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Capitalizing on Federal Funding Opportunities

Over the last two years, the federal government has made unprecedented investments in transportation, climate resiliency, and economic development infrastructure through three pieces of legislation: the Infrastructure Investment and Jobs Act (IIJA), the Inflation Reduction Act (IRA), and the Creating Helpful Incentives to Produce Semiconductors Act (CHIPS). Combined, these three bills include over $2 trillion in spending, nearly half of which will be made available to states through competitive grant programs and formula allocations over the next five to ten years.

For Massachusetts, this infusion of federal funds offers a unique opportunity to address aging infrastructure, like the Cape Cod Bridges; make progress towards meeting our clean energy and climate goals, like Net Zero in 2050; and maintain our status as a hub of innovation and research. However, in many cases, securing the Commonwealth's fair share of federal funds will require a commitment of state resources.

This brief assesses the potential funding opportunities for Massachusetts across these three bills and estimates the state matching dollars needed to access and competitively apply for federal dollars. It then reviews the resources that have already been made available for state match requirements through bonding authorizations and discusses the current constraints on the state's capital spending plan.

Finally, the brief estimates the outstanding match requirements for the Commonwealth and identifies several options for policymakers to consider to meet the remaining need. Ultimately, a combination of complementary strategies and funding sources will be required. This brief is not an exhaustive summary of the options available to policymakers; however, it provides a range of reasonable recommendations that are both effective and easily understood.

Understanding the Opportunity and Requirements

Estimating the Commonwealth's Share of Federal Funds

To estimate the potential funding opportunity for Massachusetts through the IIJA, IRA, and CHIPS Act, this analysis relies on practices that were recently used to successfully project the state's share of COVID-era federal programs. For some federal programs across the three bills, specific information is already available regarding the state's allocation or award. In other instances, the

Commonwealth's share of funding is estimated by applying the share of the country's population represented by Massachusetts (2.1 percent) to the total federal appropriation.

Based on this methodology, MTF estimates that the potential funding opportunity for Massachusetts through the IIJA, IRA, and CHIPS Act is approximately $17 billion. This includes $14 billion in potential funding through the IIJA, $1.8 billion in the IRA, and $1.1 billion through the CHIPS Act. This estimate is consistent with information made available by the Federal Funds Office within the Executive Office for Administration and Finance.[1, 2]

MTF Estimated Funding Opportunity for MA in IIJA, IRA, and CHIPS

Federal Legislation	***Total Federal Appropriation***	***Estimated Massachusetts Share***
Infrastructure, Investment & Jobs Act (IIJA)	$550.00	$14.01
Inflation Reduction Act (IRA)	$146.91	$1.83
CHIPS & Science Act (CHIPS)	$54.20	$1.14
Total	**$751.11**	**$16.98**

$ in billions

Estimating Massachusetts' Match Requirements

After determining the total funding opportunity, the next task is to identify the total amount of matching funds the state will need to meet application requirements and put together competitive proposals for federal grants. Specific information regarding state cost share requirements is not available for all federal funding opportunities; however, MTF has identified at least 134 programs across the three bills that will require a commitment of matching funds.

Exact cost share requirements for individual programs will vary as detailed guidance for federal programs becomes available, notice of funding opportunities (NOFOs) are posted, and applications are submitted. For this analysis, MTF relies on a variety of sources to identify the potential match need, including federal and state agency guidance and guidebooks published by the Biden administration on the IIJA[3] and IRA.[4] The most commonly referenced state cost share requirement

[1]Executive Office for Administration and Finance, Federal Funds Office. "Infrastructure Inventory Table (updated 05-12-2023)" https://budget.digital.mass.gov/ffotables/iija/. Accessed: 06/09/23.

[2] This figure is inclusive of the federal grant opportunities available to a range of recipients in Massachusetts; including state agencies, municipalities, metropolitan planning organizations, and non-profit organizations.

