



DISCUSSION ITEM

Agenda Item # 4

AGENDA REPORT SUMMARY

Meeting Date: September 21, 2021
Subject: American Rescue Plan Act Allocation
Prepared by: Jon Maginot, Deputy City Manager
Approved by: Gabriel Engeland, City Manager
Attachment(s): None

Initiated by:
Staff

Previous Council Consideration:
None

Fiscal Impact:
The City of Los Altos received a funding allocation of \$7,197,928 in American Rescue Plan Act dollars. The first payment equal to one half of the City of Los Altos' allocation in the amount of \$3,598,964 was received by the City in mid-July 2021 and a second payment of \$3,598,964 will be received in July 2022. Upon receipt, these funds are placed in the City's General Fund as lost revenue replacement.

Environmental Review:
Not applicable

Policy Question(s) for Council Consideration:

- Does the Council wish to apply funds received as part of the American Rescue Plan Act as lost revenue replacement?
- Does the Council wish to use American Rescue Plan Act funds transferred into the General Fund for other purposes?

Summary:

- The City will receive approximately \$7.2 million dollars in two payments as part of the American Rescue Plan Act (ARPA)
- Dollars received under the ARPA may be used to replace revenue lost due to the COVID-19 pandemic
- These funds must be spent or obligated by December 31, 2024

Reviewed By:		
City Manager	City Attorney	Finance Director
<u>BK</u>	<u>JH</u>	<u>JM</u>



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Staff Recommendation:

Accept the deposit of the entirety of American Rescue Plan Act dollars into the City's General Fund as lost revenue replacement and provide direction on if any alternative uses should be considered using General Fund dollars



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Purpose

For the Council to accept non-entitlement funding as allocated in the American Rescue Plan Act

Background

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. Section 9901 of the ARPA amended Title VI of the Social Security Act to add Section 603. This establishes the Coronavirus State & Local Fiscal Recovery Fund (SLFRF) for local governments (cities and towns) across the U.S. to receive a funding allocation. In California, both large cities – entitlement cities (populations over 50,000) and small cities and towns – non-entitlement units of local government (populations under 50,000, which includes the City of Los Altos) have received ARPA funding allocations. In total, small cities (non-entitlement cities including Los Altos) in California have been allocated over \$1.2 billion.

Fiscal Recovery Funds through the SLFRF are intended to provide support to state, local, and tribal governments in responding to the impact of COVID-19 and in their efforts to contain the negative impacts of the COVID-19 Pandemic on their communities, residents, and businesses. The Fiscal Recovery Funds build on and expand the support provided to governments over the last year, including through the Coronavirus Relief Fund (CRF).

Discussion/Analysis

The City of Los Altos received a funding allocation of \$7,197,928 in Fiscal Recovery Funds based on the report issued by the U.S. Department of the Treasury. The first payment equal to one half of the City of Los Altos' allocation in the amount of \$3,598,964 was received by the City in mid-July 2021. ARPA requires that payments from the Fiscal Recovery Funds be used only to cover costs and expenditures incurred by a local government by December 31, 2024. ARPA recipients must return any funds not obligated by December 31, 2024 and any funds not expended to cover these obligations by December 31, 2026.

Use of Funds

One of the eligible uses of ARPA funds is the replacement of local government revenue lost due to COVID-19. This helps ensure that governments can continue to provide needed services and avoid cuts or layoffs. The City's reduction in revenue is measured relative to the revenue collected in the most recent full fiscal year prior to the emergency (i.e., FY2018-19). The extent of a reduction in the City's general revenue during the COVID-19 pandemic is calculated by a formula provided by the Department of the Treasury.

Additionally, general fund revenue loss is an expenditure category that gives the City broad latitude to use funds to provide government services with few restrictions. Depositing ARPA funds in the City's General Fund provides maximum flexibility on how the City ultimately uses funds to meet the needs



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of its residents and local businesses and without additional reporting requirements to the Department of the Treasury.

To calculate the loss of revenue, the City computed the extent of the reduction in revenues using the Department of Treasury calculation to compare actual revenue to a “counterfactual trend” (i.e., Counterfactual Revenue). This counterfactual trend represents the amount of general revenues the City could have been expected to generate in the absence of the pandemic. The counterfactual trend starts with the last full fiscal year prior to the COVID-19 public health emergency (FY 2018-19) and then assumes growth at a constant rate in the subsequent years. For purposes of measuring revenue growth in the counterfactual trend, ARPA recipients may use a growth adjustment of either 4.1 percent per year or the recipient’s average annual revenue growth over the three full fiscal years (FY 2016-17, FY 2017-18 and FY 2018-19) prior to the COVID-19 public health emergency, whichever is higher.

Following the four-step process to determine the reduction of general fund revenues outlined in the Interim Final Rule, it was initially determined the City’s average annual growth rate in the three years prior to the COVID-19 pandemic was 6.36%, which is greater than the minimum base growth rate of 4.1% allowed in the Interim Final Rule.

