instead must comply with obligation and expenditure deadlines over the full period of performance, with flexibility to adjust and add programs prior to the obligation deadline. This alignment makes the CDBG primary objective requirement administrable by SLFRF recipients over the SLFRF period of performance and coordinates related reporting with SLFRF program closeout timelines. Recipients may reference Chapter 4 of HUD's Guide to National Objectives and Eligible Activities for CDBG Entitlement Communities for more details on how to satisfy the primary objective requirement with their funds. Recipients' use of SLFRF funds for Title I projects and their compliance with the primary objective will be assessed separately from HUD's assessment of CDBG grantees' compliance with requirements for use of their CDBG funds.

CDBG National Objectives. In addition to describing the CDBG primary objective requirement, section 101(c) of the HCDA also provides that states and units of general local governments may only use CDBG funds for the support of community development activities

that are directed toward certain specific objectives, which are referred to as the national objectives. HUD regulations provide that the national objectives of the CDBG program are to:

- Benefit low- and moderate-income persons,
- Prevent or eliminate slums or blight, and
- Meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs.¹⁶⁷

ICDBG grantees administering single purpose grants are not subject to the same requirement that activities must align with at least one national objective. As discussed above, Tribal governments administering an ICDBG single purpose grant must use at least 70% of each grant to principally benefit low- and moderate-income persons, but otherwise may use their ICDBG grant aligned to purposes as approved in their ICDBG application.¹⁶⁸

Treasury is implementing the national objectives requirement by providing that for non-Tribal SLFRF recipients, each Title I project funded by SLFRF funds must satisfy at least one CDBG national objective in accordance with relevant HUD regulations set forth at 24 CFR 570.208.¹⁶⁹ Thus all recipients, except for Tribal governments, using SLFRF funds for Title I projects must meet at least one national objective as described above, and compliance with this

¹⁶⁷ See 24 CFR 570.208(a)-570.208(c) and Department of Housing and Urban Development, Guide to National Objectives and Eligible Activities for CDBG Entitlement Communities, Chapter 3: Meeting a National Objective (Jan. 2014), available at <https://www.hudexchange.info/sites/onecpd/assets/File/CDBG-National-Objectives-Eligible-Activities-Chapter-3.pdf>.

¹⁶⁸ See 24 CFR 1003.208

¹⁶⁹ See CFR 570.208 and Department of Housing and Urban Development, Guide to National Objectives and Eligible Activities for CDBG Entitlement Communities, Chapter 2: Categories of Eligible Activities (Jan. 2014), available at <https://www.hudexchange.info/sites/onecpd/assets/File/CDBG-National-Objectives-Eligible-Activities-Chapter-2.pdf>.

requirement will be assessed separately from existing CDBG national objectives requirements applicable to CDBG grantees. Tribal government recipients that use SLFRF funds for Title I projects are not subject to this requirement, reflecting that there is no requirement for Tribal government grantees under ICDBG to use their funds for any specific national objective outside of the primary objective. For more information on the CDBG national objectives, see Chapter 3 of HUD's Guide to National Objectives and Eligible Activities for CDBG Entitlement Communities.¹⁷⁰

Applicability of Public Services Cap. Section 105(a)(8) of the HCDA provides that the provision of public services is an eligible activity under Title I¹⁷¹ but that not more than 15% of a grantee's CDBG allocation may be spent on eligible "public services" activities.¹⁷² This 15% public services cap is applied annually to CDBG grantees and on a grant-by-grant basis for ICDBG grantees.

Treasury is implementing this requirement by providing that not more than 15% of SLFRF funds used for Title I projects over the course of the SLFRF program may be spent under the "public services" category, in accordance with relevant HUD regulations set forth at 24 CFR 570.201(e) for non-Tribal recipients and at 24 CFR 1003.201(e) for Tribal recipients. Thus, the total amount of SLFRF funds used for Title I projects for costs incurred from December 29, 2022 through September 30, 2026 must meet the public services cap as described above, and compliance with this requirement will be assessed separately from existing CDBG and ICDBG

¹⁷⁰ See Department of Housing and Urban Development, Guide to National Objectives and Eligible Activities for CDBG Entitlement Communities, Chapter 3: Meeting a National Objective (Jan. 2014), available at <https://www.hudexchange.info/sites/onecpd/assets/File/CDBG-National-Objectives-Eligible-Activities-Chapter-3.pdf>.

¹⁷¹ See 42 U.S.C. 5305(a)(8).

¹⁷² See 42 U.S.C. 5305(a)(8).

public services cap compliance on CDBG and ICDBG grantees. The approach to align public services cap compliance to SLFRF program obligation and expenditure deadlines and the accompanying rationale mirror the approach taken for SLFRF recipients' compliance to the CDBG primary objective, as outlined earlier in this section. This alignment makes the public services cap administrable by SLFRF recipients over the SLFRF period of performance and coordinates related reporting with SLFRF program closeout timelines. For more information on activities considered public services for purposes of the 15% cap, or more information on the public services cap itself, see Chapter 7 of HUD's "Basically CDBG" Guide.¹⁷³

Applicability of Planning and Administrative Costs Cap. Section 105(a)(13) of the HCDA provides that the payment of reasonable administrative costs and carrying charges related to the planning and execution of community development and housing activities is an eligible activity under Title I.¹⁷⁴ HUD regulations implement this provision for non-Tribal recipients at 24 CFR 570.205 and 570.206 and for Tribal recipients at 24 CFR 1003.205 and 206. In addition, HUD regulations at 24 CFR 570.200(g) provide that non-Tribal grantees may expend no more than 20% of any CDBG annual grant for planning and program administrative costs. HUD regulations for Tribal governments include the same requirement.¹⁷⁵ The planning and administrative cap is applied annually to CDBG grantees and on a grant-by-grant basis for ICDBG grantees.

¹⁷³ See Department of Housing and Urban Development, *Basically CDBG for Entitlements*, Chapter 7: Public Services (Sept. 2017), available at https://www.hud.gov/sites/documents/DOC_16476.PDF.

¹⁷⁴ See 42 U.S.C. 5305(a)(13).

¹⁷⁵ See 24 CFR 1003.206.

Treasury is implementing this requirement by providing that not more than 20% of SLFRF funds used for Title I projects over the course of the SLFRF program may be spent on planning and administrative costs, in accordance with relevant HUD regulations set forth at 24 CFR 570.200(g), 570.205, and 570.206 for non-Tribal recipients and at 24 CFR 1003.205 and 1003.206 for Tribal recipients. Thus, the total amount of SLFRF funds used for Title I projects for costs incurred from December 29, 2022 through September 30, 2026 must meet the planning and administrative costs cap as described above, and compliance with this requirement will be assessed separately from existing CDBG and ICDBG planning and administrative costs cap compliance for CDBG and ICDBG grantees. As discussed above, recipients are not required to obligate or expend SLFRF funds on an annual basis and instead must comply with obligation and expenditure deadlines over the full period of performance, with flexibility to adjust and add programs prior to the obligation deadline. Accordingly, this alignment makes the planning and administrative costs cap administrable by SLFRF recipients over the SLFRF period of performance and coordinates related reporting with SLFRF program closeout timelines. For more information on activities considered planning and administrative costs for purposes of the 20% cap, or more information on the planning and administrative costs cap itself, see Chapter 11 of HUD's "Basically CDBG" Guide.¹⁷⁶

While the 20% planning and administrative costs cap will apply to recipients using funds for Title I projects, recipients should note that the 2022 final rule provides additional flexibility for recipients to use SLFRF funds on administrative expenses. In addition to the ability to use

¹⁷⁶ Department of Housing and Urban Development, Basically CDBG for Entitlements, Chapter 11: Financial Management, Sections 11.1-11.2 (Sept. 2017), available at https://www.hud.gov/sites/documents/DOC_16480.PDF.

SLFRF funds for certain types of administrative expenses under the public health and negative economic impacts eligible use category, Treasury clarified in the 2022 final rule that coverage of direct and indirect administrative expenses is a permissible use of SLFRF funds under other eligible use categories, with further detail provided in Treasury’s Compliance and Reporting Guidance. As described in the 2022 final rule, recipients can also use SLFRF funds under the public health and negative economic impacts category to support a broad set of uses to restore and support public sector employment, including filling vacancies or adding additional employees up to 7.5% over pre-pandemic levels. Furthermore, recipients may use earned income from interest earned on SLFRF payments to defray administrative expenses of the program.¹⁷⁷ Finally, recipients may use funds under the revenue loss eligible use category for the provision of government services, which may include various activities, such as administrative expenses.

Labor Standards Requirements. Section 110 of the HCDA provides that federal prevailing wage rate requirements in accordance with the Davis-Bacon Act and other regulations related to contractors and subcontractors per 40 U.S.C. 3145 apply to construction work financed by Title I.¹⁷⁸ HUD regulations and guides clarify that these labor standards include the Davis-Bacon Act, the Copeland Anti-Kickback Act, the Contract Work Hours and Safety Standards Act, and Section 3 of the Housing and Urban Development Act of 1968, and apply to CDBG projects.¹⁷⁹ Section 107(e)(2) of the HCDA provides the authority to waive the labor standards

¹⁷⁷ See Treasury’s SLFRF Final Rule FAQ 2.15: “Can I use SLFRF funds to raise public sector wages and hire public sector workers?,” available at <https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf>.

¹⁷⁸ See 42 U.S.C. 5310.

¹⁷⁹ See Department of Housing and Urban Development, Basically CDBG, Chapter 16: Labor Standards, Sections 16.1.1 (Sept. 2017), available at <https://www.hud.gov/sites/documents/CDBGCHAPTER16.PDF>

requirements under section 110 of the HCDA for ICDBG grants, and HUD waives applicability of such labor standards for ICDBG grantees in 24 CFR 1003.603.

Treasury is implementing this requirement by providing that prevailing wage rate requirements in accordance with the Davis-Bacon Act and other labor standards applied by HUD to construction work under Title I apply to Title I projects funded by non-Tribal recipients of the SLFRF program, in accordance with HUD regulations for Title I labor standards requirements set forth at 24 CFR 570.603 for non-Tribal recipients.¹⁸⁰ SLFRF recipients are encouraged to consult HUD guidance that provides general information on labor standards and directs CDBG grantees to do the following:

- Include all applicable labor standards language and the appropriate wage decision in construction bid and contract documents,¹⁸¹
- Enforce labor standards requirements during construction, such as good construction management techniques and issuance of notices to proceed and payments tied to compliance with the labor requirements, payroll reviews, and worker interviews,¹⁸²
- Pay any wage restitution promptly where underpayments of wages have occurred and are found during payroll or other reviews,¹⁸³ and

¹⁸⁰ In other SLFRF eligible use categories, labor standards requirements pursuant to the Davis-Bacon Act generally do not apply to projects funded solely with SLFRF funds (except for certain SLFRF-funded construction projects undertaken by the District of Columbia). *See* Treasury’s SLFRF Final Rule FAQ 6.15: “Are eligible water, sewer, and broadband infrastructure projects, eligible capital expenditures under the public health and negative economic impacts eligible use category, and eligible projects under the revenue loss eligible use category subject to the Davis-Bacon Act?” available at <https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf>.

¹⁸¹ *See* Department of Housing and Urban Development, Basically CDBG for Entitlements, Chapter 16: Labor Standards, Section 16.1.2 (Sept. 2017), available at <https://www.hud.gov/sites/documents/CDBGCHAPTER16.PDF>.

¹⁸² *See id.* at Section 16.1.3.

¹⁸³ *See id.* at Section 16.1.4.

- Maintain documentation to demonstrate compliance with labor standards requirements such as bid and contract documents, payroll forms, signed statements of compliance, and documentation of on-site job interviews.¹⁸⁴

Consistent with the ICDBG program, these labor standards will not apply to Title I projects funded by Tribal government recipients of SLFRF funds.¹⁸⁵ For more information on Title I labor standards requirements, see Chapter 16.1.1 of HUD's "Basically CDBG" Guide,¹⁸⁶ HUD's "Davis-Bacon and Labor Standards: Agency/Contractor Guide,"¹⁸⁷ and HUD's "Davis-Bacon and Labor Standards: Contractor Guide Addendum."¹⁸⁸

BEAD Program Requirements. The 2023 CAA provides that the requirements of the Broadband Equity, Access, and Deployment (BEAD) program as outlined in section 60102 of the Infrastructure Investment and Jobs Act (IIJA) apply to recipients undertaking projects with SLFRF funds under Title I that relate to broadband infrastructure.¹⁸⁹ Recipients should refer to program guidance, guides, and FAQs provided by the Department of Commerce's National Telecommunications and Information Administration for more information about BEAD requirements.¹⁹⁰

¹⁸⁴ See *id.* at Section 16.1.5.

¹⁸⁵ See 24 CFR 1003.603.

¹⁸⁶ See Department of Housing and Urban Development, Basically CDBG for Entitlements, Chapter 16: Labor Standards, Sections 16.1.1 (Sept. 2017), available at <https://www.hud.gov/sites/documents/CDBGCHAPTER16.PDF>.

¹⁸⁷ See Department of Housing and Urban Development, Davis-Bacon and Labor Standards: Agency Contractor Guide (Aug. 2022), available at <https://files.hudexchange.info/resources/documents/Davis-Bacon-and-Labor-Standards-Agency-and-Contractor-Guide.pdf>.

¹⁸⁸ See *id.*

¹⁸⁹ See 42 U.S.C. 802(c)(5)(C)(iii)(II) and 803(c)(6)(B)(iii)(II).

¹⁹⁰ See Section 1.2 of NTIA's BEAD Program "Letter of Intent and Initial Planning Funding Grant Application Guidance," available at <https://broadbandusa.ntia.doc.gov/sites/default/files/2022-05/BEAD%20Planning%20Application%20Guidance.pdf>.

As outlined in the 2022 final rule, in addition to broadband-related activities available under eligible Title I projects, recipients also may undertake broadband infrastructure projects to make necessary investments to expand affordable access to broadband internet. Broadband projects available under the broadband eligible use category are not subject to BEAD program requirements and there is no limit on the amount of SLFRF funds a recipient may dedicate to such projects.

Environmental Requirements. The 2023 CAA provides that the requirements of NEPA apply to recipients' use of SLFRF funds for Title I projects. Accordingly, and for the reasons discussed above, recipients using funds for Title I projects must satisfy NEPA environmental review requirements based on the procedures set forth in section 104(g) of the HCDA, as implemented at 24 CFR Part 58, and as adapted to the SLFRF program by Treasury.

