



Legislation Details (With Text)

File #: 21-0208 **Version:** 1

Type: Gen. Bus. - Staff Report **Status:** Agenda Ready

In control: City Council Regular Meeting

On agenda: 8/3/2021 **Final action:**

Title: Acceptance of American Rescue Plan Act (ARPA) Funds (Finance Director Charelian).
DISCUSS AND PROVIDE DIRECTION

Sponsors:

Indexes:

Code sections:

Attachments: 1. Compliance and Reporting Guidance - Department of Treasury

Date	Ver.	Action By	Action	Result
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TO:
Honorable Mayor and Members of the City Council

THROUGH:
Bruce Moe, City Manager

FROM:
Steve S. Charelian, Finance Director
Julie Bondarchuk, Financial Controller
Libby Bretthauer, Financial Services Manager

SUBJECT:
Acceptance of American Rescue Plan Act (ARPA) Funds (Finance Director Charelian).
DISCUSS AND PROVIDE DIRECTION

RECOMMENDATION:

The Finance Subcommittee and staff recommend that the City Council accept \$8,416,521 of American Rescue Plan Act (ARPA) funds under the “revenue loss” category and apply the funds to government services, with the first half applied to the period of March 3, 2021 through June 30, 2021. The second half of the distribution will be applied to fiscal year 2021-2022.

FISCAL IMPLICATIONS:

The City’s allocation of American Rescue Plan Act (ARPA) funds is \$8,416,521. The first half (\$4,208,261) was received in July 2021, and the second half is expected in July 2022.

When the fiscal year 2021-2022 Budget was adopted in June, the General Fund Financial Policy reserve (20% of operating expenditures) was projected to total \$15.5 million at the end of the fiscal year. The City Council has also set aside \$4.0 million as an “Economic Uncertainty” reserve. In addition to these designated reserves, the General Fund’s unreserved fund balance is estimated to

be \$3.5 million at the end of fiscal year 2021-2022.

If the recommendation is approved, the ARPA funds received totaling \$4.2 million will be allocated to the “revenue loss” category and applied to government services in fiscal year (FY) 2020-2021, resulting in the unreserved fund balance increasing to approximately \$7.7 million. Together, these designated and undesignated funds are projected to total \$27.2 million. These funds can be used to fund operations, infrastructure or projects.

BACKGROUND:

Signed into law on March 11, 2021, the American Rescue Plan Act provided \$350 billion in emergency funding for eligible state, local, territorial, and Tribal governments to mitigate the fiscal effects of the COVID-19 pandemic. Funds allocated to California include \$26 billion to the State, \$7.7 billion to counties, \$7.0 billion to metropolitan cities, and \$1.2 billion to small cities with populations under 50,000. Funding allocations are based on each city or town’s population based on 2019 U.S. Census data.

Although the states, counties, and metropolitan cities receive their funds directly from the U.S. Treasury, as a smaller city, Manhattan Beach will receive its allocation of \$8,416,521 through the California Department of Finance. Regardless of receiving the funds directly or indirectly, all jurisdictions are responsible for adhering to the U.S. Treasury’s requirements for expending and reporting on their use of funds.

The U.S. Treasury issued an Interim Final Rule with guidance on the funding allocation methodology, distribution process, and reporting requirements as well as Frequently Asked Questions to assist jurisdictions in interpreting the policy language. The Final Rule that will govern the program is expected around the end of August 2021.

ARPA funds must be obligated by the City Council by December 31, 2024, and expended by December 31, 2026. The City is required to submit annual project and expenditure reports to the Treasury beginning October 31, 2021.

Staff met with Finance Subcommittee on July 16, 2021, to discuss the ARPA funds and recommendations to City Council.

DISCUSSION:

The American Rescue Plan Act established the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program. This program is intended to provide support to state, territorial, local, and tribal governments in responding to the economic and public health impacts of COVID-19 and assist efforts to mitigate impacts on communities, residents, and businesses.

Staff attended multiple webinars and conference calls hosted by the National League of Cities (NLC), League of California Cities (LCC), Government Finance Officers Association (GFOA), and California Society of Municipal Finance Officers (CSMFO) to understand the evolving guidance and provisions of the ARPA program. The Interim Final Rule, published by the U. S. Department of Treasury on May 17, 2021, established guidance on the uses and prohibited uses of the funds.

Prohibited uses clearly outlined in Interim Final Rule include:

- Deposits to reserves or “rainy day” funds

- Deposits to pension funds for unfunded liabilities (current service costs may be eligible)
- Debt service payments
- Offset to tax cuts caused by a change in local law.

Outside of these restrictions, the City has substantial discretion to use the funds in ways that best suit the needs of the community - as long as the use fits into one of the following four statutory categories:

- 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 (“revenue loss”) 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.

Within the allowable categories, Category C for the replacement of lost revenues provides the most flexibility in the use of funds and ease of administration.

In the Treasury guidance, any reduction in actual revenue calculated is presumed to have been due to the COVID-19 public health emergency. This presumption is made for administrative ease and in recognition of the broad-based economic damage that the pandemic has wrought.

The Treasury guidance also gives broad latitude to use revenue loss funds for the provision of government services. While calculation of lost revenue begins with the City’s revenue in the last full fiscal year prior to the COVID-19 public health emergency (FY 2018-2019) and includes the 12-month period ending December 31, 2020, use of funds for government services must be forward looking for costs incurred after March 3, 2021.

