US Treasury case studies

State and Local Fiscal Recovery Funds: Obligation Interim Final Rule (IFR)

In January 2022, the US Treasury unveiled a final rule to streamline the implementation of the State and Local Fiscal Recovery Funds (SLFRF) program pursuant to the American Rescue Plan Act (ARPA) and address public feedback. This rule stipulates that recipients must fully obligate their SLFRF funds by December 31, 2024. However, the obligation requirement lacked detailed information, prompting numerous recipients to seek further clarification. Responding to this need, the Treasury introduced the Obligation Interim Final Rule (IFR) in November 2023, aiming to provide recipients with a clearer understanding of the "obligation" concept within the SLFRF program under ARPA.

As part of the US Treasury's **November 2023 webinar**, the case studies below were issued to illustrate how the requirements under the Obligation IFR should be applied.

CASE STUDY #1: REPORTING/COMPLIANCE PERSONNEL

Case example: A recipient has hired additional finance, contracting and reporting staff whose payroll is funded with SLFRF funds to manage the compliance of SLFRF-funded projects. The recipient's established internal policies and procedures obligate personnel costs when the work is performed.

Question: Can the recipient incur these costs between January 1, 2025, and December 31, 2026?

Response: Yes. The Obligation IFR amends the definition of obligation to include requirements under federal law or regulation or a provision of the SLFRF award terms and conditions. This includes the cost of meeting reporting and compliance requirements. To use SLFRF funds for these costs, recipients must estimate these costs and report them to Treasury by April 30, 2024.

CASE STUDY #2: DEFINITION OF OBLIGATION

Background: In 2022, a recipient's legislative body approved the proposed appropriation of all of the recipient's SLFRF award funds.

Question: Does this appropriation meet Treasury's revised definition of obligation?

Response: No, the appropriation does not provide a standard that could be applied consistently across recipients.

CASE STUDY #3: PROGRAM PERSONNEL

Background: A recipient is using SLFRF funds to provide mental health services to residents impacted by the pandemic. The recipient has hired eight full-time employees funded by SLFRF to implement the program, including social workers to deliver mental health services and case management. The recipient's established internal policies and procedures obligate personnel costs when the work is performed.

Question: Can this recipient incur these personnel costs between January 1, 2025 and December 31, 2026?

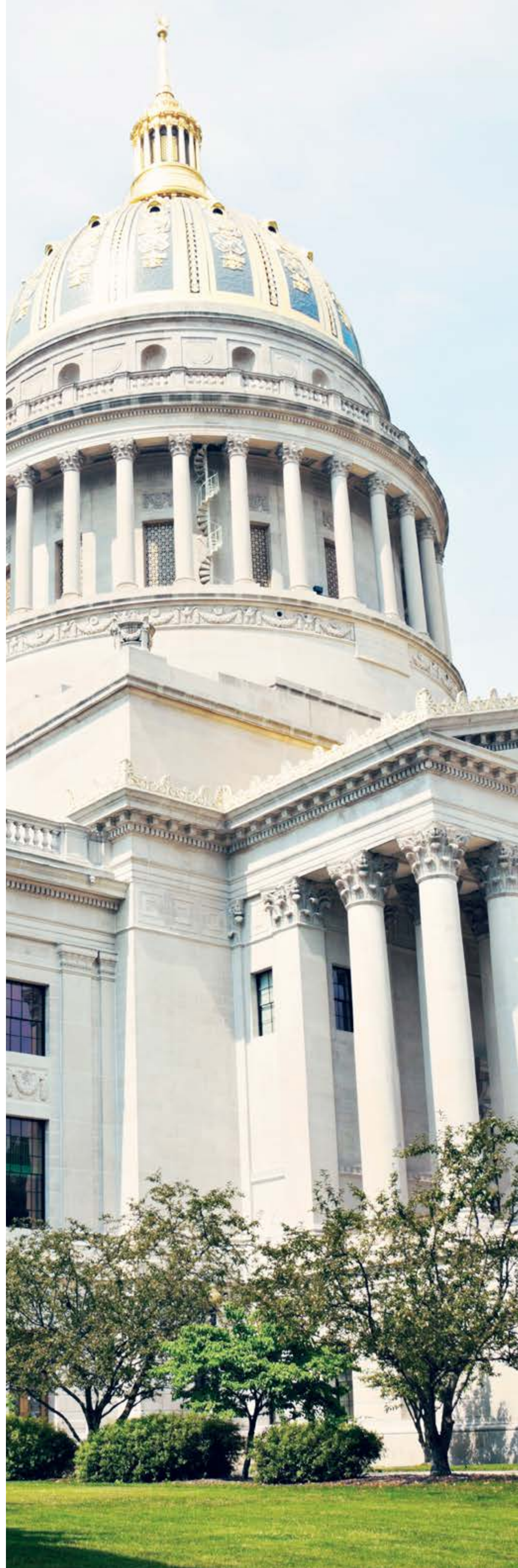
Response: If a recipient's established practices and policies obligate personnel costs when the work is performed, the recipient should follow the established practice for SLFRF personnel costs. In this example, the recipient's own internal policies and procedures would not allow the recipient to obligate personnel costs beyond 2024.

CASE STUDY #4: SUBRECIPIENTS

Background: A recipient has awarded a contract to a subrecipient to provide services for unhoused persons. The contract was executed in 2023 and ends on December 31, 2026.

Question: Does the subrecipient need to take any additional actions to meet the obligation deadline after executing the contract with the recipient?

Response: No – the subrecipient does not need to take any additional actions to obligate funds.



CASE STUDY #5: CONTRACTOR ISSUE

Background: A recipient has awarded a contract for a capital expenditure. In March 2025, the contractor ceases business unexpectedly. The project is only 50% completed. The recipient wants to enter into a new contract with a different contractor to complete the project.

Question: Can the recipient enter into a new contract after the obligation deadline with a new contractor to complete this project?

Response: Treasury is clarifying that after December 31, 2024, recipients are permitted to replace a contract or subaward entered into prior to December 31, 2024, under specific circumstances, which include contractor default or the contractor or subrecipient goes out of business.

CASE STUDY #6: OBLIGATION AFTER DECEMBER 31, 2024

Background: A recipient has obligated all of its SLFRF funds by December 31, 2024. In the recipient's Single Audit in June 2025, the auditor identifies issues with a project. To ensure SLFRF funds are spent in compliance with all requirements, the recipient removes the project from its pool of SLFRF funds. The recipient has identified a new use of funds that can be expended by December 31, 2026; however, the recipient is not certain that the funds can be moved to the new project.

Question: How can the recipient re-obligate funds?

Response: Recipients cannot re-obligate funds to a new project after 2024 that does not meet the obligation deadline, such as a new project that does not yet have an order placed for property and services or entered into a contract, subawards, and similar transaction that requires payment.