Section 104(g) of the HCDA authorizes the HUD Secretary, in lieu of the environmental protection procedures otherwise applicable pursuant to NEPA, to promulgate regulations providing for the release of funds for particular projects to recipients of Title I assistance who assume all of the responsibilities for environmental review, decision making, and action pursuant to NEPA. Section 104(g) further provides that the HUD Secretary shall approve the release of funds for projects subject to these procedures 15 days after the grantee has requested release of funds and submitted a certification. The HUD Secretary's approval of the certification is deemed to satisfy her responsibilities under NEPA and other provisions of law identified in the regulations insofar as those responsibilities relate to the release of funds for projects covered by the certification. HUD regulations at 24 CFR Part 58 provide additional substantive and procedural information for compliance with this provision, including providing that certain projects do not require grantees to request release of funds or submit a certification.

Before recipients use SLFRF funds for Title I projects that trigger the environmental compliance process contemplated by Title I and 24 CFR Part 58, the SLFRF recipients must comply with the environmental review requirements set forth in the HUD statute and regulations, submit a certification to Treasury, and receive approval. Because SLFRF funds have already been distributed to recipients, recipients are not required to submit a request for release of funds. As noted above, under Title I, CDBG grantees directly or indirectly assume all responsibilities for environmental review, decision making, and action pursuant to NEPA, and this approach also applies to recipients using the SLFRF funds for Title I projects. Following issuance of this interim final rule, Treasury will publish guidance describing the environmental compliance process in greater detail, including the certification's contents and the process for submitting it.

As noted above, under the regulations at 24 CFR Part 58, certain projects do not require HUD grantees to submit a certification or obtain HUD's approval for funds to be released for a particular project. Similarly, SLFRF recipients are not required to submit certifications or obtain Treasury approval for a Title I project that either is:

- An "exempt activity" as contemplated by 24 CFR 58.34(a), or
- "Categorically excluded" and not subject to 24 CFR 58.5, as contemplated by 24 CFR 58.35(b), provided that the extraordinary circumstances described in 24 CFR 58.35(c) are not present.

If a project meets either of the two criteria above, recipients may begin using SLFRF funds for the project right away. Recipients should refer to HUD's definition of extraordinary

circumstances provided at 24 CFR 58.2(a)(3).¹⁹¹ If a recipient determines that its project presents extraordinary circumstances, the recipient must submit a certification to Treasury and receive approval prior to using SLFRF funds for the project, as will be discussed in Treasury's forthcoming guidance regarding the environmental compliance process.

To claim an activity or project as exempt pursuant to 24 CFR 58.34(a), recipients must document in writing their determination that the activity or project is exempt and meets the conditions specified for such exemption. For categorically excluded projects, recipients are required to maintain a well-organized written record of the process and determinations, including those related to the evaluation of whether the project presents extraordinary circumstances, made with respect to the categorical exclusion, which HUD refers to as an Environmental Review Record. Treasury will provide additional information on the Environmental Review Record requirements following issuance of this interim final rule.

Inapplicable sections of Title I. This the following sections of Title I do not apply to SLFRF-funded Title I projects:

- Section 103 of the HCDA (authorizing HUD to make grants)
- Sections 104(a) – (f), (h) - (j), and (l) - (m) of the HCDA (certain CDBG grant prerequisites, including consolidated plan, annual plan, plan publication, citizen participation, and associated certifications; performance and evaluation submission to

¹⁹¹ 24 CFR 58.2(a)(3) defines extraordinary circumstances as a situation in which an environmental assessment (EA) or environmental impact statement (EIS) is not normally required but, due to unusual conditions, an EA or EIS is appropriate. Indicators of unusual conditions are: (i) actions that are unique or without precedent; (ii) actions that are substantially similar to those that normally require an EIS; (iii) actions that are likely to alter existing HUD policy or HUD mandates; or (iv) actions that, due to unusual physical conditions on the site or in the vicinity, have the potential for a significant impact on the environment or in which the environment could have a significant impact on users of the facility.

HUD; revolving loan fund distributions; program income provisions applicable to certain CDBG grantees; eligible CDBG grantees; and community development plans)

- Sections 105(b), (d), (e), and (g) of the HCDA (services provided by HUD; HUD directive to establish regulations and guidance)
- Sections 106 – 109 of the HCDA (HUD allocation and distribution requirements; other grant programs under Title I; and nondiscrimination requirements)
- Sections 111 – 122 of the HCDA (noncompliance remedies; other grant authorizations; administrative requirements including as relates to reporting, duplication of benefits, and agency consultation; interstate agreements; transition provisions; emergency funding provisions)

As noted above and discussed further below, Treasury has determined not to apply the foregoing requirements of Title I because such requirements conflict with the existing SLFRF framework or otherwise are likely to preclude recipients from exercising the additional authorities provided by the statute. HUD regulations associated with the statutory provisions noted above also do not apply to recipients using SLFRF funds for Title I projects.

Prerequisite for Receiving, and Distribution of, CDBG Grants. Generally, the requirements under section 104 of the HCDA noted above are prerequisites for receiving annual CDBG allocations or relate to how HUD may distribute funds to its grantees. As discussed above, the planning prerequisites and associated certifications conflict with the SLFRF program framework under which recipients already have funds in hand and are authorized to use funds for discrete projects, rather than being required to design an annual process for how funding will be used. Furthermore, to require recipients to prepare consolidated and annual plans and undergo a public review process likely would preclude recipients from exercising the additional authorities

provided by the statute, , under which recipients have limited time remaining to determine how to obligate and expend funds. While such requirements will not apply to SLFRF funds used for Title I projects, Treasury encourages recipients to engage with their communities on the projects they are undertaking with SLFRF funds in general. For example, certain SLFRF recipients are required to publish and submit to Treasury a Recovery Plan performance report that must be posted on an easily discoverable webpage on the recipient’s public-facing website. The Recovery Plan provides the public and Treasury both retrospective and prospective information on the projects recipients are undertaking or planning to undertake with program funding, and how they are planning to ensure program outcomes are achieved in an effective, efficient, and equitable manner.¹⁹²

HUD Programmatic Authority. Certain additional provisions are not applicable to the SLFRF program because they conflict with the SLFRF framework in that they are only relevant in the context of HUD’s programmatic authorities rather than Treasury’s administration of Title I projects and recipients’ use of funds for the eligible projects and activities that the statute makes available. For example, sections 108, 111, 112, and 113 of the HCDA provide certain authorities and impose certain responsibilities on HUD that it would not make sense to impose on Treasury’s administration of Title I projects, including those related to providing loan guarantees, remedying noncompliance, providing grants to settle outstanding urban renewal loans, promulgating regulations, and reporting.

¹⁹² Treasury publishes the Recovery Plans submitted by recipients each year on its website. For additional detail on Treasury’s guidance on SLFRF recipients’ compliance and reporting responsibilities, *see* <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds/recipient-compliance-and-reporting-responsibilities>.

Question 1: What, if any, additional clarification should Treasury provide as it relates to determining eligibility of projects under the Title I eligible use, or complying with program requirements such as CDBG national objectives or spending caps?

Question 2: What additional information or clarification is needed for recipients to understand Treasury’s guidance on how recipients can use loans and revolving loan funds to support Title I eligible uses?

Question 3: What if any additional flexibilities would benefit recipients in terms of the use of revolving loan funds across the SLFRF program or for particular uses in the Title I projects eligible use category? Please include a discussion of how additional flexibilities would comply with the December 31, 2024 obligation and December 31, 2026 expenditure deadlines.

Question 4: What additional information or clarification is needed for recipients to understand Treasury’s guidance on how to comply with environmental review requirements for Title I projects?

Question 5: What activities not already eligible under the public health and negative economic impacts eligible use category, as articulated in the 2022 final rule, are recipients interested in undertaking under the Title I projects eligible use category?

III. DISCUSSION OF REVENUE LOSS AND PROGRAM ADMINISTRATION PROVISIONS
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The 2023 CAA codified the “standard allowance” discussed in the 2022 final rule under the revenue loss eligible use category. The section that follows discusses the revenue loss eligible

use category as described in the 2022 final rule, as well as the program administration provisions to support recipients in understanding how this interim final rule will interact with previously established elements of the SLFRF program. As noted above, the 2023 CAA generally did not alter the existing eligible uses articulated in the 2022 final rule. Recipients may continue to use SLFRF funds for the eligible uses described under the 2022 final rule.

A. REVENUE LOSS

Summary of the 2022 final rule: As stated above, the ARPA amended the Social Security Act to provide that SLFRF funds may be used “for the provision of government services to the extent of the reduction in revenue of such . . . government due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year of the . . . government prior to the emergency.” In the 2022 final rule, Treasury provided two options for how recipients may determine their amount of revenue loss. A recipient may claim a standard allowance of up to \$10 million in total, not to exceed the recipient’s allocation, for the entire period of performance, or calculate revenue loss on an annual basis according to the four-step formula described in the 2022 final rule. The 2022 final rule also provided additional clarifications, including how recipients that are determining revenue loss according to the formula should calculate general revenue and select their calculation date. The 2022 final rule maintained Treasury’s definition of government services articulated in the 2021 interim final rule which provided that, generally speaking, services provided by recipient governments are “government services,” unless Treasury has stated otherwise.

The 2022 final rule also noted that Treasury intended to amend its reporting forms to provide a mechanism for recipients to make a one-time, irrevocable election to utilize either the

revenue loss formula or the standard allowance. Treasury’s guidance and Final Rule FAQs included directions for recipients to indicate this choice in their Project and Expenditure Reports due April 30, 2022, and as described in subsequent guidance, recipients were able to update their revenue loss election, as appropriate, in future reporting cycles through the April 2023 reporting period. Upon update, any prior revenue loss election was superseded.

The Consolidated Appropriations Act, 2023: The 2023 CAA provided SLFRF funds may be used “for the provision of government services up to an amount equal to the greater of –

- (i) the amount of the reduction in revenue of such... government due to the COVID-19 public health emergency relative to revenue collected in the most recent full fiscal year of such... government prior to the emergency; or:
- (ii) \$10,000,000.”

Thus, the 2023 CAA codified the framework articulated in the 2022 final rule that recipients may determine their revenue loss by calculating revenue loss according to the formula or claiming up to \$10 million, not to exceed a recipient’s allocation.

Recipients need not make any changes to their current revenue loss determination and may continue with their previous determination. Recipients who would like to update their revenue loss determination will be able to update their revenue loss determination, as appropriate, through the April 2025 reporting period. Upon update, any prior revenue loss election will be superseded. Recipients continue to be required to employ a consistent methodology across the period of performance (i.e., choose either the standard allowance or the full formula) and may not elect one approach for certain reporting years and the other approach for different reporting years.

Recipients must still communicate to Treasury the method for determining revenue loss, calculating according to the formula or claiming up to \$10,000,000, not to exceed the recipient's allocation.

B. PROGRAM ADMINISTRATION PROVISIONS

1. TIMELINE FOR USE OF SLFRF FUNDS

Summary of the 2022 final rule: In the 2022 final rule, Treasury maintained the timeline for using SLFRF funds outlined in the 2021 interim final rule. Recipient may only use funds to cover costs incurred during the period beginning March 3, 2021 and ending December 31, 2024. The final rule provided that a cost shall be considered to have been incurred if the recipient has incurred an obligation with respect to such cost. Under the 2022 final rule, recipients must expend all funds by December 31, 2026. The 2023 CAA did not alter these timelines for existing eligible uses described in the 2022 final rule. The eligible uses added by the 2023 CAA are subject to slightly different treatment, as discussed below.

Consolidated Appropriations Act, 2023: For the three eligible uses added by the 2023 CAA (emergency relief from natural disasters, Surface Transportation projects, and Title I projects), recipients may use SLFRF funds to cover costs incurred beginning December 29, 2022, which is the date that the 2023 CAA was enacted. Consistent with the discussion in the 2021 interim final rule with respect to the original eligible uses, SLFRF funds are available for the new eligible uses on a prospective basis. Similarly, consistent with the 2021 interim final rule, permitting recipients to incur costs beginning December 29, 2022 provides flexibility for recipients that may have been incurring costs in anticipation of the issuance of this interim final rule. Treasury considered adopting March 3, 2021 as the date that recipients may begin incurring costs under the new eligible uses but declined to do so because these eligible uses are available

on a prospective basis and because March 3, 2021 would be inconsistent with the non-supplant requirement applicable to the majority of projects and activities available under the new eligible uses.¹⁹³

As discussed earlier in this interim final rule, under the emergency relief from natural disasters eligible use category, recipients must comply with the December 31, 2024 obligation deadline and the December 31, 2026 expenditure deadline articulated in the 2022 final rule. For Surface Transportation projects and Title I projects, funds must be obligated by December 31, 2024 and must be expended by September 30, 2026. This expenditure deadline is three months earlier than the December 31, 2026 expenditure deadline that applies to the other eligible uses.

The 2022 final rule provides that a cost is considered to have been incurred for purposes of the December 31, 2024 statutory deadline if the recipient has incurred an obligation with respect to such cost by December 31, 2024. The 2022 final rule defines an obligation as “an order placed for property and services and entering into contracts, subawards, and similar transactions that require payment.” Treasury is maintaining this definition of obligation for the new eligible uses provided in the 2023 CAA.

¹⁹³ The statute’s application of the non-supplant provision to the Surface Transportation projects eligible use category and Title I projects eligible use category but not to the emergency relief from natural disasters eligible use category makes sense only if recipients may not use SLFRF funds to cover expenses incurred prior to the enactment of the 2023 CAA. The concern that recipients would supplant, after the date of enactment, funds previously dedicated to eligible uses is not particularly relevant in the case of natural disasters, which are generally unexpected and impose extraordinary costs on state, local, and Tribal governments.

The use of December 29, 2022 is also supported by comparing the 2023 CAA amendments to the Infrastructure Investment and Jobs Act (IIJA) amendments to the ARPA from November 2021. In the IIJA, Congress included a “clarification of authority” to use SLFRF funds to meet match requirements for authorized Bureau of Reclamation water projects. The clarification stated that the amendments took effect “as if included in the enactment” of the ARPA. Accordingly, in the final rule, Treasury incorporated this eligible use and applied the March 3, 2021 cost incurred date that applied to all the other eligible uses in the ARPA. The absence of similar language in the 2023 CAA suggests Congress did not intend to apply the same retroactive approach.