[3]*A Guidebook to the Bipartisan Infrastructure Law for State, Local, Tribal, and Territorial Governments, and other Partners.* (https://www.whitehouse.gov/wp-content/uploads/2022/05/BUILDING-A-BETTER-AMERICA-V2.pdf)

[4] *Building a Clean Economic: A Guidebook to the Inflation Reduction Act's Investments in Clean Energy and Climate Action.* (https://www.whitehouse.gov/wp-content/uploads/2022/12/Inflation-Reduction-Act-Guidebook.pdf)

for federal programs is 20 percent, with some programs requiring up to a 75 percent match and others being entirely funded by the federal government.

Across the programs with known cost share requirements, MTF estimates that Massachusetts will need to identify at least $2.7 billion in matching funds to competitively apply for federal funding in the IIJA, IRA, and CHIPS Act.[5]

MTF Estimated State Match Requirements for IIJA, IRA, and CHIPS

Federal Legislation	***Estimated Massachusetts Share***	***Potential State Match Requirement***
Infrastructure, Investment & Jobs Act (IIJA)	$14.01	$2.48
Inflation Reduction Act (IRA)	$1.83	$0.10
CHIPS & Science Act (CHIPS)	$1.14	$0.09
Total	**$16.98**	**$2.67**

$ in billions

Meeting State Match Requirements

Most of the funding appropriated or authorized in the IIJA, IRA, and CHIPS Act will be made available over the course of the next five to ten years.[6, 7] The variable funding timelines across the three bills, paired with the continuous cycle of new grant opportunities, create challenges when it comes to developing and executing a strategy for meeting state match requirements.

Additionally, the federal grant programs differ greatly in size and scope; underscoring the need to identify different types of state matching resources. Operating budget resources can be used to meet the cost share requirements for smaller-scale federal programs, while bond authorizations may be better suited for federal programs that support large-scale infrastructure projects.

Furthermore, any match requirements met with operating resources or capital authorizations must go through the legislative process. This often lengthens the timeline between an initial request for

[5] The total amount of required state matching resources will fluctuate based on submitted and approved grant applications; this figure has not been adjusted based on any recent activity.
[6] U.S. Department of Energy (n.d.). *Bipartisan Infrastructure Law Frequently Asked Questions*. Energy.gov. Retrieved May 30, 2023, from https://www.energy.gov/infrastructure/articles/bipartisan-infrastructure-law-frequently-asked-questions
[7] McKinsey & Company (n.d.). *The CHIPS and Science Act: Here's what's in it*. Mckinsey.com. Retrieved May 30, 2023, from https://www.mckinsey.com/industries/public-sector/our-insights/the-chips-and-science-act-heres-whats-in-it

state support and a confirmed commitment of resources. For example, if the Governor proposes an appropriation or authorization to meet state matching requirements for a federal grant program in a supplemental budget, the Legislature is under no obligation to take up that proposal within a specified time frame. It may be months before it is passed by the House, sent to the Senate, and eventually reconciled via Conference Committee negotiations; and the final bill could look much different from the initial proposal.

Each of these challenges highlights the need for the state to act swiftly and thoughtfully to implement a plan for meeting state match requirements. Fortunately, some proactive steps have been taken to meet a portion of the $2.7 billion estimated match need.

The following subsections describe the state resources that are already available to draw down federal funds and identify new sources of matching dollars that adhere to several key fiscal principles.

Identified State Matching Funds

In 2022 and 2023, the Legislature passed two bond authorization bills that included potential sources of state matching funds for federal grant programs.

- *An Act Relative to Massachusetts Transportation Resources and Climate (MassTRAC)*[8]
    - On August 10, 2022, Governor Baker signed the infrastructure bond bill known as MassTRAC into law. It included $11.4 billion in bonding authorizations available over the course of five years for transportation and climate infrastructure. Ten items included language that explicitly enabled a portion, or the entire, authorization to be used for the costs of programs and projects tied to the Infrastructure Investment and Jobs Act.

- *FY 2023 Supplemental Budget ('Immediate Needs Bill')*[9]
    - On March 29, 2023, Governor Healey signed the first supplemental budget of FY 2023, known colloquially as the 'Immediate Needs' bill. In addition to $388 million in direct appropriations, this legislation also included approximately $740 million for five-year bonding authorizations; approximately $300 million of which appear to reference 'matching grant' programs or federal funding opportunities.