Using the revenue loss calculators provided by the CSMFO and GFOA, staff verified the City’s entire allocation of \$8.4 million can be justified under revenue loss, and can then be applied to government services after March 3, 2021.

The Treasury guidance acknowledges that “government services” is broadly defined and can include, but are not limited to:

- The provision of police, fire and other public safety services;
- Maintenance or pay-go funded building of infrastructure;
- Modernization of cybersecurity, including hardware, software, and protection of critical infrastructure;
- Environmental remediation;
- Health services; and
- School or educational services.

The prohibited uses still apply to funds justified as revenue loss.

With the flexibility provided by Category C for revenue loss, the City would be replacing revenue lost during the COVID-19 pandemic and resulting economic downturn and spending it on government services. If the City Council obligates funds for government services currently budgeted, then a surplus of funds would be generated that could be used for other projects and initiatives.

The projects below were selected for consideration in order to relieve the funds that were most affected by the pandemic, which were the General Fund, CIP Fund, Fleet Fund, and IT Fund. The largest project is Fire Station No. 2 construction. With every \$1.0 million put towards construction costs, the City's potential savings is \$50,000 per year of debt service. Over the 30-year amortization period, the overall savings would be approximately \$500,000 for every \$1.0 million paid in cash. Due to the timing of debt issuance for Fire Station No. 2, any funding towards the project should be considered during tonight's meeting. The other projects can be discussed tonight or at a future date.

<u>Projects</u>	<u>Estimated Cost</u>	<u>Funding</u>
Fire Station No. 2 Construction	\$9,700,000	Debt Issuance
Polliwog Playground Resurfacing & Equipment Replacement	\$1,600,000	CIP Fund
Fire Engine	\$984,164	Fleet Fund
Cybersecurity Initiatives	\$500,000	Not Funded

Based on the revenue loss calculations, the General Fund was mostly impacted due to the reduction of transit occupancy tax (TOT); sales tax; business license tax; service charges for parks and recreation, building and planning; and miscellaneous revenues.

The CIP Fund was also significantly impacted by the reduction in TOT and parking meter revenue. After accounting for all funded projects, the CIP fund balance is anticipated to drop to \$949,000 in FY 2021-2022. During the last budget cycle, funding for facility maintenance was reduced by \$750,000 in the outer years to balance the CIP Fund.

In the FY 2020-2021 budget, the City also postponed fleet replacements and department charges to the Fleet Fund for a total savings to the General Fund estimated at \$2.2 million. Although postponing these charges helped relieve the General Fund temporarily, the Fleet Fund will eventually need to be replenished to fund vehicle replacement and fleet operations. The Fleet Fund balance is forecasted to drop to \$1.3 million at the end of fiscal year 2021-2022, down from \$4.1 million in FY 2019-2020.

Additionally, internal service fund changes to the IT Fund were reduced by \$400,000 in the FY 2020-2021 budget.

In regards to community priorities, the below charts list the results of the Citywide Budget Survey launched on February 3, 2021, for possible future projects. The results were based on over 750 responses. The following projects, with the exception of Fire Station No. 2 construction, can be discussed at a future date.

<u>Rank</u>	<u>Possible Future Projects</u>
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- | | |
|---|---|
| 1 | Begg Pool |
| 2 | Joslyn Community Center |
| 3 | Fire Station No. 2 |
| 4 | Manhattan Heights Community Center |
| 5 | Civic Center |
| 6 | Sand Dune Park Building and Playground Improvements |
| 7 | Manhattan Beach Historical Red House at Polliwog Park and Historical Documents Repository |

Given the broad latitude to use the funds for government services, the City maintains the most flexibility by justifying the entire allocation under Category C (revenue loss). The City will be required to submit a description of services provided in the required annual reports. For example, if the City spends \$100 in revenue replacement funds, it would indicate that \$50 was used for law enforcement operating expenses and \$50 was used for pay-go (financing over time) construction of the Fire Station. As discussed in the Interim Final Rule, the governmental services can include a broad range of services but may not be used directly for pension deposits or debt service.

The guidelines for the ARPA funds are expected to be finalized by the end of August 2021. The information received from professional organizations in communication with the Treasury is that agencies can use all the provisions in the Interim Final Rule to make decisions. Any revisions to these guidelines are expected to clarify provisions in the rule or to provide more flexibility to the program.

CONCLUSION:

After analyzing the rules and provisions of the ARPA guidelines, the Finance Subcommittee and staff recommends the City Council take in the entire ARPA allocation as Category C (revenue loss) and apply the funding towards government services for the most flexibility. Category C allows the City to replace revenue lost during the COVID-19 pandemic and resulting economic downturn and then spend it on government services. If the City Council obligates funds for government services currently budgeted, then a surplus of funds would be generated that could be used for other projects and initiatives.

Since the guidance allows for revenue loss funds to be applied to government services after March 3, 2021, Finance Subcommittee and staff further recommend that the first distribution of \$4.2 million ARPA funds be allocated towards revenue loss and then government services for the period March 3, 2021, through June 30, 2021.

ENVIRONMENTAL REVIEW:

The subject request is not a "project" as defined under Section 15378 of the State California Environmental Quality Act (CEQA) Guidelines; therefore, pursuant to Section 15060(c)(3) of the State

CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW:

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

ATTACHMENT:

1. Compliance and Reporting Guidance - Department of Treasury