2. USE OF FUNDS FOR MATCH OR COST-SHARE REQUIREMENTS

Summary of the 2022 final rule: In the 2022 final rule, Treasury discussed its determination that SLFRF funds available for the provision of government services, up to the amount of the recipient's reduction in revenue due to the public health emergency, generally may be used to meet the non-federal cost-share or matching requirements of other federal programs. The final rule also clarified that SLFRF funds beyond those that are available under the revenue loss eligible use category for the provision of government services may not be used to meet the non-federal match or cost-share requirements of other federal programs other than as specifically provided for by statute. For example, as discussed in the 2022 final rule, section 40909 of the Infrastructure Investment and Jobs Act provides that SLFRF funds may be used to meet the non-federal match requirements of any authorized Bureau of Reclamation project, and section 60102 of the Infrastructure Investment and Jobs Act provides that SLFRF funds may be used to meet the non-federal match requirements of the broadband infrastructure program authorized under that section. See the 2022 final rule for further discussion.

The Consolidated Appropriations Act, 2023: As discussed above, the 2023 CAA did not alter the existing eligible uses of SLFRF funds. Recipients may still use SLFRF funds in the revenue loss eligible use category to meet non-federal matching requirements, as described in the 2022 final rule. As described in the Surface Transportation projects section of this interim final rule, the 2023 CAA provided that recipients may use SLFRF funds for non-federal matching requirements for certain Surface Transportation programs. As described in the Title I projects section of this interim final rule, the 2023 CAA provided that recipients may use SLFRF funds for Title I projects, which includes using funds for non-federal cost share and matching requirements of a federal financial assistance program in support of activities that would be

eligible under the CDBG and ICDBG programs. See the sections titled Surface Transportation projects and Title I projects of this interim final rule for further information.

3. REPORTING

Summary of the 2022 final rule: The 2022 final rule maintained Treasury’s authority to collect information from recipients through requested reports and any additional requests for information. The 2022 final rule also maintained Treasury’s flexibility to extend or accelerate reporting deadlines and to modify requested content for the Interim Report, Project and Expenditure reports, and Recovery Plan Performance reports. Since the publication of the 2021 interim final rule, Treasury issued supplementary reporting guidance in the Compliance and Reporting Guidance and in the User Guide: Treasury’s Portal for Recipient Reporting (User Guide).¹⁹⁴ Treasury continues to issue updated guidance prior to each reporting period clarifying any modifications to requested report content.

The Consolidated Appropriations Act, 2023: Generally, recipients using SLFRF funds for the eligible uses provided in the 2023 CAA will be required to report on these uses of funds in their Project and Expenditure reports and Recovery Plan Performance reports. For example, recipients using funds to provide emergency relief from natural disasters will generally be required to provide information regarding the declaration or designation associated with a natural disaster and for mitigation activity expenditures greater than \$1 million, a written justification. Recipients using funds for Surface Transportation projects under Pathway One will generally be required to confirm which DOT program they are directing funds and attest to meeting additional

¹⁹⁴ U.S. Department of the Treasury, Recipient Compliance and Reporting Responsibilities (Nov. 5, 2021), <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds/recipient-compliance-and-reporting-responsibilities>.

statutory requirements like supplement, not supplant and state of good repair. Recipients using funds for Surface Transportation projects under Pathway Two will generally be required to provide additional information regarding the parameters of the streamlined framework and attest to meeting additional statutory requirements like supplement, not supplant and state of good repair. Recipients using funds for Title I projects will generally be required to provide information regarding the category of CDBG activities, the primary objective, and the national objectives, and attest to meeting additional statutory requirements like supplement, not supplant and environmental certifications. Like all eligible use categories in the SLFRF program, recipients will be required to provide general financial information and a project description for the new eligible uses categories discussed in this interim final rule. Treasury intends to update its reporting forms, Compliance and Reporting Guidance, and User Guide to further describe recipients' reporting responsibilities for SLFRF funds directed toward these eligible uses.

As described above, Treasury is delegating authority to DOT to oversee and administer Surface Transportation projects under Pathway One. As such, recipients using SLFRF funds for such projects will be required to comply with the relevant existing DOT reporting requirements associated with the Surface Transportation project that is receiving DOT funding for which they are adding SLFRF funds. DOT may provide additional guidance, as appropriate, for recipients using SLFRF funds under Pathway One for a Surface Transportation project that is receiving funding from DOT. Recipients using SLFRF funds under Pathway One will also be required to report certain information to Treasury, including the amount of SLFRF funds directed toward Surface Transportation projects and Title I projects to ensure that recipients comply with the cap on funds associated with these eligible use categories.

Recipients using SLFRF funds under Pathway Two for a Surface Transportation project that is not receiving funding from DOT and funded solely with SLFRF funds will only have reporting responsibilities to Treasury.

Under Pathway Three, recipients will be required to comply with the relevant existing DOT reporting requirements associated with the Surface Transportation project which they are using SLFRF funds for non-federal share requirements. Recipients will also be required to report certain information to Treasury, including the amount of SLFRF funds directed toward Surface Transportation projects and Title I projects to ensure that recipients comply with the cap on funds associated with these eligible use categories.

4. UNIFORM GUIDANCE

Summary of the 2022 final rule: The 2022 final rule states that recipients of SLFRF funds are subject to the provisions of the Uniform Guidance (2 CFR part 200) from the date of award to the end of the period of performance on December 31, 2026 unless otherwise specified in this rule or program specific guidance.

The Consolidated Appropriations Act, 2023: Consistent with the 2022 final rule, recipients using SLFRF funds, whether for the eligible uses described in the 2022 final rule or the eligible uses described in this interim final rule, are subject to the provisions of the Uniform Guidance, unless stated otherwise by Treasury.¹⁹⁵ Recipients using SLFRF for Surface Transportation projects and Title I projects, respectively, must also comply with the

¹⁹⁵ See FAQ Section 13. “Uniform Guidance” U.S. Department of the Treasury, Coronavirus State and Local Fiscal Recovery Funds Final Rule: Frequently Asked Questions (Apr. 2023), <https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf>

administrative requirements described above in the Surface Transportation projects and Title I projects sections.

IV. COMMENTS AND EFFECTIVE DATE

This interim final rule is being issued without advance notice and public comment to allow for immediate implementation of the changes to the SLFRF program resulting from the amendments made by the State, Local, Tribal, and Territorial Fiscal Recovery, Infrastructure, and Disaster Relief Flexibility Act, part of the Consolidated Appropriations Act, 2023, Pub. L. 117-328 (Dec. 29, 2022). As discussed below, the requirements of advance notice and public comment do not apply “to the extent that there is involved . . . a matter relating to agency . . . grants.” This interim final rule implements statutory conditions on the eligible uses of the SLFRF funds and addresses the potential consequences of ineligible uses. In addition and as discussed below, the Administrative Procedure Act also provides an exception to ordinary notice-and-comment procedures “when the agency for good cause finds (and incorporates the finding and a brief statement of reasons therefor in the rules issued) that notice and public procedure thereon are impracticable, unnecessary, or contrary to the public interest.” This good cause justification also supports waiver of the 60-day delayed effective date for major rules under the Congressional Review Act at 5 U.S.C. 808(2). Although this interim final rule is effective immediately, comments are solicited from interested members of the public and from recipient governments on all aspects of this interim final rule. These comments must be submitted on or before [INSERT DATE THAT IS 60 DAYS AFTER PUBLICATION].

V. REGULATORY ANALYSES

Executive Orders 12866, 13563, and 14094

Regulatory Impact Assessment

This interim final rule is a “significant regulatory action” under section 3(f)(1) of Executive Order 12866 for the purposes of Executive Orders 12866 and 13563 because it may shift how state, local, and Tribal governments spend SLFRF funds annually by \$200 million or more, with an effect on the economy.

As explained below, this regulation meets a substantial need: ensuring that recipients—states, territories, Tribal governments, and local governments—of SLFRF funds fully understand the requirements and parameters of the program as set forth in the Social Security Act and are able to deploy funds in a manner that best reflects Congress’ intent to provide necessary relief to recipient governments adversely impacted by the COVID–19 public health emergency.

Furthermore, as required by Executive Order 12866 as amended, Treasury has weighed the costs and benefits of this interim final rule and varying alternatives and has reasonably determined that the benefits of this interim final rule to recipients and their communities far outweigh any costs. The rule has been reviewed by the Office of Management and Budget (OMB) in accordance with Executive Order 12866 as amended.

Executive Orders 12866, 13563, and 14094

Under Executive Order 12866, as amended by Executive Order 14094, OMB must determine whether this regulatory action is “significant,” and therefore, subject to the requirements of the Executive Order and subject to review by OMB. Section 3(f) of Executive Order 12866 as amended defines a significant regulatory action as an action likely to result in a rule that may, among other things, have an annual effect on the economy of \$200 million or more. This interim final rule may shift spending decisions by recipient governments by \$200

million, therefore, it is subject to review by OMB under section 3(f)(1) of Executive Order 12866 as amended.

Treasury has also reviewed these regulations under Executive Order 13563, which supplements and explicitly reaffirms the principles, structures, and definitions governing regulatory review established in Executive Order 12866. To the extent permitted by law, section 1(b) of Executive Order 13563 requires that an agency: (1) propose or adopt regulations only upon a reasoned determination that their benefits justify their costs (recognizing that some benefits and costs are difficult to quantify); (2) tailor its regulations to impose the least burden on society, consistent with obtaining regulatory objectives taking into account, among other things, and to the extent practicable, the costs of cumulative regulations; (3) select, in choosing among alternative regulatory approaches, those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity); (4) to the extent feasible, specify performance objectives, rather than the behavior or manner of compliance a regulated entity must adopt; and (5) identify and assess available alternatives to direct regulation, including providing economic incentives—such as user fees or marketable permits—to encourage the desired behavior, or providing information that enables the public to make choices. Executive Order 13563 also requires an agency “to use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible.” OMB’s Office of Information and Regulatory Affairs (OIRA) has emphasized that these techniques may include “identifying changing future compliance costs that might result from technological innovation or anticipated behavioral changes.”

Based on the analysis that follows and the reasons stated elsewhere in this document, Treasury believes that this interim final rule is consistent with the principles set forth in

Executive Orders 12866, 13563, and 14094. This Regulatory Impact Analysis discusses the need for regulatory action, the potential benefits, and the potential costs. Treasury has assessed the potential costs and benefits, both quantitative and qualitative, of this regulatory action, and is issuing this interim final rule only on a reasoned determination that the benefits exceed the costs. In choosing among alternative regulatory approaches, Treasury selected those approaches that would maximize net benefits.

Need for Regulatory Action

This interim final rule implements new eligible uses for the \$350 billion SLFRF program provided in the 2023 CAA, which Congress passed to provide additional flexibility in how state, local, and Tribal governments respond to the unique needs of their communities. As the agency charged with execution of these programs, Treasury has concluded that this interim final rule is needed to ensure that recipients of SLFRF funds fully understand the requirements and parameters of the program as modified by the 2023 CAA and deploy funds in a manner that best reflects Congress' mandate for targeted fiscal relief. This interim final rule provides additional flexibility in the use of \$350 billion in grant funds already disbursed from the federal government to state, local, and Tribal governments. As noted earlier, Treasury has disbursed nearly all of the \$350 billion appropriated SLFRF funds. Treasury has sought to implement the program in ways that maximize its potential benefits while minimizing its costs. It has done so by: aiming to target relief in key areas according to the congressional mandate; offering clarity to state, local, and Tribal governments while maintaining their flexibility to respond to local needs; and limiting administrative burdens.

Analysis of Benefits

Relative to a pre-2023 CAA baseline, no additional resources are provided to state, local, and Tribal governments under the SLFRF program. Instead, state, local, and Tribal governments will have additional flexibility in how they use available SLFRF funds, that have already been disbursed, with the option to pursue additional eligible uses under this interim final rule to meet the needs of their communities. Treasury believes that this additional flexibility may generate substantial additional economic activity, although given the flexibility accorded to recipients in the use of funds, it is not possible to precisely estimate the extent to which this will occur and the timing with which it will occur.

This interim final rule provides benefits by implementing the new eligible use categories, as defined in the 2023 CAA: providing emergency relief from natural disasters or the negative economic impacts of natural disasters, using funds for Surface Transportation projects, and using funds for Title I projects.

These benefits are achieved in this interim final rule through a broadly flexible approach that sets clear guidelines on these additional eligible uses of SLFRF funds and provides state, local, and Tribal government officials discretion to direct SLFRF funds to areas of greatest need within their jurisdiction, within available eligible use categories. While preserving recipients' overall flexibility, this interim final rule includes several provisions that implement statutory requirements and will help support use of SLFRF funds to achieve the intended benefits. Preserving flexibility for recipients not only serves an important public policy goal by allowing them to meet particularized and diverse needs of their local communities but also enhances the economic benefits of this interim final rule by allowing recipients to choose eligible uses of funds that provide the highest utility in their jurisdictions.

The remainder of this section clarifies how Treasury’s approach to key provisions in this interim final rule will contribute to greater realization of benefits from the program. Treasury considered issuing guidance rather than an interim final rule; however, Treasury determined that issuing an interim final rule that amends the regulatory text of the 2022 final rule was appropriate to bring the regulatory requirements in line with the 2023 CAA.

Emergency Relief from Natural Disasters

The eligible use category for providing emergency relief from natural disasters or the negative economic impacts of natural disasters covers a range of eligible uses of funds, including temporary emergency housing, food assistance, financial assistance for lost wages, other immediate needs, and mitigation activities. Treasury has structured this eligible use to minimize recipient administrative burden while also maintaining flexibility for recipients to provide emergency relief to address the particular needs of their communities after experiencing a natural disaster or prior to a natural disaster that is expected to occur imminently, or to avert the threat of a future natural disaster. In this interim final rule, Treasury enumerated eligible uses of SLFRF funds to provide emergency relief from the physical and negative economic impacts of natural disasters. Some of these enumerated eligible uses include temporary emergency housing, food assistance, financial assistance for lost wages, emergency protective measures, debris removal, repairing damage to public infrastructure, home repairs for uninsured primary residences, cash assistance, and mitigation activities to avert the potential impacts of a future natural disaster. In addition to the enumerated eligible uses, Treasury provides a framework whereby recipient may identify a natural disaster and identify emergency relief that responds to the physical or negative economic impacts of a natural disaster. The emergency relief must be related and reasonably proportional to the to the impact identified. By enumerating eligible uses, Treasury is reducing

administrative burden for recipients through a clear list of uses of SLFRF funds they may consider providing as appropriate. By providing a framework for recipients to design their own emergency relief, Treasury is providing flexibility for recipients to direct SLFRF funds to the needs of their unique communities.