[8] *An Act Relative to Massachusetts' Transportation Resources and Climate.* Chapter 176 of the Acts of 2022. https://malegislature.gov/Laws/SessionLaws/Acts/2022/Chapter176

[9] *An Act Making Appropriations for the Fiscal Year 2023 to Provide for Supplementing Certain Existing Appropriations and for Certain Existing Appropriations and for Certain Other Activities and Projects.* Chapter 2 of the Acts of 2023. https://malegislature.gov/Laws/SessionLaws/Acts/2023/Chapter2

Combined, these two bills included at least $9 billion in bonding authorizations theoretically related to meeting state match requirements for federal grant programs. However, while this total represents the amount of state bonding approved by the Legislature, it does not reflect the amount of state borrowing that is affordable within the state's Capital Investment Plan (CIP).

The CIP is the administration's annual five-year capital spending plan, which is subject to certain debt affordability policies and procedures that limit the amount of new borrowing that can be issued by the state. One such policy is known as the administrative 'bond cap.' The bond cap is an administrative constraint that limits the amount of new capital spending supported by General Obligation bonds to $125 million per year. General Obligation bonds are repaid by the state's General Fund, and limiting their annual growth prevents debt service payments from comprising a growing share of the state's operating budget and crowding out other spending priorities. (Additional information on the Commonwealth's capital spending process can be found in this MTF primer).

Once capital spending is authorized by the Legislature through bond bills, it is up to the administration to determine which authorizations fit within the CIP. On June 22, 2023, the Healey administration released its FY 2024 – FY 2028 Capital Investment Plan, calling for $14.5 billion in capital investments over five years that are supported by General Obligation bonds. Within the $14.5 billion spending plan, the administration has identified approximately $1.8 billion in spending that will allow the state to access federal funds made available through the IIJA, IRA, or CHIPS Act.

The vast majority of spending in the CIP that may be used as a state match to unlock federal funding is concentrated in three agencies: the Massachusetts Department of Transportation (MassDOT), the Executive Office of Energy and Environmental Affairs (EEA), and the Executive Office of Economic Development (EOED).

FY 2024 – FY 2028 CIP Funding Tied to Federal Infrastructure Funding

State Agency	***5-Year State Bond Cap Spending***	***Bond Cap Spending Tied to IIJA, IRA, and CHIPS***
MassDOT	$5.66	$1.67
EEA	$1.51	$0.13
EOED	$1.22	$0.04
Other State Agencies	$6.14	$0.00
Total	**$14.52**	**$1.84**

$ in billions

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In addition to the state matching funds included in the CIP, the FY 2024 General Appropriations Act (GAA) includes a $25 million appropriation to provide matching funds for state or municipal transportation projects eligible for funding from the United States Department of Transportation.[10] This funding is fully supported by new income surtax revenues, generated by the 4 percent surtax on income over $1 million. While this funding represents a much smaller portion of the identified state matching resources compared to the funding in the CIP; the availability of direct appropriations for cost share requirements is a useful tool for quickly drawing down federal funds.

After accounting for the state matching funds included in the CIP and FY 2024 GAA, there remains an outstanding match need of at least $800 million. This figure will fluctuate depending on final federal match requirements, as well as the number and scope of successful grant applications submitted by the Commonwealth.

MTF Estimated Remaining State Match Requirement

Potential State Match Requirement	$2,667.7
Identified Matching Funds	$1,866.8
Remaining State Match Requirement	**$801.0**

$ in millions

Given the constraints on General Obligation bonds described above, it will not be possible for the entirety of the remaining need to be met through the typical capital funding process. Similarly, there is limited room in the state's operating budget. Instead, a combination of state resources – both operating and non-operating – will be required to ensure that the Commonwealth does not lose out on its share of federal funding through the IIJA, IRA, and CHIPS Act.

New Sources of State Matching Funds

To meet the remaining $800 million estimated above, MTF has identified an array of potential options, described below. However, regardless of how other state matching dollars are found and made available, policymakers should integrate the following principles into their approach.

