



THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

September 24, 2021

Dear ERA Recipient:

The COVID-19 pandemic resulted in job losses, reductions in hours, and small business closures that left millions of families without the income needed to cover their rent and stay in their homes. Too many tenants have lived with the fear of eviction. Many landlords, especially those who own just a small number of units, have struggled with loss of income from tenants who have been unable to pay their rent.

In December 2020, Congress passed the Emergency Rental Assistance Program under the Consolidated Appropriations Act, 2021 (ERA1) to respond to the pandemic by helping low-income renters cover rent and utility costs. Congress recognized that keeping families in their homes helps protect their health and limits the economic scarring caused by evictions. Preventing evictions during this pandemic is critical to tenants and landlords and is an essential part of protecting public health and our economy.

Congress anticipated that there would be a need to reallocate ERA1 funds in the fall of 2021 in order to address evolving needs for rental assistance over the course of the ERA program and to reflect the greater capacity of some recipients to deploy funding. The statute directs the Treasury Department to begin reallocating “excess” ERA1 funds on September 30, 2021 and empowers Treasury to develop reallocation procedures governing this process.

I am writing to provide insight into how Treasury intends to approach the reallocation process and outline our vision for the months to come. Our overarching goal is for ERA grantees to deliver as much assistance to as many eligible renters as possible. This requires us to direct these resources to state and local agencies demonstrating the greatest capacity for delivering funds to tenants and landlords and to places experiencing the highest needs. We anticipate implementing the reallocation process over a period of time, with escalating consequences if a state or locality fails to demonstrate progress in using its ERA1 funds or implementing the flexibilities Treasury has made available.

Treasury anticipates releasing detailed reallocation guidance in the coming days. In advance of that release, I would like to share the anticipated framework for our approach.

- **Make additional funds available to high-performing grantees based on demonstrated need:** Numerous state and local grantees will exhaust their ERA1 funds in the coming weeks and months, and some will also exhaust their allocation from the second round of the ERA program (ERA2). Treasury will act rapidly this year to ensure that additional ERA1 funding is available to those grantees that may be eligible to receive reallocated funds. Consistent with the ERA1 statute, a grantee may be eligible to receive reallocated funds if it has obligated at least 65% of its total ERA1 allocation and demonstrates a need for additional funds. Treasury will reallocate funds over time, in tranches, as recaptured funds become available. In our guidance, Treasury will explain the process for accepting requests from grantees for reallocated funds.
- **Identify “excess funds” for reallocation through a fair approach based on transparent benchmarks:** To identify excess funds which can be reallocated, Treasury plans to use the grantee’s expenditure ratio.¹ Grantees have been regularly reporting their expenditure data to Treasury, so

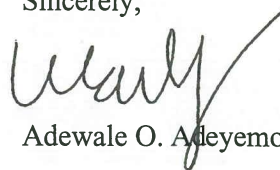
¹ The expenditure ratio will be calculated as the grantee’s total expenditures on assistance to eligible households from January through September 2021 (based on interim reports for the first quarter of 2021 and monthly reports submitted thereafter), divided by an amount equal to 90 percent of the grantee’s ERA1 allocation. This reflects the

expenditures are the most reliable and consistent source of data and will avoid creating a new reporting burden on grantees. Treasury will announce a clear minimum expenditure ratio, based on expenditures through September 30, below which a grantee will be deemed to have excess funds available for reallocation. This minimum expenditure ratio will increase over time to incentivize ongoing progress. For grantees below the minimum ratio, the amount potentially subject to reallocation will be the difference between the grantee's actual expenditures and the minimum expenditure ratio. As a result, the closer a grantee is to the minimum ratio, the lower the amount of recaptured funds will be.

- **Provide grantees with advance notice and a fair process:** Even if a grantee is deemed to have excess funds and is potentially subject to reallocation, the grantee will be given an opportunity to present mitigating circumstances (e.g., a high rate of funds obligated to tenants, even if not yet expended) in order to reduce the amount of funds recaptured. Further, Treasury will not recapture any ERA1 funds that the grantee has already obligated.
- **Strive to keep reallocated funds within the same state:** When reallocating ERA1 funds, Treasury will seek to keep the funding within the same state to the greatest extent possible, consistent with demonstrated need and program capacity. For example, Treasury will prioritize reallocation from localities to their state or to other localities within the state (e.g., city to county), or from a state to localities within it.
- **Implement reallocation gradually over a period of months:** The first determination of expenditure ratios will occur after grantees report September expenditure data on October 15. Additional determinations of expenditure ratios will occur periodically thereafter, and the minimum expenditure ratio will increase over time. The final determination and reallocation are expected to occur in the Spring of 2022.
- **Collaborate with grantees on voluntary reallocations:** Treasury will collaborate with grantees that request voluntary reallocations of their ERA1 allocations, to the extent such arrangements are consistent with the terms and conditions of ERA1. This could include, for example, reallocating funding from a state to a local government in that state or vice versa, consistent with a mutual understanding between the grantees. Treasury will begin to act on requests for voluntary reallocations immediately.
- **Consult with Tribes and territories:** Treasury will consult with Indian Tribes and U.S. territories before implementing any reallocation of their ERA1 funds.

Though we have a long way to go, the Emergency Rental Assistance Program and other steps being taken are on track to protect millions of households from eviction. Reallocation as required by the statute is an important step to ensure that resources are available in areas with the greatest needs and the highest capacity to deliver these resources. Regardless of reallocation, Treasury will continue to support all grantees in building successful ERA programs and getting funds to renters in need.

Sincerely,



Adewale O. Adeyemo

ERA1 statute's requirement that at least 90% of a grantee's allocation must be spent on assistance to eligible households.