Surface Transportation Projects

In the eligible use category Surface Transportation projects, Treasury provides three pathways under which recipients may direct SLFRF funds towards Surface Transportation projects, subject to the cap on SLFRF funds for this eligible use. First, recipients may use SLFRF funds under Pathway One for Surface Transportation projects receiving funding from DOT. Recipients who use SLFRF funds for these projects must comply with all related DOT requirements for these projects. Second, recipients may use SLFRF funds under Pathway Two for Surface Transportation projects, that are not receiving funding from DOT, whether or not SLFRF funds are blended with other sources of funds. This second pathway is available to all SLFRF recipients, including those that do not routinely apply for or receive funding directly from DOT. Treasury is articulating a streamlined framework for recipients to undertake certain projects 1) fit the description of “eligible projects” under the RAISE grant program as described in the 2023 Notice of Funding Opportunity; 2) contribute SLFRF funds no greater than \$10 million, and 3) with an entire project scope that is limited to actions or activities that typically do not have a significant environmental impact, absent unusual circumstances, as described in 23 CFR 771.116(b), 771.117(b), and 771.118(b). Recipients that use SLFRF funds for these projects must comply certain requirements, as articulated in the Surface Transportation projects section, and only report these projects to Treasury. Recipients seeking to use SLFRF funds for Surface Transportation projects under Pathway Two outside of the parameters of the streamlined

framework must submit a notice of intent to Treasury. Treasury will use the notices of intent it receives along with comments on this interim final rule to develop a pathway for these types of projects. Third, recipients may use SLFRF funds under Pathway Three for non-federal share requirements for certain DOT programs, as well as to repay TIFIA loans. By providing three pathways for recipients to pursue Surface Transportation projects with SLFRF funds, Treasury is providing flexibility for recipients to use SLFRF funds for DOT projects they are already pursuing and for recipient to also pursue new projects, particularly for those recipients that do not have any existing projects funded by DOT, subject to the requirements outlined in the Surface Transportation projects section.

Title I Projects

The Title I projects eligible use category discusses how recipients may direct SLFRF funds toward Title I projects, subject to the cap on funds for this eligible use category. In this eligible use category, Treasury has provided that recipients may use SLFRF funds for CDBG and ICDBG projects, in alignment with the applicable administrative provisions. By aligning with CDBG and ICDBG, programs with which many recipients already are familiar, Treasury is reducing administrative burden. Treasury also discusses the CDBG and ICDBG provisions that apply to SLFRF funds. By analyzing which provisions are applicable to the unique requirements of the SLFRF program, including modifying certain requirements for this eligible use category in light of the SLFRF period of performance and the statutory requirement that SLFRF funds be obligated by December 31, 2024 and expended by September 30, 2026, Treasury is further reducing administrative burden for recipients.

Analysis of Costs

This regulatory action will not generate significant administrative costs relative to a pre-2023 CAA baseline. This interim final rule may result in state, local, and Tribal governments shifting SLFRF funds to new eligible uses included in the Social Security Act but does not result in additional funds being disbursed to SLFRF recipients. In addition, SLFRF recipients generally have already established processes required to administer their SLFRF funds, oversee subrecipients and beneficiaries, and file periodic reports with Treasury. As such, Treasury expects that the total costs required to administer SLFRF funds will not change significantly. Treasury expects that the administrative burden associated with the SLFRF program will remain moderate for a grant program of its size. Under the final rule implementing the SLFRF program as enacted in the ARPA, Treasury noted administrative costs as a generally allowable use of SLFRF funds, which defrays administrative expenses to recipients that may be needed to comply with reporting requirements. Treasury is maintaining this approach to administrative costs in this interim final rule. Treasury has also made clear in guidance that SLFRF funds may be used to cover certain expenses related to administering programs established using SLFRF funds.

Executive Order 13132

Executive Order 13132 (entitled Federalism) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on state, local, and Tribal governments, and is not required by statute, or preempts state law, unless the agency meets the consultation and funding requirements of section 6 of the Executive Order. This interim final rule does not have federalism implications within the meaning of the Executive Order and does not impose substantial, direct compliance costs on state, local, and Tribal governments or preempt state law within the meaning of the Executive Order. The compliance costs are imposed on state, local, and Tribal governments by sections 602

and 603 of the Social Security Act, as modified by the 2023 CAA. Pursuant to the requirements set forth in section 8(a) of Executive Order 13132, Treasury certifies that it has complied with the requirements of Executive Order 13132.

Administrative Procedure Act

The Administrative Procedure Act (APA), 5 U.S.C. 551 et seq., generally requires public notice and an opportunity for comment before a rule becomes effective. However, the APA provides that the requirements of 5 U.S.C. 553 do not apply “to the extent that there is involved . . . a matter relating to agency . . . grants.” This interim final rule implements statutory conditions on the eligible uses of the SLFRF grants and addresses potential consequences of ineligible uses. The rule is thus “both clearly and directly related to a federal grant program.” *National Wildlife Federation v. Snow*, 561 F.2d 227, 232 (D.C. Cir. 1976). The rule sets forth the “process necessary to maintain state . . . eligibility for federal funds,” *id.*, as well as other “integral part[s] of the grant program,” *Center for Auto Safety v. Tiemann*, 414 F. Supp. 215, 222 (D.D.C. 1976). As a result, the requirements of 5 U.S.C. 553 do not apply.

The APA also provides an exception to ordinary notice-and-comment procedures “when the agency for good cause finds (and incorporates the finding and a brief statement of reasons therefor in the rules issued) that notice and public procedure thereon are impracticable, unnecessary, or contrary to the public interest.” 5 U.S.C. 553(b)(3)(B); see also 5 U.S.C. 553(d)(3) (creating an exception to the requirement of a 30-day delay before the effective date of a rule “for good cause found and published with the rule”). Assuming 5 U.S.C. 553 applied, Treasury would still have good cause under sections 553(b)(3)(B) and 553(d)(3) for not undertaking section 553’s requirements. The 2023 CAA amends sections 602 and 603 of the Social Security Act to make SLFRF available to provide emergency relief from natural disasters

or their negative economic impacts, along with authority to use funds for an extensive list of eligible uses related to infrastructure, incorporated into the Social Security Act by cross-reference to other statutory provisions. As noted above, Congress authorized use of funds for emergency relief. *American Fed'n of Gov't Employees v. Block*, 655 F.2d 1153, 1156 (D.C. Cir. 1981). Expedious promulgation of the interim final rule would make these funds available to provide emergency relief to natural disasters more quickly and would avoid a delay that would be contrary to the public interest. In addition, SLFRF funds are available to cover costs incurred through December 31, 2024. Following the ordinary requirements of notice-and-comment rulemaking would result in the passage of a significant amount of time before recipients are able to use funds for time sensitive needs related to natural disaster relief, and it would provide recipients a very limited amount of time to plan for and finance newly eligible infrastructure projects before the obligation deadline arrives in the following year. By linking the effectiveness of the amendments with the promulgation of a rule or issuance of guidance on a 60-day timeline, as provided in the 2023 CAA, Congress “clearly envisioned very speedy adoption of the mandated changes.” *Petry v. Block*, 737 F.2d 1193, 1200 (D.C. Cir. 1984). Further, Congress, “by setting an effective date so close to the date of enactment, expressed its belief that implementation of the amendments to the [program] was urgent.” *Philadelphia Citizens in Action v. Schweiker*, 669 F.2d 877, 884-885 (3d Cir. 1982) (finding good cause under circumstances, including statutory time limits, where APA procedures would have been “virtually impossible,” like a circumstance in which an agency promulgated a regulation to implement a statute that was enacted on August 13 and became effective on October 1). Finally, there is an urgent need for States to undertake the planning necessary for sound fiscal policymaking, which requires an understanding of how funds provided under the ARPA will

augment and interact with existing budgetary resources. The statutory urgency and practical necessity are good cause to forego the ordinary requirements of notice-and-comment rulemaking.

Congressional Review Act

The Administrator of OIRA has determined that this rule qualifies under the definition set forth in 5 U.S.C. 804(2) for purposes of Subtitle E of the Small Business Regulatory Enforcement and Fairness Act of 1996 (also known as the Congressional Review Act or CRA). Under the CRA, such a rule generally may take effect no earlier than 60 days after the rule is published in the Federal Register. 5 U.S.C. 801(a)(3). Notwithstanding this requirement, the CRA allows agencies to dispense with the requirements of section 801 when the agency for good cause finds that such procedure would be impracticable, unnecessary, or contrary to the public interest and the rule shall take effect at such time as the agency promulgating the rule determines. 5 U.S.C. 808(2). Pursuant to section 808(2), for the reasons discussed above, Treasury for good cause finds that a 60-day delay to provide public notice is impracticable and contrary to the public interest.

Paperwork Reduction Act

The information collections associated with the SLFRF program have been reviewed and approved by OMB pursuant to the Paperwork Reduction Act (44 U.S.C. Chapter 35) (PRA) and assigned control number 1505-0271. Under the PRA, an agency may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a valid OMB control number. This interim final rule is not altering the previously approved information collections for the SLFRF program. The table below includes the estimates of hourly burden under this program that have been approved in previously approved information collections.

Reporting	# Respondents	# Responses Per Respondent	Total Responses	Hours per Response	Total Burden in Hours	Cost to Respondents (\$48.80 per hour*)
Recipient Payment Form	5,050	1	5,050	.25 (15 minutes)	1,262.5	\$61,610
Acceptance of Award Terms	5,050	1	5,050	.25 (15 minutes)	1,262.5	\$61,610
Title VI Assurances	5,050	1	5,050	.50 (30 minutes)	2,525	\$123,220
Tribal Employment Information Form	584	1	584	.75 (45 minutes)	438	\$21,374
Request for Extension Form	96	1	96	1	96	\$4,685
Annual Recovery Plan Performance Report	430	1	430	100	43,000	\$2,098,400
NEU Distribution Template	55	2	110	10	1,100	\$53,680
Non-UGLG Distribution Template	55	2	110	5	550	\$26,840
Transfer Forms	1,500	1	1,500	1	1,500	\$73,200
NEU Agreements and Supporting Documentation	26,000	1	26,000	.5	13,000	\$634,400
Project and Expenditure Report (quarterly)	2,000	4	8,000	6	48,000	\$2,342,400
Project and Expenditure Report (annual)	29,000	1	29,000	6	174,000	\$8,491,200

Total	64,770		78,880		284,209	\$13,869,339
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* Bureau of Labor Statistics, U.S. Department of Labor, Occupational Outlook Handbook, Accountants and Auditors, on the Internet at <https://www.bls.gov/ooh/business-and-financial/accountants-and-auditors.htm> (visited March 28, 2020). Base wage of \$33.89/hour increased by 44 percent to account for fully loaded employer cost of employee compensation (benefits, etc.) for a fully loaded wage rate of \$48.80.

Regulatory Flexibility Analysis

The Regulatory Flexibility Act (RFA) generally requires that when an agency issues a proposed rule, or a final rule pursuant to section 553(b) of the APA or another law, the agency must prepare a regulatory flexibility analysis that meets the requirements of the RFA and publish such analysis in the Federal Register. 5 U.S.C. 603, 604.

Rules that are exempt from notice and comment under the APA or any other law are also exempt from the RFA requirements, including the requirement to conduct a regulatory flexibility analysis, when among other things the agency for good cause finds that notice and public procedure are impracticable, unnecessary, or contrary to the public interest. Because this rule is exempt from the notice and comment requirements of the APA, Treasury is not required to conduct a regulatory flexibility analysis.

RULE TEXT

List of Subjects in 31 CFR Part 35

Executive compensation, State and Local Governments, Tribal Governments, Public health emergency, Disaster assistance, Transportation, Community development.

For the reasons stated in the preamble, the United States Department of the Treasury amends 31 CFR part 35 as follows:

Part 35 - PANDEMIC RELIEF PROGRAMS

1. Amend Subpart A to read as follows:

Subpart A— CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS

Sec.

35.1 Purpose.

35.2 Applicability.

35.3 Definitions.

35.4 Reservation of authority, reporting.

35.5 Use of funds.

35.6 Eligible uses.

35.7 Pensions.

35.8 Tax.

35.9. Compliance with applicable laws.

35.10. Recoupment.

35.11 Payments to States.

35.12. Distributions to nonentitlement units of local government and units of general local government.

Authority: 42 U.S.C. 802(f); 42 U.S.C. 803(f); section 102(c) of Division LL of the Consolidated Appropriations Act, 2023 (Pub. L. 117-328).

§ 35.1 Purpose.

This part implements sections 602 and 603 of the Social Security Act, as added by section 9901 of the American Rescue Plan Act (Subtitle M of Title IX of Public Law 117-2) and amended by section 102 of Division LL of the Consolidated Appropriations Act, 2023 (Public Law 117-328).

§ 35.2 Applicability.

This part applies to states, territories, Tribal governments, metropolitan cities, nonentitlement units of local government, counties, and units of general local government that accept a payment or transfer of funds made under section 602 or 603 of the Social Security Act.

§ 35.3 Definitions.

Baseline means tax revenue of the recipient for its fiscal year ending in 2019, adjusted for inflation in each reporting year using the Bureau of Economic Analysis's Implicit Price Deflator for the gross domestic product of the United States.

Capital expenditures has the same meaning given in 2 CFR 200.1.

County means a county, parish, or other equivalent county division (as defined by the Census Bureau).

Covered benefits include, but are not limited to, the costs of all types of leave (vacation, family-related, sick, military, bereavement, sabbatical, jury duty), employee insurance (health, life, dental, vision), retirement (pensions, 401(k)), unemployment benefit plans (Federal and State), workers' compensation insurance, and Federal Insurance Contributions Act taxes (which includes Social Security and Medicare taxes).