Principles for State Matching Funds:

- **Promote Flexibility** – As described above, the variable funding timelines across the IIJA, IRA, and CHIPS Act, paired with the continuous cycle of new grant opportunities, create challenges when it comes to planning for and securing state matching dollars. As policymakers consider how to operationalize a plan for accessing federal funds, incorporating flexibility should be a priority. Allowing administrative or agency officials

[10] This funding is appropriated in Section 2F of the FY 2024 General Appropriations Act, in line-item 1596-2424.

to access matching resources outside of the typical appropriations process can ensure that Massachusetts does not miss out on federal funding opportunities due to delays in process; while flexibility concerning the length of time that matching resources are available will allow state officials to respond promptly to grant opportunities posted sporadically over the span of multiple years. Transparency can still be achieved through the submission of spending plans or reports to the Legislature, which can be provided prior to a final commitment of state funds.

- **Pair One-Time Revenues with One-Time Expenditures –** A commitment of state funding to meet matching requirements is a one-time expenditure, and therefore well-suited to be supported by one-time revenue sources. State budget-writers foresaw the value of setting aside surplus revenues from FY 2022 in the Transitional Escrow Fund, to be tapped for future needs. Dedicating a portion of these remaining funds for state match requirements to unlock federal funds could maximize their impact.
- **Prioritize Resources Uncommitted to Existing Programs** – As noted above, there is limited capacity within the state's capital spending plan and operating budget to support additional state match requirements. However, certain resources may be tapped without undermining support for the state's annual budget. For example, new income surtax revenues and capital gains tax collections above a certain threshold are either new – and therefore not committed to existing programs – or untied to state budget spending. For a limited amount of time, a portion of these revenues could be set aside to draw down federal funds.
- **Prepare for the Future** – The influx of federal funds through the IIJA, IRA, and CHIPS Act provides the Commonwealth with a unique opportunity to make progress on several key goals: address aging infrastructure, advance climate resiliency efforts, and adapt to an evolving economy. In the past, Massachusetts has leveraged new federal programs and revenue streams to pursue innovative capital finance strategies that have allowed the state to fast-track certain projects and save money over the long term. If the success of these capital programs can be replicated, the Commonwealth may be able to draw down one-time federal funds for critical projects and generate significant future savings for the state.

<u>Operating Resources for State Matching Funds</u>

To meet the remaining match need, MTF has identified approximately $1.1 billion in operating resources that policymakers could utilize while being mindful of the strategies outlined above.

- **Surplus Revenues in the Transitional Escrow Fund** (~$450 million) – In FY 2022, after accounting for taxpayer rebates under Chapter 62F, $2.4 billion in state surplus revenues were deposited into a Transitional Escrow Fund. During the Fall of 2022, a portion of these resources were used to support a second COVID Recovery and Economic Development bill; leaving approximately $1.4 billion remaining in the fund. On July 31st, the Legislature enacted the FY 2024 Conference Budget which relied on a $205 million transfer from the Transitional Escrow Fund and sent a supplemental budget to the Governor's desk which included $200 million in spending supported by escrow resources. The Governor vetoed the use of $205 million in surplus funds to balance the FY 2024 budget. In recognition of the Transitional Escrow Fund spending proposed to date, MTF recommends setting aside up to $450 million from the fund for state match requirements. This would still leave policymakers with nearly $800 million for future supplemental spending needs. However, the fiscal events of the last two years, combined with proposed supplemental budget spending to date, make clear that the balance of the Transitional Escrow Fund could quickly be depleted. While these one-time resources are well suited to the one-time need for matching funds, $450 million likely represents an upper bound of what could be available to leverage federal funds.

- **Income Surtax Revenues above the Spending Cap** (~$250 million) – In FY 2024, the Department of Revenue (DOR) estimates that the state will collect between $1.4 to $1.7 billion in income surtax revenue. As part of the FY 2024 Consensus Revenue Agreement, administrative and legislative budget leaders agreed to a $1 billion spending cap for the FY 2024 budget. The FY 2024 final budget also directs 85 percent of income surtax revenues above the spending cap into an Education and Transportation Innovation and Capital Fund; the balance of which would be available for one-time expenses and capital projects. Based on DOR revenue projections, up to $515 million could be deposited into the Innovation and Capital Fund. Dedicating 50 percent (~$250 million) of these resources towards state matching requirements for transportation or education-related federal programs would meet the expenditure criteria approved by the House and Senate and help to unlock millions more in federal funding.[11]
- **Above Threshold Capital Gains Collections** (~$260 million) – Capital gains tax collections above a certain threshold are annually deposited into the state's Stabilization Fund. This policy ensures that the operating budget does not become overly reliant on a highly volatile source of revenue and it maintains a consistent stream of deposits into the fund. The current balance of the Stabilization Fund is approximately $8 billion, an all-time high that is about $6 billion greater than the 2018 balance of $2 billion. In FY 2024, an additional $525 million deposit of above-threshold capital gains collections is anticipated.

