



# ***Agenda Report***

## ***Fullerton City Council***

**MEETING DATE:** JANUARY 18, 2022

**TO:** CITY COUNCIL / SUCCESSOR AGENCY

**FROM:** JEFFREY W. COLLIER, ACTING CITY MANAGER

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**SUBJECT:** PROPOSED ARPA SPENDING PLAN FOR CITY COUNCIL CONSIDERATION

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### **SUMMARY**

The proposed ARPA Spending Plan (ARPA Plan) for City Council consideration would formally obligate its American Rescue Plan Act (ARPA) funding allocation in the amount of \$32.7 million for projects and programs allowable under US Treasury guidelines. City Council has obligated \$1.45 million of ARPA funds to date. On December 7, 2021, City Council approved additional budget reductions to the Fiscal Year (FY) 2021-22 Budget and correspondingly designated \$11.9 million of ARPA funds to for 'Revenue Replacement' to stabilize government finances, leaving \$19.3 million of remaining unobligated ARPA funds for projects / programs allowable under US Treasury guidelines.

### **RECOMMENDATION**

1. Ratify December 7, 2021 City Council direction and obligate and appropriate \$11.9 million of ARPA allocation for Revenue Replacement - Provision of Government Services and grant City Manager authority to designate application to support stabilization of government finances.
2. Obligate and appropriate the remaining \$19.3 million of unobligated ARPA funds to program / project areas in accordance to US Treasury guidelines and formally approve and adopt the \$32.7 million Proposed ARPA Spending Plan attached as Exhibit A (Attachment 2).

3. Authorize City Manager to manage and administer funds within respective ARPA eligible program areas to align programs or projects within the ARPA Spending Plan to comply with evolving Federal guidance and City Council priorities.
4. Authorize City Manager, or designee, to make necessary budget and accounting adjustments to account for and maintain financial records for ARPA funds obligated and expended to comply with US Treasury guidelines.

## BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statements:

- Fiscal and Organizational Stability
- Public Safety
- Infrastructure and City Assets.

## FISCAL IMPACT

The Proposed ARPA Spending Plan will obligate the remaining \$19,341,530 of the City's total \$32,665,301 ARPA allocation to projects and programs under allowable US Treasury expenditure categories. The City received and recorded its first allocation of \$16,332,650.50 revenue in a special revenue fund, ARPA Fund (Fund 38). The City must obligate and spend its ARPA allocation on eligible costs between March 3, 2021 and December 31, 2024. US Treasury does allow the City to fully expend obligated funds by December 31, 2026, should project timing require expenditures beyond December 31, 2024.

Staff will make budget and accounting adjustments the FY 2021-22 budget per City Council appropriation and authorization.

## DISCUSSION

### *Background*

President Biden signed the American Rescue Plan Act (ARPA) into law on March 12, 2021, which provided \$130 billion in federal funding to local governments across the nation to provide financial relief to address the negative economic impacts (i.e. assist businesses, household assistance programs, etc.) associated with the pandemic and assist local agencies to stabilize their fiscal health and government finances as a result of revenue loss due to the pandemic. The statutory language outlines four broad uses for ARPA funding:

- To respond to and actively address the public health emergency or its negative economic impacts with respect to the COVID-19 disease.
- To respond to essential workers with premium pay that work during COVID-19.
- To provide for revenue reduction or loss due to COVID-19.
- To invest in water, sewer or broadband infrastructure improvements.

The City of Fullerton's (City) ARPA allocation totals 32.7 million. The City received \$16.35 million, or half of its allocation, in May 2021 and anticipates receiving the other half of \$16.35 million in May 2022. Two categories of ARPA expenses are eligible for funding: (1) to reimburse direct / indirect costs associated with responding to the COVID pandemic and (2) to replace revenue lost due to the pandemic (e.g., property tax, sales tax, hotel tax). This "Revenue Replacement" category allows the public entity wide discretion in how it chooses to use ARPA monies, with few restrictions (e.g., public entities may not use ARPA for deposits into employee pension funds, direct replenishment of financial reserves, outstanding debts, settlements / judgments / consent decrees, federal matching requirements).

The timeframe for ARPA expenditures / eligible costs is from March 3, 2021 through December 31, 2024, in which the City must obligate all ARPA funds, or designate a spending plan, by December 31, 2024. Expenses can continue through December 31, 2026 as long as the City has obligated the funds it will spend. The City must return any unused or inappropriately expended funds to US Treasury.

#### *Revenue Replacement*

For Revenue Replacement, ARPA requires public entities to utilize a formal calculation to determine revenue loss due to COVID-19. The Revenue Replacement calculation is not static and must be consistently updated as the entity receives actual revenues and based on audited financials when available. Based on known information at the August 17, 2021 Study Session (Budget Study Session No. 1), the City's initial revenue loss calculation indicated that the City could substantiate its entire \$32.7 million ARPA allocation under the Revenue Replacement category. This meant that the City had wide discretion on where to spend its entire \$32.7 million allocation at that point in time.

However, since the start of FY 2021-22, the Revenue Replacement figure changed as the economy has rebounded faster than anticipated from the pandemic and sales tax revenues have come in higher than original budgeted projections. While increased sales tax over original budgeted projections is good news for the City, from an ARPA Revenue Replacement perspective, increased revenues reduces the eligible revenue replacement amount.

The City projects sales tax revenues to come \$3.9 million higher than budgeted amounts for FY 2021-22 based on sales tax receipts to date and latest projections from the City's sales tax consultant (Q3 2021 meeting). This means that the City's revenue replacement calculation will decrease from \$32.7M to somewhere between \$23.7M - \$26.9M. This also means that the City must spend approximately \$6.0M to \$9.0M on direct / indirect costs associated with the COVID pandemic response under allowable US Treasury expenditure categories. The City cannot attribute its entire \$32.7M on revenue replacement and discretionary projects. The revenue replacement calculation will continue to change over time as actual revenues become known during the year and change in economic assumptions.