Covered change means a change in law, regulation, or administrative interpretation that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase. A change in law includes any final legislative or regulatory action, a new or changed administrative interpretation, and the phase-in or taking effect of any statute or rule if the phase-in or taking effect was not prescribed prior to the start of the covered period.

Covered period means, with respect to a state or territory, the period that:

(1) Begins on March 3, 2021; and

(2) Ends on the last day of the fiscal year of such State or territory in which all funds received by the State or territory from a payment made under section 602 or 603 of the Social Security Act have been expended or returned to, or recovered by, the Secretary.

COVID-19 means the Coronavirus Disease 2019.

COVID-19 public health emergency means the period beginning on January 27, 2020 and lasting until the termination of the national emergency concerning the COVID-19 outbreak declared pursuant to the National Emergencies Act (50 U.S.C. 1601 *et seq.*).

Delivery sequence means the order in which disaster relief agencies and organizations provide assistance pursuant to 44 CFR 206.191.

Deposit means an extraordinary payment of an accrued, unfunded liability. The term deposit does not refer to routine contributions made by an employer to pension funds as part of the employer's obligations related to payroll, such as either a pension contribution consisting of a normal cost component related to current employees or a component addressing the amortization of unfunded liabilities calculated by reference to the employer's payroll costs.

Disaster loss means a loss suffered as a result of a major disaster or emergency declared under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5170).

Eligible employer means an employer of an eligible worker who performs essential work.

Eligible workers means workers needed to maintain continuity of operations of essential critical infrastructure sectors, including health care; emergency response; sanitation, disinfection, and cleaning work; maintenance work; grocery stores, restaurants, food production, and food delivery; pharmacy; biomedical research; behavioral health work; medical testing and

diagnostics; home- and community-based health care or assistance with activities of daily living; family or childcare; social services work; public health work; vital services to Tribes; any work performed by an employee of a State, local, or Tribal government; educational work, school nutrition work, and other work required to operate a school facility; laundry work; elections work; solid waste or hazardous materials management, response, and cleanup work; work requiring physical interaction with patients; dental care work; transportation and warehousing; work at hotel and commercial lodging facilities that are used for COVID-19 mitigation and containment; work in a mortuary; and work in critical clinical research, development, and testing necessary for COVID-19 response.

(1) With respect to a recipient that is a metropolitan city, nonentitlement unit of local government, or county, workers in any additional non-public sectors as each chief executive officer of such recipient may designate as critical to protect the health and well-being of the residents of their metropolitan city, nonentitlement unit of local government, or county; or

(2) With respect to a State, territory, or Tribal government, workers in any additional non-public sectors as each Governor of a State or territory, or each Tribal government, may designate as critical to protect the health and well-being of the residents of their State, territory, or Tribal government.

Emergency relief means assistance that is needed to save lives and to protect property and public health and safety, or to lessen or avert the threat of catastrophe.

Essential work means work that:

(1) Is not performed while teleworking from a residence; and

(2) Involves:

(i) Regular in-person interactions with patients, the public, or coworkers of the individual that is performing the work; or

(ii) Regular physical handling of items that were handled by, or are to be handled by patients, the public, or coworkers of the individual that is performing the work.

Funds means, with respect to a recipient, amounts provided to the recipient pursuant to a payment made under section 602(b) or 603(b) of the Social Security Act or transferred to the recipient pursuant to section 603(c)(4) of the Social Security Act.

General revenue means money that is received from tax revenue, current charges, and miscellaneous general revenue, excluding refunds and other correcting transactions and proceeds from issuance of debt or the sale of investments, agency or private trust transactions, and intergovernmental transfers from the Federal Government, including transfers made pursuant to section 9901 of the American Rescue Plan Act. General revenue also includes revenue from liquor stores that are owned and operated by state and local governments. General revenue does not include revenues from utilities, except recipients may choose to include revenue from utilities that are part of their own government as general revenue provided the recipient does so consistently over the remainder of the period of performance. Revenue from Tribal business enterprises must be included in general revenue.

Infrastructure Investment and Jobs Act means the Infrastructure Investment and Jobs Act, Pub. L. 117-58, 135 Stat. 429 (Nov. 15, 2021).

Intergovernmental transfers means money received from other governments, including grants and shared taxes.

Low-income household means a household with:

(1) Income at or below 185 percent of the Federal Poverty Guidelines for the size of its household based on the poverty guidelines published most recently by the Department of Health and Human Services; or

(2) Income at or below 40 percent of the Area Median Income for its county and size of household based on data published most recently by the Department of Housing and Urban Development.

Micro-business means a small business that has five or fewer employees, one or more of whom owns the small business.

Moderate-income household means a household with:

(1) Income at or below 300 percent of the Federal Poverty Guidelines for the size of its household based on poverty guidelines published most recently by the Department of Health and Human Services; or

(2) Income at or below 65 percent of the Area Median Income for its county and size of household based on data published most recently by the Department of Housing and Urban Development.

Metropolitan city has the meaning given that term in section 102(a)(4) of the Housing and Community Development Act of 1974 (42 U.S.C. 5302(a)(4)) and includes cities that relinquish or defer their status as a metropolitan city for purposes of receiving allocations under section 106 of such Act (42 U.S.C. 5306) for fiscal year 2021.

Natural disaster means any hurricane, tornado, storm, flood, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, drought, or fire, in each case attributable to natural causes, that causes or may cause substantial damage, injury, or imminent threat to civilian property or persons. “Natural disaster” may also

include another type of natural catastrophe, attributable to natural causes, that causes or may cause substantial damage, injury, or imminent threat to civilian property or persons.

Net reduction in total spending is measured as the State or territory's total spending for a given reporting year excluding its spending of funds, subtracted from its total spending for its fiscal year ending in 2019, adjusted for inflation using the Bureau of Economic Analysis's Implicit Price Deflator for the gross domestic product of the United States for that reporting year.

Nonentitlement unit of local government means a "city," as that term is defined in section 102(a)(5) of the Housing and Community Development Act of 1974 (42 U.S.C. 5302(a)(5)), that is not a metropolitan city.

Nonprofit means a nonprofit organization that is exempt from Federal income taxation and that is described in section 501(c)(3) or 501(c)(19) of the Internal Revenue Code.

Obligation means an order placed for property and services and entering into contracts, subawards, and similar transactions that require payment.

Operating expenses means costs necessary to operate and manage a public transportation system, including driver salaries, fuel, and items having a useful life of less than one year. Operating expenses do not include preventive maintenance activities.

Pension fund means a defined benefit plan and does not include a defined contribution plan.

Period of performance means the time period described in § 35.5 during which a recipient may obligate and expend funds in accordance with sections 602(c)(1), 602(c)(5)(E), 603(c)(1), and 603(c)(6)(D) of the Social Security Act and this subpart.

Premium pay means an amount of up to \$13 per hour that is paid to an eligible worker, in addition to wages or remuneration the eligible worker otherwise receives, for all work performed

by the eligible worker during the COVID-19 public health emergency. Such amount may not exceed \$25,000 in total over the period of performance with respect to any single eligible worker. Premium pay may be awarded to non-hourly and part-time eligible workers performing essential work. Premium pay will be considered to be in addition to wages or remuneration the eligible worker otherwise receives if, as measured on an hourly rate, the premium pay is:

(1) With regard to work that the eligible worker previously performed, pay and remuneration equal to the sum of all wages and remuneration previously received plus up to \$13 per hour with no reduction, substitution, offset, or other diminishment of the eligible worker's previous, current, or prospective wages or remuneration; or

(2) With regard to work that the eligible worker continues to perform, pay of up to \$13 per hour that is in addition to the eligible worker's regular rate of wages or remuneration, with no reduction, substitution, offset, or other diminishment of the worker's current and prospective wages or remuneration.

Qualified census tract has the same meaning given in 26 U.S.C. 42(d)(5)(B)(ii)(I).

Recipient means a State, territory, Tribal government, metropolitan city, nonentitlement unit of local government, county, or unit of general local government that receives a payment made under section 602(b) or 603(b) of the Social Security Act or transfer pursuant to section 603(c)(4) of the Social Security Act.

Reporting year means a single year or partial year within the covered period, aligned to the current fiscal year of the State or territory during the covered period.

Secretary means the Secretary of the Treasury.

State means each of the 50 States and the District of Columbia.

Small business means a business concern or other organization that:

(1) Has no more than 500 employees or, if applicable, the size standard in number of employees established by the Administrator of the Small Business Administration for the industry in which the business concern or organization operates, and

(2) Is a small business concern as defined in section 3 of the Small Business Act (15 U.S.C. 632).

Surface Transportation project means any of the following:

- (i) A project eligible under 23 U.S.C. 117;
- (ii) A project eligible under 23 U.S.C. 119;
- (iii) A project eligible under 23 U.S.C. 124, as added by the Infrastructure Investment and Jobs Act;
- (iv) A project eligible under 23 U.S.C. 133;
- (v) An activity to carry out 23 U.S.C. 134;
- (vi) A project eligible under 23 U.S.C. 148;
- (vii) A project eligible under 23 U.S.C. 149;
- (viii) A project eligible under 23 U.S.C. 151(f), as added by the Infrastructure Investment and Jobs Act;
- (ix) A project eligible under 23 U.S.C. 165;
- (x) A project eligible under 23 U.S.C. 167;
- (xi) A project eligible under 23 U.S.C. 173, as added by the Infrastructure Investment and Jobs Act;
- (xii) A project eligible under 23 U.S.C. 175, as added by the Infrastructure Investment and Jobs Act;

(xiii) A project eligible under 23 U.S.C. 176, as added by the Infrastructure Investment and Jobs Act;

(xiv) A project eligible under 23 U.S.C. 202;

(xv) A project eligible under 23 U.S.C. 203;

(xvi) A project eligible under 23 U.S.C. 204;

(xvii) A project eligible under the program for national infrastructure investments commonly known as the “Rebuilding American Infrastructure with Sustainability and Equity” grant program;

(xviii) A project eligible for credit assistance under the Transportation Infrastructure Finance and Innovation Act program under 23 U.S.C. chapter 6;

(xix) A project that furthers the completion of a designated route of the Appalachian Development Highway System under 40 U.S.C. 14501;

(xx) A project eligible under 49 U.S.C. 5307;

(xxi) A project eligible under 49 U.S.C. 5309;

(xxii) A project eligible under 49 U.S.C. 5311;

(xxiii) A project eligible under 49 U.S.C. 5337;

(xxiv) A project eligible under 49 U.S.C. 5339;

(xxv) A project eligible under 49 U.S.C. 6703, as added by the Infrastructure Investment and Jobs Act;

(xxvi) A project eligible under the bridge replacement, rehabilitation, preservation, protection, and construction program under paragraph (1) under the heading “HIGHWAY INFRASTRUCTURE PROGRAM” under the heading “FEDERAL HIGHWAY

ADMINISTRATION” under the heading “DEPARTMENT OF TRANSPORTATION” under title VIII of division J of the Infrastructure Investment and Jobs Act; and

(xxvii) A project eligible under 49 U.S.C. 6701 for the purpose set forth in § 35.6(h)(1)(i)(C).

Tax revenue means revenue received from a compulsory contribution that is exacted by a government for public purposes excluding refunds and corrections and, for purposes of § 35.8, intergovernmental transfers. Tax revenue does not include payments for a special privilege granted or service rendered, employee or employer assessments and contributions to finance retirement and social insurance trust systems, or special assessments to pay for capital improvements.

Territory means the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, or American Samoa.

Title I eligible schools means schools eligible to receive services under section 1113 of Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (20 U.S.C. 6313), including schools served under section 1113(b)(1)(C) of that Act.

Title I project means an activity eligible under section 105(a) of the Housing and Community Development Act of 1974 (42 U.S.C. 5305(a)).

Tribal enterprise means a business concern:

(1) That is wholly owned by one or more Tribal governments, or by a corporation that is wholly owned by one or more Tribal governments; or

(2) That is owned in part by one or more Tribal governments, or by a corporation that is wholly owned by one or more Tribal governments, if all other owners are either United States

citizens or small business concerns, as these terms are used and consistent with the definitions in 15 U.S.C. 657a(b)(2)(D).

Tribal government means the recognized governing body of any Indian or Alaska Native Tribe, band, nation, pueblo, village, community, component band, or component reservation, individually identified (including parenthetically) in the list published on January 29, 2021, pursuant to section 104 of the Federally Recognized Indian Tribe List Act of 1994 (25 U.S.C. 5131).

Unemployment rate means the U-3 unemployment rate provided by the Bureau of Labor Statistics as part of the Local Area Unemployment Statistics program, measured as total unemployment as a percentage of the civilian labor force.

Unemployment trust fund means an unemployment trust fund established under section 904 of the Social Security Act (42 U.S.C. 1104).

Unit of general local government has the meaning given to that term in section 102(a)(1) of the Housing and Community Development Act of 1974 (42 U.S.C. 5302(a)(1)).

§ 35.4 Reservation of authority, reporting.

(a) *Reservation of authority.* Nothing in this part shall limit the authority of the Secretary to take action to enforce conditions or violations of law, including actions necessary to prevent evasions of this subpart.

(b) *Extensions or accelerations of timing.* The Secretary may extend or accelerate any deadline or compliance date of this part, including reporting requirements that implement this subpart, if the Secretary determines that such extension or acceleration is appropriate. In determining whether an extension or acceleration is appropriate, the Secretary will consider the

period of time that would be extended or accelerated and how the modified timeline would facilitate compliance with this subpart.

(c) *Reporting and requests for other information.* During the period of performance, recipients shall provide to the Secretary or her delegate, as applicable, periodic reports providing detailed accounting of the uses of funds, modifications to a State or Territory's tax revenue sources, and such other information as the Secretary or her delegate, as applicable, may require for the administration of this section. In addition to regular reporting requirements, the Secretary may request other additional information as may be necessary or appropriate, including as may be necessary to prevent evasions of the requirements of this subpart. False statements or claims made to the Secretary may result in criminal, civil, or administrative sanctions, including fines, imprisonment, civil damages and penalties, debarment from participating in Federal awards or contracts, and/or any other remedy available by law.

§ 35.5 Use of funds.