[11] As recently reported, submitted applications for federal funding, including the Allston Multimodal Project, include reference to the use of surtax revenues to support project costs. If the application is approved, the amount of surtax revenue available to meet other state cost share requirements would be diminished.

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Given the historic balance of the Stabilization Fund, policymakers should consider a short-term diversion of above-threshold capital gains collections towards state match requirements for federal funds. Committing 50 percent of the planned FY 2024 deposit to state match requirements would provide an additional $263 million towards the outstanding need.

- **Interest on the Stabilization Fund** (~$90 million) – The state's Stabilization Fund is also bolstered by interest payments earned from the balance of the fund, and in FY 2024 budget writers expect the Stabilization Fund to generate approximately $180 million in interest. This estimate correlates to a 2.5 percent interest rate, which is consistent with the Federal Reserve Bank's long-term expectations.[12] As with the above-threshold capital gains deposit, policymakers could divert a portion of Stabilization Fund interest towards meeting state match requirements. Committing 50 percent of the expected interest could contribute an additional $90 million toward applications for federal funds.

A temporary diversion of planned deposits into the Stabilization Fund towards state match requirements is an appealing option for multiple reasons. First, these revenues are unrelated to state budget spending and using them to leverage federal funds does not jeopardize support for existing programs. Second, the temporary reduction of deposits into the Stabilization Fund could potentially be offset by other revenue sources. For example, a portion of the federal reimbursement received through the Federal Emergency Management Agency (FEMA) for certain costs related to the pandemic or other emergencies could be temporarily deposited into the Stabilization Fund, offsetting any potential losses. Third, reducing planned deposits into the Stabilization Fund maintains the current balance of the fund, ensuring that it remains available for future needs. Temporary diversions of planned deposits would allow the state to pursue unique opportunities for federal funding, while the balance of the fund would remain at an all-time high of approximately $8 billion.

[12] Board of Governors of the Federal Reserve System, Federal Open Market Committee. *March 22, 2023: FOMC Projections materials, accessible version.* Accessed: July 13, 2023. (https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20230322.htm)

Potential Operating Resources for State Matching Funds

Source	*Est. Funds Available*	*State Matching Allocation*	*% of Funds Available*
Transitional Escrow Fund	$1,248	$450	36%
FY 2024 Income Surtax Revenues Above Cap	$515	$257	50%
FY 2024 Above Threshold Capital Gains	$525	$263	50%
FY 2024 Stabilization Fund Interest	$180	$90	50%
Total	**$2,468**	**$1,060**	**43%**

$ in millions

The state matching allocations included in the table above are reasonable estimates of the maximum amount of funding that could be generated from each source; and combined, they could meet the entirety of the outstanding need. However, it is presumed that not all of these resources will be tapped by policymakers to meet state match requirements; necessitating the identification of other financing strategies.

<u>Non-Operating Resources for State Matching Funds</u>

While the options listed above could theoretically meet the total outstanding match need, drawing down federal funds exclusively with operating budget resources is not always realistic nor fiscally advantageous. The opportunities described below are more difficult to quantify, but remain viable options for policymakers.