The four-step process to determine the extent of a city’s reduction in revenue includes:

- Step 1: Identify general revenues collected in the most recent full fiscal year prior to the pandemic, called the Base Year Revenue (i.e., FY 2018-19)
- Step 2: Estimate “Counterfactual Revenue”
- Step 3: Identify Actual Revenue
- Step 4: The extent of the Reduction in Revenue is equal to Counterfactual Revenue less Actual Revenue.

The formula provided by the Department of the Treasury for calculating a reduction in a recipient’s general revenue equals:

$$\text{Max } \{ [\text{Base Year Revenue} * (1 + \text{Growth Adjustment})^{\left(\frac{n_t}{12}\right)}] - \text{Actual General Revenue}_t; 0 \}$$

Where:

- *Base Year Revenue* is the recipient’s general revenue for the most recent full fiscal year prior to the COVID–19 public health emergency
- *Growth Adjustment* is equal to the greater of 4.1 percent (or 0.041) and the recipient’s average annual revenue growth over the three full fiscal years prior to the COVID–19 public health emergency (6.36%, or 6.36% represents the City of Los Altos’ average annual revenue growth)
- *n* equals the number of months elapsed from the end of the base year to the calculation date
- *Actual General Revenue* is a recipient’s actual general revenue collected during 12-month period ending on each calculation date



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Table 1 – City of Los Altos Reduction in Revenue

Growth Rate	0.0636				
As of:	06/30/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
n (months elapsed)		18	30	42	54
Base year revenue	43,587,573				
Counterfactual revenue		47,745,827	50,782,462	54,012,227	57,447,404
Actual Revenue (last 12 months)		41,999,996	*44,671,196	*47,512,284	*50,534,065
Extent of Reduction in Revenue		5,745,831	*6,111,266	*6,499,943	*6,913,339

**Estimates of Actual Revenue and Reduction in Revenue for the periods ending December 31, 2021 through December 31, 2023.*

With the City of Los Altos’ average annual growth rate at 6.36%, the Counterfactual Revenue (the amount of general revenues the City could have been expected to generate in the absence of the pandemic) ranges from \$47,745,827 for the period ending December 31, 2020 to \$57,447,404 for the period ending December 31, 2023. Actual general fund revenues for the period ending December 31, 2020 were \$41,999,996. This means that the City of Los Altos experienced a \$5,745,831 shortfall in general revenues for the period ending December 31, 2020 due to the COVID–19 public health emergency. This total amount, or any portion thereof, is an eligible expense under ARPA funding rules.

Revenue reductions in subsequent years (December 31, 2021; December 31, 2022; and December 31, 2023) are also eligible expenses under ARPA funding guidelines from a reduction in city general revenue experienced due to the COVID–19 public health emergency. As outlined in Table 1 above, these revenue reductions are currently estimated as:

- \$6,111,266 for the period ending December 31, 2021
- \$6,499,943 for the period ending December 31, 2022
- \$6,913,339 for the period ending December 31, 2023

These estimates are based on the allowable “counterfactual revenue” derived from the Department of the Treasury formula (i.e., the amount of general revenues the City could have been expected to generate in the absence of the COVID-19 public health emergency) and actual revenue estimates of general revenue for the city for the corresponding time periods.



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As the extent of the City's actual and estimated loss in revenue exceeds the amount the City has and will receive, it is recommended that the entirety of the City's ARPA disbursement be transferred to the City's General Fund to ensure the City can continue to provide needed services to the community and to allow the City the most flexibility in using the funds.

The City could use the ARPA funds or a portion thereof for a variety of other purposes; however, all of these uses could be provided for using General Fund dollars. Doing so will reduce the reporting requirements associated with ARPA funds.

Ineligible uses of ARPA

The ARPA specifically prohibits the use of Fiscal Recovery Funds for deposit into any pension fund or any financial reserves or similar funds. Other ineligible uses include payment of interest or principal on outstanding debt instruments.

Alternatives

Potential uses of ARPA funds could include:

- 1) Small Business Emergency Relief Grants
- 2) Assistance to local restaurants to enhance outdoor dining facilities
- 3) Matching funds community gift card program – launch a community gift card program and offer BOGO cards as a promotion (e.g., buy a \$50 card and receive a bonus \$50 card). The Yiftee gift card platform is currently being used in local Northern California communities such as Fremont, Cupertino, Pleasanton, Livermore, Concord, Benicia, Selma, and Newark
- 4) Job training or job placement (restaurants especially are challenged in finding employees to hire)
- 5) Sewer system upgrades and retrofits
- 6) Upgrades of city owned properties to ensure COVID-19 compliance from a health and safety perspective
- 7) Technology upgrades for the city that can help with remote meetings and on-line services

Recommendation

The staff recommends Council accept the deposit of funds into the City's General Fund of the entirety of American Rescue Plan Act dollars as replacement revenue for revenue lost due to the COVID-19 pandemic. Further, staff recommends the Council provide direction on if any alternatives should be considered using General Fund dollars. If so, staff will return with recommendations on eligible programs.