(a) *In general.* A recipient may only use funds for the purposes enumerated in § 35.6(b)-(f) to cover costs incurred during the period beginning March 3, 2021, and ending December 31, 2024, subject to the restrictions set forth in sections 602(c)(2) and 603(c)(2) of the Social Security Act, as applicable. A recipient may only use funds for the purposes enumerated in § 35.6(g)-(h) to cover costs incurred during the period beginning December 29, 2022, and ending December 31, 2024, subject to the restrictions set forth in sections 602(c)(2), 602(c)(5)(C), 603(c)(2), and 603(c)(6)(B) of the Social Security Act, as applicable.

(b) *Costs incurred.* A cost shall be considered to have been incurred for purposes of paragraph (a) of this section if the recipient has incurred an obligation with respect to such cost by December 31, 2024.

(c) *Return of funds.* A recipient must return any funds not obligated by December 31, 2024. A recipient must return funds obligated for a use identified in § 35.6(b)-(g) by December 31, 2024, but not expended by December 31, 2026. A recipient must return funds obligated for a use identified in § 35.6(h) by December 31, 2024, but not expended by September 30, 2026.

§ 35.6 Eligible uses.

(a) *In general.* Subject to §§ 35.7 and 35.8, a recipient may use funds for one or more of the purposes described in paragraphs (b) through (h) of this section.

(b) *Responding to the public health emergency or its negative economic impacts.* A recipient may use funds to respond to the public health emergency or its negative economic impacts if the use meets the criteria provided in subparagraph (b)(1) or is enumerated in subparagraph (b)(3); provided that, in the case of a use of funds for a capital expenditure under subparagraph (b)(1) or (b)(3), the use of funds must also meet the criteria provided in subparagraph (b)(4). Treasury may also articulate additional eligible programs, services, or capital expenditures from time to time that satisfy the eligibility criteria of this paragraph (b), which shall be eligible under this paragraph (b).

(1) *Identifying eligible responses to the public health emergency or its negative economic impacts.*

(i) A program, service, or capital expenditure is eligible under this subparagraph (1) if a recipient identifies a harm or impact to a beneficiary or class of beneficiaries caused or exacerbated by the public health emergency or its negative economic impacts and the program, service, or capital expenditure responds to such harm.

(ii) A program, service, or capital expenditure responds to a harm or impact experienced by an identified beneficiary or class of beneficiaries if it is reasonably designed to benefit the beneficiary or class of beneficiaries that experienced the harm or impact and is related and reasonably proportional to the extent and type of harm or impact experienced.

(2) *Identified harms: presumptions of impacted and disproportionately impacted beneficiaries.* A recipient may rely on the following presumptions to identify beneficiaries presumptively impacted or disproportionately impacted by the public health emergency or its negative economic impacts for the purpose of providing a response under subparagraph (b)(1) or (b)(3):

(i) Households or populations that experienced unemployment; experienced increased food or housing insecurity; qualify for the Children’s Health Insurance Program (42 U.S.C. 1397aa *et seq.*), Childcare Subsidies through the Child Care and Development Fund Program (42 U.S.C. 9857 *et seq.* and 42 U.S.C. 618), or Medicaid (42 U.S.C. 1396 *et seq.*); if funds are to be used for affordable housing programs, qualify for the National Housing Trust Fund (12 U.S.C. 4568) or the Home Investment Partnerships Program (42 U.S.C. 12721 *et seq.*); if funds are to be used to address impacts of lost instructional time for students in kindergarten through twelfth grade, any student who did not have access to in-person instruction for a significant period of time; and low- and moderate-income households and populations are presumed to be impacted by the public health emergency or its negative economic impacts;

(ii) The general public is presumed to be impacted by the public health emergency for the purposes of providing the uses set forth in subparagraphs (b)(3)(i)(A) and (b)(3)(i)(C); and

(iii) The following households, communities, small businesses, and nonprofit organizations are presumed to be disproportionately impacted by the public health emergency or its negative economic impacts:

(A) Households and populations residing in a qualified census tract; households and populations receiving services provided by Tribal governments; households and populations residing in the territories; households and populations receiving services provided by territorial governments; low-income households and populations; households that qualify for Temporary Assistance for Needy Families (42 U.S.C. 601 *et seq.*), the Supplemental Nutrition Assistance Program (7 U.S.C. 2011 *et seq.*), Free and Reduced Price School Lunch and/or Breakfast programs (42 U.S.C. 1751 *et seq.* and 42 U.S.C. 1773), Medicare Part D Low-income Subsidies (42 U.S.C. 1395w-114), Supplemental Security Income (42 U.S.C. 1381 *et seq.*), Head Start (42 U.S.C. 9831 *et seq.*), Early Head Start (42 U.S.C. 9831 *et seq.*), the Special Supplemental Nutrition Program for Women, Infants, and Children (42 U.S.C. 1786), Section 8 Vouchers (42 U.S.C. 1437f), the Low-Income Home Energy Assistance Program (42 U.S.C. 8621 *et seq.*), Pell Grants (20 U.S.C. 1070a), and, if SLFRF funds are to be used for services to address educational disparities, Title I eligible schools;

(B) Small businesses operating in a qualified census tract, operated by Tribal governments or on Tribal lands, or operating in the territories; and

(C) Nonprofit organizations operating in a qualified census tract, operated by Tribal governments or on Tribal lands, or operating in the territories.

(3) *Enumerated eligible uses: responses presumed reasonably proportional.* A recipient may use funds to respond to the public health emergency or its negative economic impacts on a beneficiary or class of beneficiaries for one or more of the following purposes unless such use is grossly disproportionate to the harm caused or exacerbated by the public health emergency or its negative economic impacts:

(i) Responding to the public health impacts of the public health emergency for purposes including:

(A) COVID-19 mitigation and prevention in a manner that is consistent with recommendations and guidance from the Centers for Disease Control and Prevention, including vaccination programs and incentives; testing programs; contact tracing; isolation and quarantine; mitigation and prevention practices in congregate settings; acquisition and distribution of medical equipment for prevention and treatment of COVID-19, including personal protective equipment; COVID-19 prevention and treatment expenses for public hospitals or health care facilities, including temporary medical facilities; establishing or enhancing public health data systems; installation and improvement of ventilation systems in congregate settings, health facilities, or other public facilities; and assistance to small businesses, nonprofits, or impacted industries to implement mitigation measures;

(B) Medical expenses related to testing and treating COVID-19 that are provided in a manner consistent with recommendations and guidance from the Centers for Disease Control and Prevention, including emergency medical response expenses, treatment of long-term symptoms or effects of COVID-19, and costs to medical providers or to individuals for testing or treating COVID-19;

(C) Behavioral health care, including prevention, treatment, emergency or first-responder programs, harm reduction, supports for long-term recovery, and behavioral health facilities and equipment; and

(D) Preventing and responding to increased violence resulting from the public health emergency, including community violence intervention programs, or responding to increased gun violence resulting from the public health emergency, including payroll and covered benefits associated with community policing strategies; enforcement efforts to reduce gun violence; and investing in technology and equipment;

(ii) Responding to the negative economic impacts of the public health emergency for purposes including:

(A) Assistance to households and individuals, including:

(1) Assistance for food; emergency housing needs; burials, home repairs, or weatherization; internet access or digital literacy; cash assistance; and assistance accessing public benefits;

(2) Paid sick, medical, or family leave programs, or assistance to expand access to health insurance;

(3) Childcare, early learning services, home visiting, or assistance for child welfare-involved families or foster youth;

(4) Programs to address the impacts of lost instructional time for students in kindergarten through twelfth grade;

(5) Development, repair, and operation of affordable housing and services or programs to increase long-term housing security;

(6) Financial services that facilitate the delivery of Federal, State, or local benefits for unbanked and underbanked individuals;

(7) Benefits for the surviving family members of individuals who have died from COVID-19, including cash assistance to surviving spouses or dependents of individuals who died of COVID-19;

(8) Assistance for individuals who want and are available for work, including those who are unemployed, have looked for work sometime in the past 12 months, who are employed part time but who want and are available for full-time work, or who are employed but seeking a position with greater opportunities for economic advancement;

(9) Facilities and equipment related to the provision of services to households provided in subparagraphs (b)(3)(ii)(A)(1)-(8);

(10) The following expenses related to Unemployment Trust Funds:

(i) Contributions to a recipient Unemployment Trust Fund and repayment of principal amounts due on advances received under Title XII of the Social Security Act (42 U.S.C. § 1321) up to an amount equal to (a) the difference between the balance in the recipient's Unemployment Trust Fund as of January 27, 2020 and the balance of such account as of May 17, 2021 plus (b) the principal amount outstanding as of May 17, 2021 on any advances received under Title XII of the Social Security Act between January 27, 2020 and May 17, 2021; provided that if a recipient repays principal on Title XII advances or makes a contribution to an Unemployment Trust Fund after April 1, 2022, such recipient shall not reduce average weekly benefit amounts or maximum benefit entitlements prior to December 31, 2024; and

(ii) any interest due on such advances received under Title XII of the Social Security Act (42 U.S.C. § 1321); and

(11) A program, service, capital expenditure, or other assistance that is provided to a disproportionately impacted household, population, or community, including:

(i) Services to address health disparities of the disproportionately impacted household, population, or community;

(ii) Housing vouchers and relocation assistance;

(iii) Investments in communities to promote improved health outcomes and public safety such as parks, recreation facilities, and programs that increase access to healthy foods;

(iv) Capital expenditures and other services to address vacant or abandoned properties;

(v) Services to address educational disparities; and

(vi) Facilities and equipment related to the provision of these services to the disproportionately impacted household, population, or community.

(B) Assistance to small businesses, including:

(1) Programs, services, or capital expenditures that respond to the negative economic impacts of the COVID-19 public health emergency, including loans or grants to mitigate financial hardship such as declines in revenues or impacts of periods of business closure, or providing technical assistance; and

(2) A program, service, capital expenditure, or other assistance that responds to disproportionately impacted small businesses, including rehabilitation of commercial properties; storefront and façade improvements; technical assistance, business incubators, and grants for start-ups or expansion costs for small businesses; and programs or services to support micro-businesses;

(C) Assistance to nonprofit organizations including programs, services, or capital expenditures, including loans or grants to mitigate financial hardship such as declines in revenues or increased costs, or technical assistance;

(D) Assistance to tourism, travel, hospitality, and other impacted industries for programs, services, or capital expenditures, including support for payroll costs and covered benefits for employees, compensating returning employees, support for operations and maintenance of existing equipment and facilities, and technical assistance; and

(E) Expenses to support public sector capacity and workforce, including:

(1) Payroll and covered benefit expenses for public safety, public health, health care, human services, and similar employees to the extent that the employee's time is spent mitigating or responding to the COVID-19 public health emergency;

(2) Payroll, covered benefit, and other costs associated with programs or services to support the public sector workforce and with the recipient:

(i) Hiring or rehiring staff to fill budgeted full-time equivalent positions that existed on January 27, 2020 but that were unfilled or eliminated as of March 3, 2021; or

(ii) Increasing the number of its budgeted full-time equivalent employees by up to the difference between the number of its budgeted full-time equivalent employees on January 27, 2020, multiplied by 1.075, and the number of its budgeted full-time equivalent employees on March 3, 2021, provided that funds shall only be used for additional budgeted full-time equivalent employees above the recipient's number of budgeted full-time equivalent employees as of March 3, 2021;

(3) Costs to improve the design and execution of programs responding to the COVID-19 pandemic and to administer or improve the efficacy of programs addressing the public health emergency or its negative economic impacts; and

(4) Costs associated with addressing administrative needs of recipient governments that were caused or exacerbated by the pandemic.

(4) *Capital expenditures.* A recipient, other than a Tribal government, must prepare a written justification for certain capital expenditures according to Table 1. Such written justification must include the following elements:

- (i) Describe the harm or need to be addressed;
- (ii) Explain why a capital expenditure is appropriate; and
- (iii) Compare the proposed capital expenditure to at least two alternative capital expenditures and demonstrate why the proposed capital expenditure is superior.

Table 1

If a project has total expected capital expenditures of	and the use is enumerated in (b)(3), then	and the use is not enumerated in (b)(3), then
Less than \$1 million	No Written Justification required	No Written Justification required
Greater than or equal to \$1 million, but less than \$10 million	Written Justification required but recipients are not required to submit as part of regular reporting to Treasury	Written Justification required and recipients must submit as part of regular reporting to Treasury
\$10 million or more	Written Justification required and recipients must submit as part of regular reporting to Treasury	

(c) *Providing premium pay to eligible workers.* A recipient may use funds to provide premium pay to eligible workers of the recipient who perform essential work or to provide grants to eligible employers that have eligible workers who perform essential work, provided that any premium pay or grants provided under this paragraph (c) must respond to eligible workers performing essential work during the COVID-19 public health emergency. A recipient uses premium pay or grants provided under this paragraph (c) to respond to eligible workers performing essential work during the COVID-19 public health emergency if:

(1) The eligible worker's total wages and remuneration, including the premium pay, is less than or equal to 150 percent of the greater of such eligible worker's residing State's or county's average annual wage for all occupations as defined by the Bureau of Labor Statistics' Occupational Employment and Wage Statistics;

(2) The eligible worker is not exempt from the Fair Labor Standards Act overtime provisions (29 U.S.C. 207); or

(3) The recipient has submitted to the Secretary a written justification that explains how providing premium pay to the eligible worker is responsive to the eligible worker performing essential work during the COVID-19 public health emergency (such as a description of the eligible workers' duties, health, or financial risks faced due to COVID-19, and why the recipient determined that the premium pay was responsive despite the worker's higher income).

(d) *Providing government services.* A recipient may use funds for the provision of government services up to an amount equal to the greater of:

(1) \$10,000,000; or

(2) the amount of the reduction in the recipient's general revenue due to the COVID-19 public health emergency, which equals the sum of the reduction in revenue, calculated as of each

date identified in paragraph (d)(2)(i) of this section and according to the formula in paragraph (d)(2)(ii) of this section:

(i) A recipient must make a one-time election to calculate the reduction in its general revenue using information as of either:

(A) December 31, 2020, December 31, 2021, December 31, 2022, and December 31, 2023; or

(B) The last day of each of the recipient's fiscal years ending in 2020, 2021, 2022, and 2023.