- **Innovative Capital Finance Strategies –** In the past, new capital finance programs have been put in place to take advantage of new federal funding opportunities or revenue streams. These programs have operated outside of the state's bond cap, allowing for new borrowing that does not jeopardize the state's existing capital investment plan. The Accelerated Bridge Program (ABP), Infrastructure Investment Incentive (I-Cubed) Program, and Clean Energy Investment Program (CEIP) offer policymakers three examples of successful capital programs that may be replicated to access the unique opportunities presented by the IIJA, IRA, and CHIPS Act.
    - *Accelerated Bridge Program* – In 2008, the Legislature passed the Accelerated Bridge Program Act[13] which authorized the issuance of $3 billion of special obligation bonds and federal highway grant anticipation notes (GANs) to finance the repair and replacement of structurally deficient bridges in the Commonwealth. The special obligation bonds were secured by revenues in the Commonwealth

[13] *An Act Financing an Accelerated Structurally-Deficient Bridge Improvement Program.* Chapter 233 of the Acts of 2008. https://malegislature.gov/Laws/SessionLaws/Acts/2008/Chapter233

Transportation Fund and the GANs were backed by anticipated reimbursements from the federal government. Because special obligation bonds and GANs are not backed by General Fund revenues, they were not subject to the same debt affordability policies as General Obligation bonds.[14] Additionally, a portion of the ABP was supported by the federal Build America Bonds (BABs) program. This was a temporary program in 2009 and 2010 through which Massachusetts was able to issue taxable bonds in return for a subsidy from the federal government, up to 45 percent. The subsidies were used to reduce the debt service payments for the ABP and contributed to the program's success in reducing the backlog of structurally deficient bridges in the Commonwealth by over 250 between its inception in 2008 and 2018. Soon after its creation, the ABP was projected to save the state $1.5 billion in avoided inflation and deferred maintenance costs.[15]

- *I-Cubed Program* – The I-Cubed program was created in 2006 to encourage economic development and job growth in Massachusetts through the support of large-scale private development projects with significant public infrastructure requirements. The program utilizes a unique financing model, through which the Commonwealth secures the bonds that are issued to finance a project, but the debt service costs are covered by new state tax revenues generated by the project. The debt service payments are governed by cost sharing agreements between the state, the municipality where the project is located, and the private developer. Because the new state tax revenues generated from the private economic development projects cover the costs of debt service on public infrastructure improvements, the I-Cubed program is not subject to the state's administrative bond cap. Currently, the Massachusetts Development Finance Agency (MassDevelopment) is authorized to issue up to $600 million in tax-exempt bonds for eligible economic development projects. Since its creation, the I-Cubed program has supported projects associated with Assembly Row in Somerville, Chestnut Hill Square in Newton, and the Boston Landing Project in Boston.
- *CEIP Program* – In 2010, Massachusetts established the Clean Energy Investment Program (CEIP); a capital program designed to fund clean energy projects through the state's Capital Investment Plan. The debt service on the bonds used to fund

[14] The state's Next Generation Bridge Financing Program is also supported by the issuance of federal GANS. While GANS are not general obligations, and therefore are not subject to the same debt affordability constraints as General Obligation bonds, state borrowing against future federal reimbursements is limited by projected federal aid appropriations and reimbursements.
[15] Dayal, Priyanka. "Bridge Repairs to Add Jobs." *Telegram & Gazette.* 12 February 2009. https://www.telegram.com/story/news/local/east-valley/2009/02/13/bridge-repairs-to-add-jobs/52098081007/

CEIP projects are repaid using the energy savings generated by the projects, so the spending is not subject to the administrative bond cap. The CEIP program is a successful model to promote clean energy retrofits and energy savings in state facilities.

The creation of new capital finance programs to access federal funds may interest policymakers for several reasons. First, many of the federal programs in the IIJA, IRA, and CHIPS Act are designed to support large-scale infrastructure projects. Even if the Commonwealth qualifies for federal funding, the state's share will still be substantial. Issuing bonds to help cover the costs of these projects allows the state to spread out the expenses over many years, ensuring that they do not put pressure on the state's operating budget and remain affordable. Additionally, issuing bonds to pay for project costs can help the state manage its cashflow as it coordinates anticipated federal reimbursements and awards.

To ensure that new capital programs do not jeopardize the state's fiscal health, there are several elements of the ABP and I-Cubed programs that could be adopted, including:

- *Program Dollar Cap* – The total budget for a new capital program can be statutorily capped, ensuring that no additional dollars can be spent without agreement by the administration and Legislature.
- *Establish an Advisory Council* – A council of advisors can be established to oversee the program, inform program controls or guidelines, and track progress.
- *Reporting Requirements* – The Executive Office for Administration and Finance, in consultation with the State Treasurer, Commissioner of Revenue, and other stakeholders, could report regularly to the Legislature on the impact of the program on the Commonwealth's fiscal health, debt structure, and cost savings.