#### *Proposed ARPA Spending Plan*

The Proposed ARPA Spending Plan for City Council consideration would formally obligate its total ARPA funding allocation of \$32.7 million for projects and programs

allowable under US Treasury guidelines. In recent months, City Council allocated \$1.45 million of ARPA funds for homeless beds at the Navigation Center and a one-time grant aid to the Fullerton Museum Association. On December 7, 2021, along with additional budget reductions to the FY 2021-22 budget, City Council approved and set aside \$11.9 million of ARPA funds for 'Revenue Replacement' for budgeted government services in order to stabilize government finances and maintain sufficient reserve levels. As a result, and after factoring in all ARPA obligations approved to date, this leaves approximately \$19.3 million of unobligated ARPA funds for City Council to consider and obligate under allowable US Treasury guidelines.

As presented in prior budget study sessions, the Updated ARPA Project List (Attachment 1) contains \$69.8 million of identified projects and programs submitted for ARPA funding consideration. All City staff developed the ARPA List, which identifies a broad range of budgeted and unbudgeted projects and programs and exceeds the City's ARPA allocation. Staff developed the ARPA List to identify the areas of greatest need for municipal operations, the community and local economy, public health and City Council initiatives.

Exhibit A (Attachment 2) presents the Proposed ARPA Spending Plan with City Manager recommended funding levels for each project and program area for City Council review and consideration. The following summary highlights the ARPA Plan table by US Treasury category.

**Public Health (\$1.5 million)** – The ARPA Plan recommends allocating \$1.5M towards Public Health. Significant projects include vital improvements to the City's antiquated Emergency Operations Center (EOC) to ensure a fully operational EOC with current technology during times of crisis and emergencies. Other investments include purchasing an Emergency Portable Generator for the City's disaster shelter at the Fullerton Community Center (FCC) and other critical security and communications equipment at the FCC, to name a few.

**Services to Disproportionately Impacted Communities (\$2.1 million)** – City Council approved funding earlier this fiscal year towards the purchase of beds at the Fullerton Navigation Center to address homelessness in the City. In addition, staff recommends allocating funding for the Hope Center Project, which is a regional collaborative with surrounding cities to address homelessness and will provide much needed capital investment in the Hope Center facility to provide a regional facility to address these issues.

**Street Infrastructure – Revenue Replacement (\$10 million)** – The ARPA Plan also recommends to allocating \$10M under the Revenue Replacement provision to make much needed investments in street infrastructure. Street Infrastructure projects are not a direct, eligible Treasury category and must receive allocation under the Revenue Replacement provision. The street infrastructure improvements align with the City's planned water main replacements (funded by water funds) for its major thoroughfares and arterial streets.

**Administrative Costs (\$1.4 million)** – The ARPA Plan recommends allocation of \$1.4M to administrative costs for staff performing ARPA grant management, ongoing grant reporting as required by ARPA, annual single audit requirements and general

administrative overhead costs. Administrative Costs is an eligible Treasury category and this amount covers the duration of the ARPA grant period through FY 2023-24 or until staff has submitted final reporting accepted by the US Treasury.

**Other Projects** – Other significant project recommendations include a \$1.2M investment in Street Lighting Series system replacement for street lights no longer supported by Edison, investment in critical cybersecurity enhancements and IT network infrastructure, funding to support the City's CCTV System to replace forward-facing security cameras at certain City facilities and downtown and another City developed Residential Utility Assistance grant program to provide financial assistance with delinquent utility bills.

Exhibit A (Attachment 2) lists all other projects and programs in more detail. In addition, Exhibit B (Attachment 3) provides the ARPA Spending Plan by Project Priority, should City Council elect to allocate funding based on City Manager recommended project rank and City Council priority.

For the \$11.9 million of Revenue Replacement for budgeted government services that the City Council approved in December 2021, staff requested formal ratification and appropriation of this amount. The City will utilize this \$11.9M towards traditional municipal services in the General and other Funds, as allowable per US Treasury guidelines, to stabilize government finances.

Staff recommends City Council consider the Recommended ARPA Spending Plan and/or designate final ARPA amounts for each project and program area as provided in Exhibit A (Attachment 2).

#### *Final Rule – US Treasury Guidance*

US Treasury released the Final Rule on final ARPA program requirements and guidance on use of ARPA funds on January 6, 2022. Prior to the Final Rule, staff had utilized the guidance and provisions of the 'Interim Rule' (*published August 2021*) which served as the basis of all previous ARPA updates provided to City Council.

Based on initial review of the Final Rule, the most substantial change to US Treasury guidance is on the Revenue Replacement provision. Per the Final Rule, ARPA now allows cities to use either a \$10M standard allowance (with no backup calculation) for its revenue replacement or can opt for the original revenue replacement calculation formula. As the City's current Revenue Replacement figure is above \$20M and well above the \$10M standard allowance amount, the City will continue to utilize the formula calculation option for its revenue replacement.

Staff continues to review this recently published rule in its entirety and will report any other pertinent impacts to the City to City Council.

#### Attachments:

- Attachment 1 – Updated ARPA Projects and Programs List
- Attachment 2 – Exhibit A - Proposed ARPA Spending Plan by Treasury Category

- Attachment 3 – Exhibit B - Proposed ARPA Spending Plan by Project Rank
- Attachment 4 – US Treasury ARPA Expenditure Categories Addendum