(ii) A reduction in a recipient's general revenue for each date identified in paragraph (d)(2)(i) equals:

$$\text{Max } \{ [\text{Base Year Revenue} * (1 + \text{Growth Adjustment})^{(n/12)}] - \text{Actual General Revenue}; 0 \}$$

Where:

(A) Base Year Revenue is the recipient's general revenue for the most recent full fiscal year prior to the COVID-19 public health emergency;

(B) Growth Adjustment is equal to the greater of 5.2 percent (or 0.052) and the recipient's average annual revenue growth over the three full fiscal years prior to the COVID-19 public health emergency;

(C) n equals the number of months elapsed from the end of the base year to the calculation date;

(D) Subscript t denotes the specific calculation date; and

(E) Actual General Revenue is a recipient's actual general revenue collected during the 12-month period ending on each calculation date identified in paragraph (d)(2)(i), except:

(1) For purposes of all calculation dates on or after April 1, 2022, in the case of any change made after January 6, 2022 to any law, regulation, or administrative interpretation that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase and that the recipient assesses has had the effect of decreasing the amount of tax revenue collected during the 12-month period ending on the calculation date relative to the amount of tax revenue that would have been collected in the absence of such change, the recipient must add to actual general revenue the amount of such decrease in tax revenue;

(2) For purposes of any calculation date on or after April 1, 2022, in the case of any change made after January 6, 2022 to any law, regulation, or administrative interpretation that increases any tax (by providing for an increase in a rate, the reduction of a rebate, a deduction, or a credit, or otherwise) or accelerates the imposition of any tax or tax increase and that the recipient assesses has had the effect of increasing the amount of tax revenue collected during the 12-month period ending on the calculation date relative to the amount of tax revenue that would have been collected in the absence of such change, the recipient must subtract from actual general revenue the amount of such increase in tax revenue; and

(3) If the recipient makes a one-time election to adjust general revenue to reflect tax changes made during the period beginning on January 27, 2020 and ending on January 6, 2022, for purposes of each calculation date identified in paragraph (d)(2)(i) of this section:

(i) In the case of any change made during such prior period to any law, regulation, or administrative interpretation that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase and that the recipient assesses has had the effect of decreasing the amount of tax revenue collected during

the 12-month period ending on the calculation date relative to the amount of tax revenue that would have been collected in the absence of such change, the recipient must add to actual general revenue the amount of such decrease in tax revenue; and

(ii) In the case of any change made during such prior period to any law, regulation, or administrative interpretation that increases any tax (by providing for an increase in a rate, the reduction of a rebate, a deduction, or a credit, or otherwise) or accelerates the imposition of any tax or tax increase and that the recipient assesses has had the effect of increasing the amount of tax revenue collected during the 12-month period ending on the calculation date relative to the amount of tax revenue that would have been collected in the absence of such change, the recipient must subtract from actual general revenue the amount of such increase in tax revenue; and

(4) With respect to any calculation date during the period beginning on January 6, 2022 and ending on March 31, 2022, if the recipient makes the election in paragraph (3), the recipient must also make the adjustments referenced in paragraph (3) with respect to any such changes in law, regulation, or administrative interpretation during the period beginning on January 6, 2022 and ending on such calculation date.

(e) *Making necessary investments in water, sewer, and broadband infrastructure.* A recipient may use funds to make the following investments in water, sewer, and broadband infrastructure.

(1) *Water and sewer investments.*

(i) *Clean Water State Revolving Fund projects.* Projects or activities of the type that meet the eligibility requirements of section 603(c) of the Federal Water Pollution Control Act (33 U.S.C. 1383(c));

(ii) *Additional stormwater projects.* Projects to manage, reduce, treat, or recapture stormwater or subsurface drainage water regardless of whether such projects would improve water quality if such projects would otherwise meet the eligibility requirements of section 603(c)(5) of the Federal Water Pollution Control Act (33 U.S.C. 1383(c)(5));

(iii) *Drinking Water State Revolving Fund projects.* Projects or activities of the type that meet the eligibility requirements of section 1452 of the Safe Drinking Water Act (42 U.S.C. 300j-12) as implemented by the regulations adopted by the Environmental Protection Agency (EPA) under 40 CFR § 35.3520, provided that:

(A) The recipient is not required to comply with the limitation under 40 CFR § 35.3520(c)(2) to acquisitions of land from willing sellers or the prohibition under 40 CFR § 35.3520(e)(6) on uses of funds for certain Tribal projects; and

(B) In the case of lead service line replacement projects, the recipient must replace the full length of the service line and may not replace only a partial portion of the service line.

(iv) *Additional lead remediation and household water quality testing.* Projects or activities to address lead in drinking water or provide household water quality testing that are within the scope of the programs the EPA is authorized to establish under sections 1459A(b)(2), 1459B(b)(1), 1464(d)(2), and 1465 of the Safe Drinking Water Act (42 U.S.C. 300j-19a(b)(2), 300j-19b(b)(1), 300j-24(d)(2), and 300j-25), provided that:

(A) In the case of lead service line replacement projects, the recipient must replace the full length of the service line and may not replace only a partial portion of the service line; and

(B) In the case of projects within the scope of the program the EPA is authorized to establish under section 1459B(b)(1) of the Safe Drinking Water Act, the recipient may determine

the income eligibility of homeowners served by lead service line replacement projects in its discretion.

(v) *Drinking water projects to support increased population.* Projects of the type that meet the eligibility requirements of 40 CFR § 35.3520 other than the requirement of subparagraph (b)(1) of such regulation to address present or prevent future violations of health-based drinking water standards, if the following conditions are met:

(A) The project is needed to support increased population, with need assessed as of the time the project is undertaken;

(B) The project is designed to support no more than a reasonable level of projected increased need, whether due to population growth or otherwise;

(C) The project is a cost-effective means for achieving the desired level of service; and

(D) The project is projected to continue to provide an adequate level of drinking water over its estimated useful life.

(vi) *Dams and reservoirs.* Rehabilitation of dams and reservoirs if the following conditions are met:

(A) The project meets the requirements of 40 CFR § 35.3520 other than the following requirements:

(1) The prohibition on the rehabilitation of dams and reservoirs in subparagraphs (e)(1) and (e)(3) of 40 CFR § 35.3520; and

(2) The requirement in subparagraph (b)(1) of 40 CFR § 35.3520 that the project is needed to address present or prevent future violations of health-based drinking water standards, provided that if the dam or reservoir project does not meet this requirement, the project must be needed to support increased population, with need assessed as of the time the project is

undertaken, and the project must be projected to continue to provide an adequate level of drinking water over its estimated useful life;

(B) The primary purpose of the dam or reservoir is for drinking water supply;

(C) The project is needed for the provision of drinking water supply, with need assessed as of the time the project is initiated;

(D) The project is designed to support no more than a reasonable level of projected increased need, whether due to population growth or otherwise; and

(E) The project is a cost-effective means for achieving the desired level of service.

(vii) *Private wells.* Rehabilitation of private wells, testing initiatives to identify contaminants in private wells, and treatment activities and remediation projects that address contamination in private wells, if the project meets the requirements of 40 CFR § 35.3520 other than the limitation to certain eligible systems under paragraph (a) of 40 CFR § 35.3520.

(2) *Broadband investments.*

(i) *General.* Broadband infrastructure if the following conditions are met:

(A) The broadband infrastructure is designed to provide service to households and businesses with an identified need, as determined by the recipient, for such infrastructure;

(B) The broadband infrastructure is designed to, upon completion:

(1) Reliably meet or exceed symmetrical 100 Mbps download speed and upload speeds;

or

(2) In cases where it is not practicable, because of the excessive cost of the project or geography or topography of the area to be served by the project, to provide service reliably meeting or exceeding symmetrical 100 Mbps download speed and upload speeds:

(i) Reliably meet or exceed 100 Mbps download speed and between at least 20 Mbps and 100 Mbps upload speed; and

(ii) Be scalable to a minimum of 100 Mbps download speed and 100 Mbps upload speed; and

(C) The service provider for a completed broadband infrastructure investment project that provides service to households is required, for as long as the SLFRF-funded broadband infrastructure is in use, by the recipient to:

(1) Participate in the Federal Communications Commission's Affordable Connectivity Program (ACP) through the lifetime of the ACP; or

(2) Otherwise provide access to a broad-based affordability program to low-income consumers in the proposed service area of the broadband infrastructure that provides benefits to households commensurate with those provided under the ACP through the lifetime of the ACP.

(ii) *Cybersecurity infrastructure investments.* Cybersecurity infrastructure investments that are designed to improve the reliability and resiliency of new and existing broadband infrastructure. Such investments may include the addition or modernization of network security hardware and software tools designed to strengthen cybersecurity for the end-users of these networks.

(f) *Meeting the non-federal matching requirements for Bureau of Reclamation projects.* A recipient may use funds to meet the non-federal matching requirements of any authorized Bureau of Reclamation project.

(g) *Natural Disaster Emergency Relief.* Subject to subparagraph (3), a recipient may use funds to provide emergency relief from the physical impacts or negative economic impacts of a

natural disaster, including the forms of emergency relief identified in subparagraph (2), if the use meets the criteria provided in subparagraph (1).

(1) *Identifying emergency relief from the physical or negative economic impacts of a natural disaster.* A recipient provides emergency relief from the physical impacts or negative economic impacts of a natural disaster when the recipient:

(i) Identifies either:

(A) a natural disaster that has occurred or is expected to occur imminently and that has been the subject of an emergency declaration or designation applicable to the recipient's geography and jurisdiction in the form of:

(1) an emergency declaration pursuant to the Stafford Act;

(2) an emergency declaration by the Governor of a state pursuant to state law;

(3) an emergency declaration made by a Tribal government; or

(4) a designation as a natural disaster by the chief executive (or equivalent) of the recipient, provided that the chief executive (or equivalent) documents that the event meets the definition of natural disaster; or

(B) a natural disaster that is threatened to occur in the future, provided that the recipient documents evidence of historical patterns or predictions of natural disasters that would reasonably demonstrate the likelihood of the future occurrence of a natural disaster in the recipient's jurisdiction; and

(ii) Provides emergency relief that responds to and is related and reasonably proportional to:

(A) the physical or negative economic impacts of the natural disaster identified in subparagraph (i)(A), or

(B) the potential physical or negative economic impacts of the natural disaster identified in subparagraph (i)(B).

(2) *Enumerated eligible uses.* A recipient may use funds to provide emergency relief from

(i) the physical or negative economic impacts of natural disasters identified under paragraph (1)(i)(A) by engaging in one of the following activities, provided that the emergency relief is related and reasonably proportional to the physical or negative economic impacts of the natural disaster identified:

(A) Temporary emergency housing, food assistance, and financial assistance for lost wages;

(B) Emergency protective measures, including assistance for emergency access, medical care and transport, emergency operations center related costs, and other activities traditionally undertaken as part of emergency response;

(C) Debris removal activities, including the clearance, removal, and disposal of vegetative debris, construction and demolition debris, sand, mud, silt, gravel, rocks, boulders, white goods, and vehicle and vessel wreckage;

(D) Restoration of public infrastructure damaged by a natural disaster, including roads, bridges, and utilities;

(E) Increased operational costs, including payroll costs and costs for government facilities and government services;

(F) Cash assistance for uninsured or underinsured expenses, and cash assistance serving low-income households; or

(G) Home repairs for uninhabitable primary residences; or

(ii) the potential physical or negative economic impacts of natural disasters identified under paragraph (1)(i)(B) by using funds for mitigation activities, provided that the emergency relief is related and reasonably proportional to the potential physical or negative economic impacts of the natural disaster identified, and provided further that if funds are used for capital expenditures under this paragraph, a recipient, other than a Tribal government, must prepare a written justification for activities under this paragraph (ii) with total capital expenditures of \$1 million or greater. Such written justification must include the following elements:

(A) Describe the emergency relief provided by the mitigation activity and why it is needed to lessen or avert the potential impacts of the natural disaster that is threatened to occur in the future;

(B) Explain why the capital expenditure is appropriate to address the need for emergency relief; and

(C) Compare the proposed capital expenditure to at least two alternative capital expenditures and demonstrate why the proposed capital expenditure is superior.

(3) *Duplication of benefits.* (A) A recipient may not provide financial assistance under this paragraph (g) to a person, business concern, or other entity with respect to disaster losses for which such beneficiary will receive financial assistance under any other program or from insurance or any other source.

(B) A recipient may provide assistance with respect to disaster losses to a person, business concern, or other entity that is or may be entitled to receive assistance for those losses from another source, if such person, business concern, or other entity has not received the other benefits by the time of application for assistance and the person, business concern, or other entity agrees to repay any duplicative assistance to the recipient. A recipient providing assistance with

respect to disaster losses shall coordinate with the relevant Regional Administrator of the Federal Emergency Management Agency and state disaster-assistance administrator. Recipients shall notify subrecipients and contractors that, when providing assistance with respect to disaster losses, those entities are responsible for ensuring that beneficiaries disclose any other assistance received for the same disaster losses prior to receiving assistance under this paragraph (g).

(C) Funds shall be used last in the delivery sequence unless the recipient, in consultation with the appropriate Regional Administrator of the Federal Emergency Management Agency or state disaster-assistance administrator, determines that another sequence is appropriate.

(h) *Certain infrastructure projects.* A recipient may use funds for Surface Transportation projects as set forth in subparagraph (h)(1) and for Title I projects as set forth in subparagraph (h)(2), subject to the requirements set forth in subparagraph (h)(3).

(1) *Surface Transportation projects.* A recipient may use funds for Surface Transportation projects in the manner set forth in subparagraph (i), subject to the requirements and limitations set forth in subparagraph (ii).

(i) (A) A recipient may use funds to expand the scope of, to cover additional costs associated with, or to otherwise supplement funding for a project receiving funding from the Department of Transportation at the time that the funds are obligated and expended for the project.

(B) A recipient may use funds for a Surface Transportation project that is not funded by the Department of Transportation at the time the funds are obligated and expended.

(C) A recipient may use funds to satisfy non-federal share requirements for a project eligible under the provisions identified paragraphs (i), (xxi), (xviii), and (xxvii) of the definition

of “Surface Transportation project” in § 35.3 or to repay a loan provided under the Transportation Infrastructure Finance and Innovation Act program under 23 U.S.C. chapter 6.

(ii) *Limitations and requirements.* The following limitations and requirements apply to funds used for Surface Transportation projects under subparagraphs (h)(1)(i)(A) and (h)(1)(i)(B).

(A) Funds used for Surface Transportation projects eligible under the provisions set forth in subparagraphs (xx) through (xxiv) of the definition of Surface Transportation projects in § 35.3 shall not be used for operating expenses of such a project.