In addition to direct state appropriations and capital authorizations, policymakers could also work collaboratively with local municipalities to meet the cost share requirements for federal programs that are mutually beneficial.

- **Municipal Fiscal Recovery Funds** – The American Rescue Plan Act (APRA) created the Coronavirus Local Fiscal Recovery Fund (CLFRF), delivering $3.4 billion to municipalities and counties across the state. Like the fiscal recovery funds (FRFs) received directly by the state, local recovery funds are subject to four categories of eligible uses:

1. To respond to the public health emergency;
2. To provide premium pay to essential workers;

3. To provide government service to the extent that a municipality has experienced a reduction in revenue related to the pandemic ('revenue replacement'); and
4. To invest in water, sewer, or broadband infrastructure.

Based on the most recent quarterly report issued by the U.S. Treasury in April of 2023[16], approximately $1.7 billion in local fiscal recovery funds remain unobligated in Massachusetts, and $2.3 billion remain unspent[17]. Local FRFs available under the revenue replacement category may be used to satisfy non-federal cost share requirements for other federal programs.[18] Assessing the availability of local FRF dollars to meet cost share requirements for federal programs that are open to the state and local government entities could generate a sizeable portion of matching resources. Close collaboration with municipal partners would be necessary to quantify this potential opportunity.

Conclusion

Through the IIJA, IRA, and CHIPS Act, Massachusetts has an opportunity to access as much as $17 billion in federal funds over the course of the next five to ten years. These new resources will help the state make transformative progress on several major priorities related to transportation infrastructure, climate resiliency, and economic development.

To ensure that the Commonwealth receives its fair share of funding from these three bills, it must identify at least $2.7 billion in matching resources to meet the cost share requirements for federal programs. Already, the state has signaled its commitment to identifying these resources through capital authorizations and direct appropriations, but an $800 million match need remains.

The diverse array of federal programs and the continuous cycle of grant application deadlines emphasize the need for the Commonwealth to quickly and thoughtfully develop a plan for securing the remaining match requirements. As evidenced by the options identified in this brief, a combination of capital and operating resources will be required to meet state cost share requirements and unlock federal funds.

[16] U.S. Department of the Treasury. *Recipient Compliance and Reporting Responsibilities.* Treasury.gov. Retrieved July 20, 2023, from 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
[17] Coronavirus State and Local Fiscal Recovery Fund awards must be obligated by December 31, 2024, and expended by December 31, 2026. https://www.govinfo.gov/content/pkg/FR-2022-01-27/pdf/2022-00292.pdf
[18] U.S. Department of the Treasury. *Coronavirus State and Local Fiscal Recovery Funds, Final Rule: Frequently Asked Questions.* Treasury.gov. Retrieved July 20, 2023. SLFRF Final Rule FAQ (treasury.gov)

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The operating budget resources identified by MTF are well suited to meet match requirements because they are either one-time in nature or untied to the state's annual operating budget. If a portion of these resources were set aside for federal match requirements, it would not undermine support for existing programs or services. Similarly, the capital finance strategies highlighted in this report can operate in addition to the state's regular Capital Investment Plan, ensuring that the pursuit of federal funds does not crowd out other long-standing priorities. Lastly, MTF encourages policymakers to consider collaborating with local municipalities on federal programs that are mutually beneficial.

Given the various revenue streams that may be utilized to tap into federal funds, policymakers should also establish a process to set aside and spend these resources that is clear, transparent, and responsive to the fast-moving federal government. One option policymakers may consider is the creation of a new trust fund to collect both direct appropriations and the proceeds from bond sales related to meeting state match requirements. In creating the trust fund, certain oversight measures can be put in place, including a requirement that the fund expires when the federal funding opportunities conclude; and any remaining balance of the fund could be deposited into the state's General Fund or Stabilization Fund.

As policymakers consider future action to access and draw down federal funds, the recommendations included in this report serve as a sample of funding sources and strategies that are available to ensure Massachusetts does not miss out on this unprecedented opportunity.