



DISCUSSION ITEM

Agenda Item # 11

AGENDA REPORT SUMMARY

Meeting Date: November 30, 2021

Subject: American Rescue Plan Act Expenditures

Prepared by: Jon Maginot, Deputy City Manager

Approved by: Gabriel Engeland, City Manager

Attachment(s): None

Initiated by:
City Council

Previous Council Consideration:
September 21, 2021

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 of the first payment, these funds were placed in the City's General Fund as lost revenue replacement. A preliminary calculation using the Department of Treasury formula showed that the City lost approximately \$5.7 million in revenue during 2020 and will have lost approximately \$6.1 million of additional revenue during 2021.

Environmental Review:
Not applicable

Policy Question(s) for Council Consideration:

- Does the Council wish to identify projects or programs which can be funded using American Rescue Plan Act dollars?

Summary:

- The City will receive approximately \$7.2 million dollars in two payments as part of the American Rescue Plan Act (ARPA)
- The expected revenue loss to the City in 2020 and 2021 is estimated at \$11.8 million dollars
- On September 21, 2021, the City Council accepted the deposit of ARPA dollars into the City's General Fund
- A portion of ARPA dollars have already been identified as needed to "balance" the City's budget and another portion has been identified by Council to be used for specific uses

City Manager

GE

Reviewed

City Attorney

JH

Finance Director

JE



Subject: American Rescue Plan Act Expenditures

Staff Recommendation:

Discuss potential uses of the American Rescue Plan Act dollars and provide direction to staff as necessary



Subject: American Rescue Plan Act Expenditures

Purpose

For the Council to discuss potential uses of American Rescue Plan Act dollars and to provide direction to staff as necessary

Background

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. ARPA includes funds for each city in the Country, including Los Altos. The City has received a funding allocation of \$7,197,928. 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 it is anticipated that the City will receive the second payment in mid-July 2022.

On September 21, 2021, the City Council received a presentation on the receipt of ARPA funds and accepted the deposit of the entirety of ARPA dollars into the City's General Fund as lost revenue replacement. At that meeting, Council requested a future agenda item to discuss how to use ARPA funds.

Discussion/Analysis

As previously reported, there are a number of eligible uses for ARPA funds. As the City previously indicated, since the City has identified ARPA funds as lost revenue replacement, the funds received from ARPA can be used to cover most General Fund expenditures.

In response to the COVID-19 pandemic, the City made a number of expenditures for hand sanitizer, masks, air purifiers, additional cleaning and other needed supplies. ARPA funds can be used for these expenditures. This amounted to \$151,730.

The FY 2021/22 – 2022/23 Budget identified the need to use a portion of ARPA funds to make up for lost revenue and “balance” the budget. In addition, as part of the budget process, Council directed staff to include additional funds for several local non-profits. These funds are in addition to General Fund dollars normally contributed to these organizations:

- WOMENSV: \$20,000
- History Museum: \$10,000
- CSA: \$35,000

Staff also recommends the City use \$60,000 of ARPA funds for contributions to the Chamber of Commerce for the promotion of Los Altos businesses. The City provided \$60,000 in funding for the Chamber to support and market local businesses in 2019 and 2020. The Chamber had anticipated receiving these funds in 2021, however, they were not included in the adopted budget.



Subject: American Rescue Plan Act Expenditures

Staff further recommends the City use \$350,000 of ARPA funds to implement a new Financial Enterprise system. In 2019, the City began implementation of a new Financial Enterprise system from Central Square. After two plus years, and despite staff's best efforts, it is apparent that the system the City purchased does not meet the needs of the City and a new system is needed.

A breakdown of ARPA funds for FY 2021/22 is below.

ARPA Funds Received	\$3,598,964
Amount used to balance the budget	\$2,680,735
COVID-19 Response	\$151,730
ARPA Funds expended	\$65,000
Chamber of Commerce contribution	\$60,000
New Financial Enterprise system	\$350,000
Remaining Funds	\$291,499

As indicated, the City has approximately \$291,500 of ARPA funds that were not included in the current fiscal year budget or being recommended for specific uses. As these funds have been transferred to the General Fund as lost revenue replacement, they can be used for almost any purpose.

As the City approaches the FY 2021/22 mid-year financial revenue (to occur during the first quarter of 2022), Staff will be able to provide more accurate revenue and expenditure projections. There is a distinct possibility that additional ARPA funds will be needed to ensure that the budget remains balanced. There are several funds which staff has identified as being unbudgeted for coming fiscal years, including:

	Amount Unbudgeted
Dental Fund	\$95,000
Storm Drain Fund	\$24,00
Liability Insurance Fund	\$600,000
Equipment Replacement Fund	\$375,000
Total	\$1,094,000

Staff is not recommending ARPA dollars be transferred to these funds at this time. Rather, this information is provided to highlight the potential for future budgetary needs.

As discussed during the FY 2021/22 budget process, there are a number of projects and programs facing the City for which ARPA funds could be used. Potential uses that could address City priorities include:



Subject: American Rescue Plan Act Expenditures

- Infrastructure improvements – The City has a goal to improve the overall Pavement Condition Index (PCI) of the City and is currently supplementing improvements to City streets using General Fund dollars. A portion of the ARPA funds could be used to free up some of these dollars for other uses. The FY 2021/22 CIP includes \$1.4 million in General Fund dollars for street resurfacing.
- Local business support – At the start of the COVID-19 pandemic, the City provided General Fund dollars as small business grants to local businesses. The City could use a portion of the ARPA funds to do a second grant program. In addition, ARPA funds could be used for improvements to business districts or to implement the Downtown Parklet Program. The City contributed \$250,000 towards small business grants at the beginning of the COVID-19 pandemic.
- Local non-profit assistance – As noted above, throughout the COVID-19 pandemic, the City has provided funding to local non-profits. Additional ARPA funds could be used to provide additional funding to organizations which serve the community such as CSA or CHAC.
- Other capital projects – There are a number of projects in the City’s Capital Improvement Program (CIP) that are priorities for the City to complete and could be funded using ARPA dollars. Generally allowable uses of ARPA funds include investments in water and sewer infrastructure.

Should Council wish to identify specific projects or programs for a portion of the remaining ARPA funds, staff will include these projects and programs in the report on the use of ARPA funds. Should Council not identify additional projects or programs, staff will identify eligible uses for the funds in the report.

Ineligible uses of ARPA

The ARPA prohibits recipients from using the funds for deposit into a pension fund. Other ineligible uses include contributions to rainy day funds, payments on outstanding debt, and fees or issuance costs of new debt.

Recommendation

The staff recommends Council discuss potential uses of American Rescue Plan Act dollars. Should Council identify projects or programs for which American Rescue Plan Act dollars can be used, Council should provide direction to staff to implement those projects and programs.