(B) Except as otherwise determined by the Secretary or the head of the federal agency to which the Secretary has delegated authority, the requirements of titles 23, 40, and 49 of the U.S. Code, and the associated implementing regulations, apply to Surface Transportation projects, including but not limited to the following:

(1) Project eligibility requirements;

(2) Project approval requirements, provided that such requirements shall not apply to Surface Transportation projects undertaken pursuant to subparagraph (i)(B) that meet the following criteria:

(i) The project qualifies as an “eligible project” under the program described in paragraph (xvii) of the definition of Surface Transportation project set forth in § 35.3;

(ii) The recipient does not use more than \$10 million in funds for the project; and

(iii) The entire project scope, including for avoidance of doubt any portion of the project funded through other sources, is limited to the actions or activities listed under 23 CFR 771.116(c)(1)-(22), 771.117(c)(1)-(30), and 771.118(c)(1)-(16), provided that the actions or activities do not involve unusual circumstances, as described in 23 CFR 771.116(b), 771.117(b), and 771.118(b).

(3) wage and employee protection requirements, including the requirements set forth at 23 U.S.C. 113 and 49 U.S.C. 5333(a) and (b);

(4) domestic preference procurement requirements, including the requirements set forth at 23 U.S.C. 313, 49 U.S.C. 5323(j), 49 CFR Part 661, and 23 CFR 635.410, provided that such requirements shall not apply to Surface Transportation projects undertaken pursuant to subparagraph (i)(B) that meet the criteria set forth in subparagraph (ii)(B)(2)(i)-(iii);

(5) project design, planning, construction, operation, maintenance, vehicle weight limit, and toll requirements, provided that the requirement to include Surface Transportation projects in a state transportation improvement program or transportation improvement program shall not apply to Surface Transportation projects undertaken pursuant to subparagraph (i)(B) except in circumstances when the project is regionally significant and requires action by an office of the Department of Transportation pursuant to 23 CFR 450.218.

(C) Except as otherwise determined by the Secretary or the head of the federal agency to which the Secretary has delegated authority, the requirements of the National Environmental Policy Act of 1969 (42 U.S.C. 4321 et seq.), and the associated implementing regulations, apply to Surface Transportation projects.

(D) When a State uses funds for a Surface Transportation project eligible under title 23 of the U.S. Code or that otherwise would be subject to the requirements of title 23, the project must either

(1) demonstrate progress in achieving a state of good repair as required by the State's asset management plan under 23 U.S.C. 119(e), or

(2) support the achievement of one or more performance targets of the State established under 23 U.S.C. 150.

(2) *Title I projects.* A recipient may use funds for Title I projects, subject to the following limitations and requirements:

(i) Except as otherwise determined by the Secretary or the head of the federal agency to which the Secretary has delegated authority, the requirements of Title I of the Housing and Community Development Act of 1974 (42 U.S.C. 5301 et seq.), and the associated implementing regulations, apply to Title I projects, including:

(A) At least 70 percent of funds used for such projects, in the aggregate, must be used for projects that principally benefit low- and moderate-income persons, in accordance with the definitions and requirements set forth at 24 CFR 570.3, 24 CFR 570.200(a)(3), and 24 CFR 570.208(a) for recipients that are not Tribal governments, and at 24 CFR 1003.4 and 1003.208 for Tribal government recipients; provided, however, that Tribal governments may demonstrate that beneficiaries of Title I assistance are “low and moderate income beneficiaries,” as defined at 24 CFR 1003.4, based on an attestation by the Tribal government that these beneficiaries are receiving or are eligible to receive services administered by the Tribal government on the basis of an individual’s income.

(B) In the case of recipients that are not Tribal governments, funds used for projects must satisfy at least one of the national objectives as set forth in 24 CFR 570.208.

(C) Not more than 15 percent of funds used for such projects, in the aggregate, may be used for public services activities and projects eligible under 42 U.S.C. 5305(a)(8).

(D) Not more than 20 percent of funds used for such projects, in the aggregate, may be used for planning and administrative costs, as described at 24 CFR 570.200(g), 570.205, and 570.206 with respect to recipients that are not Tribal governments, and as described at 24 CFR 1003.205 and 1003.206 with respect to recipients that are Tribal governments.

(E) In the case of recipients that are not Tribal governments, funds used for such projects must satisfy the requirements set forth at 42 U.S.C. 5310 and 24 CFR 570.603.

(F) Prior to commencing a Title I project, a recipient must comply with the environmental protection measures set forth at 42 U.S.C. 5304(g) and the implementing regulations set forth at 24 CFR 570.604, 24 CFR 1003.605, and 24 CFR Part 58, provided that the certification contemplated by 42 U.S.C. 5304(g) shall be submitted to the Secretary and not the Secretary of the Department of Housing and Urban Development.

(ii) To the extent a Title I project relates to broadband infrastructure, the requirements of section 60102 of the Infrastructure Investment and Jobs Act shall apply.

(3) *Requirements applicable to Surface Transportation projects and Title I projects.* (i) The total amount of funds that a recipient may use for costs incurred for projects set forth in subparagraph (h)(1) and (h)(2), taken together, shall not exceed the greater of \$10,000,000 and 30 percent of the recipient's total award received pursuant to payment or transfer of funds made under section 602 or 603 of the Social Security Act.

(ii) Funds used for the projects set forth in paragraph (h) must supplement, and not supplant, other federal, State, territorial, Tribal, and local government funds (as applicable) that

(A) in the case of non-federal funds, have been obligated for activities or projects that are eligible as part of any Surface Transportation project or Title I project, as applicable, or

(B) in the case of federal funds, a federal agency has committed to a particular project pursuant to an award agreement or otherwise.

§ 35.7 Pensions.

A recipient (other than a Tribal government) may not use funds for deposit into any pension fund.

§ 35.8 Tax.

(a) *Restriction.* A State or Territory shall not use funds to either directly or indirectly offset a reduction in the net tax revenue of the State or Territory resulting from a covered change during the covered period.

(b) *Violation.* Treasury will consider a State or Territory to have used funds to offset a reduction in net tax revenue if, during a reporting year:

(1) *Covered change.* The State or Territory has made a covered change that, either based on a reasonable statistical methodology to isolate the impact of the covered change in actual revenue or based on projections that use reasonable assumptions and do not incorporate the effects of macroeconomic growth to reduce or increase the projected impact of the covered change, the State or Territory assesses has had or predicts to have the effect of reducing tax revenue relative to current law;

(2) *Exceeds the de minimis threshold.* The aggregate amount of the measured or predicted reductions in tax revenue caused by covered changes identified under paragraph (b)(1) of this section, in the aggregate, exceeds 1 percent of the State's or Territory's baseline;

(3) *Reduction in net tax revenue.* The State or Territory reports a reduction in net tax revenue, measured as the difference between actual tax revenue and the State's or Territory's baseline, each measured as of the end of the reporting year; and

(4) *Consideration of other changes.* The aggregate amount of measured or predicted reductions in tax revenue caused by covered changes is greater than the sum of the following, in each case, as calculated for the reporting year:

(i) The aggregate amount of the expected increases in tax revenue caused by one or more covered changes that, either based on a reasonable statistical methodology to isolate the impact of the covered change in actual revenue or based on projections that use reasonable assumptions and do not incorporate the effects of macroeconomic growth to reduce or increase the projected impact of the covered change, the State or Territory assesses has had or predicts to have the effect of increasing tax revenue; and

(ii) Reductions in spending, up to the amount of the State's or Territory's net reduction in total spending, that are in:

(A) Departments, agencies, or authorities in which the State or Territory is not using funds; and

(B) Departments, agencies, or authorities in which the State or Territory is using funds, in an amount equal to the value of the spending cuts in those departments, agencies, or authorities, minus funds used.

(c) *Amount and revenue reduction cap.* If a State or Territory is considered to be in violation pursuant to paragraph (b) of this section, the amount used in violation of paragraph (a) of this section is equal to the lesser of:

(1) The reduction in net tax revenue of the State or Territory for the reporting year, measured as the difference between the State's or Territory's baseline and its actual tax revenue, each measured as of the end of the reporting year; and,

(2) The aggregate amount of the reductions in tax revenues caused by covered changes identified in paragraph (b)(1) of this section, minus the sum of the amounts in identified in paragraphs (b)(4)(i) and (ii).

§ 35.9. Compliance with applicable laws.

A recipient must comply with all other applicable Federal statutes, regulations, and executive orders, and a recipient shall provide for compliance with the American Rescue Plan Act, this subpart, and any interpretive guidance by other parties in any agreements it enters into with other parties relating to these funds.

§ 35.10. Recoupment.

(a) *Identification of violations – (1) In general.* Any amount used in violation of § 35.5, § 35.6, or § 35.7 may be identified at any time prior to December 31, 2026.

(2) *Annual reporting of amounts of violations.* On an annual basis, a recipient that is a State or territory must calculate and report any amounts used in violation of § 35.8.

(b) *Calculation of amounts subject to recoupment – (1) In general.* Except as provided in paragraph (b)(2) of this section, the Secretary will calculate any amounts subject to recoupment resulting from a violation of §35.5, § 35.6 or § 35.7 as the amounts used in violation of such restrictions.

(2) *Violations of § 35.8.* The Secretary will calculate any amounts subject to recoupment resulting from a violation of § 35.8, equal to the lesser of:

- (i) The amount set forth in § 35.8(c); and,
- (ii) The amount of funds received by such recipient.

(c) *Initial notice.* If the Secretary calculates an amount subject to recoupment under paragraph (b) of this section, Treasury will provide the recipient an initial written notice of the amount subject to recoupment along with an explanation of such amounts.

(d) *Request for reconsideration.* Unless the Secretary extends or accelerates the time period, within 60 calendar days of receipt of an initial notice of recoupment provided under paragraph (c) of this section, a recipient may submit a written request to the Secretary requesting reconsideration of any amounts subject to recoupment under paragraph (b) of this section. To request reconsideration of any amounts subject to recoupment, a recipient must submit to the Secretary a written request that includes:

(1) An explanation of why the recipient believes all or some of the amount should not be subject to recoupment; and

(2) A discussion of supporting reasons, along with any additional information.

(e) *Final amount subject to recoupment.* Unless the Secretary extends or accelerates the time period, within 60 calendar days of receipt of the recipient's request for reconsideration provided pursuant to paragraph (d) of this section or the expiration of the period for requesting reconsideration provided under paragraph (d), the recipient will be notified of the Secretary's decision to affirm, withdraw, or modify the notice of recoupment. Such notification will include an explanation of the decision, including responses to the recipient's supporting reasons and consideration of additional information provided. A recipient must invoke and exhaust the procedures available under this subpart prior to seeking judicial review of a decision under §35.10.

(f) *Repayment of funds.* Unless the Secretary extends or accelerates the time period, a recipient shall repay to the Secretary any amounts subject to recoupment in accordance with instructions provided by the Secretary:

(1) Within 120 calendar days of receipt of the notice of recoupment provided under paragraph (c) of this section, in the case of a recipient that does not submit a request for reconsideration in accordance with the requirements of paragraph (d) of this section; or

(2) Within 120 calendar days of receipt of the Secretary's decision under paragraph (e) of this section, in the case of a recipient that submits a request for reconsideration in accordance with the requirements of paragraph (d) of this section.

(g) *Other remedial actions.* Prior to seeking recoupment or taking other appropriate action pursuant to paragraph (c), (d), (e), or (f) of this section, the Secretary may notify the recipient of potential violations and provide the recipient an opportunity for informal consultation and remediation.

§ 35.11 Payments to States.

(a) *In general.* With respect to any State or Territory that has an unemployment rate as of the date that it submits an initial certification for payment of funds pursuant to section 602(d)(1) of the Social Security Act that is less than two percentage points above its unemployment rate in February 2020, the Secretary will withhold 50 percent of the amount of funds allocated under section 602(b) of the Social Security Act to such State or territory until at least May 10, 2022 and not more than twelve months from the date such initial certification is provided to the Secretary.

(b) *Payment of withheld amount.* In order to receive the amount withheld under paragraph (a) of this section, the State or Territory must submit to the Secretary the following information:

(1) A certification, in the form provided by the Secretary, that such State or Territory requires the payment to carry out the activities specified in section 602(c) of the Social Security Act and will use the payment in compliance with section 602(c) of the Social Security Act; and

(2) Any reports required to be filed by that date pursuant to this part that have not yet been filed.

§ 35.12. Distributions to nonentitlement units of local government and units of general local government.

(a) *Nonentitlement units of local government.* Each State or Territory that receives a payment from the Secretary pursuant to section 603(b)(2)(B) of the Social Security Act shall distribute the amount of the payment to nonentitlement units of local government in such State or Territory in accordance with the requirements set forth in section 603(b)(2)(C) of the Social Security Act and without offsetting any debt owed by such nonentitlement units of local governments against such payments.

(b) *Budget cap.* A State or Territory may not make a payment to a nonentitlement unit of local government pursuant to section 603(b)(2)(C) of the Social Security Act and paragraph (a) of this section in excess of the amount equal to 75 percent of the most recent budget for the nonentitlement unit of local government as of January 27, 2020. For purposes of this section 35.12, a nonentitlement unit of local government's most recent budget shall mean the nonentitlement unit of local government's total annual budget, including both operating and capital expenditure budgets, in effect as of January 27, 2020. A State or Territory shall permit a nonentitlement unit of local government without a formal budget as of January 27, 2020, to provide a certification from an authorized officer of the nonentitlement unit of local government

of its most recent annual expenditures as of January 27, 2020, and a State or Territory may rely on such certification for purposes of complying with this section 35.12.

(c) *Units of general local government.* Each State or Territory that receives a payment from the Secretary pursuant to section 603(b)(3)(B)(ii) of the Social Security Act, in the case of an amount to be paid to a county that is not a unit of general local government, shall distribute the amount of the payment to units of general local government within such county in accordance with the requirements set forth in section 603(b)(3)(B)(ii) of the Social Security Act and without offsetting any debt owed by such units of general local government against such payments.

(d) *Additional conditions.* A State or Territory may not place additional conditions or requirements on distributions to nonentitlement units of local government or units of general local government beyond those required by section 603 of the Social Security Act or this subpart.

Dated:

Kayla Arslanian,
Executive Secretary.