



REPORT to the MAYOR and MEMBERS of the CITY COUNCIL
From the CITY MANAGER

DATE: May 25, 2021
SUBJECT: American Rescue Plan Act Update
ISSUING DEPARTMENT: City Manager
SUMMARY:

Issue:

Proposed allocation for the first installment of the American Rescue Plan Act funds.

Recommendation:

Receive an update from staff regarding the use of American Rescue Plan funding and provide direction to staff

Fiscal Impact:

The City is expected to receive \$10.8 million of American Rescue Plan funding for eligible activities identified in the legislation.

Strategic Goals:

- Maintain a financially sound and affordable city government

BACKGROUND:

As a result of the pandemic and the economic shutdown, residents, businesses, and cities across the United States suffered economic impacts. These impacts have included significant declines in sales, job loss, and revenue with impacts to virtually every sector of the economy, including local governments. On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021 ("ARPA"). ARPA includes funding for numerous programs related to health, vaccines, testing, rental assistance, mortgage assistance, utility assistance, homelessness, and emergency housing funding. ARPA also contains new and enhanced programs to assist businesses including the Restaurant Revitalization Fund and an expanded Paycheck Protection Program. While extensive, ARPA funding must be used for an eligible use.

Among various notable provisions, ARPA includes \$350 billion in financial assistance to state and local governments. The precise amount of monetary aid to local governments is determined by a modified Community Development Block Grant (“CDBG”) formula that considers factors such as population, poverty level, and housing instability. For the City of La Mesa, the allocation totals \$10,826,584. The Federal Treasury will disburse ARPA funding in two tranches: half in May 2021 and the second half in May 2022. ARPA provides funding to local governments to mitigate the effects of lost revenue.

As noted, ARPA provides an opportunity to create programs to support residents and businesses, and invest in needed capital infrastructure projects such as storm drain and broadband infrastructure. As the Federal Treasury recently released its interim final guidance regarding allowable uses, this report provides an update on ARPA and identifies ways in which the funding can help advance future recovery efforts. The Federal Treasury, however, continues to update its guidance; staff expects additional revisions from the Federal Government. The City has until December 31, 2024, to spend the funding allocation.

DISCUSSION:

La Mesa Pandemic Relief Efforts

Throughout the pandemic, the City has taken numerous steps and committed significant time at all levels of the organization to mitigate its effects. The City has continued updating residents and businesses with new developments, moved many of its public-facing operations online, and continued advancing various projects and strategic initiatives while providing services to the public. Whenever necessary, the City worked directly with the County of San Diego to provide further guidance regarding the Public Health Order. In addition, the City provided assistance to the business community by streamlining a process to allow for expanded outdoor dining to offset the impacts of health regulations significantly limiting indoor occupancy. At the beginning of the pandemic, the City Council also waived business license fees for a one-year period which provided an approximate grant of \$300,000 to the La Mesa business community.

In August of 2020, the City of La Mesa received a combined allocation of \$1.8 million from the State of California and the County of San Diego in Coronavirus Aid Relief and Economic Security (“CARES”) Act funding. At the time, there were limited opportunities for immediate rental and business assistance at the local level. As a result, the City Council dedicated most of the allocation to prioritize the needs of residents and businesses through the Rental Assistance Program and the Business Assistance Program. The Rental Assistance Program provided \$600,000 in grants and assisted 163 households. The Business Assistance Grant Program provided \$865,000 in grants to 175 La Mesa businesses. Both programs were well received and provided needed assistance to residents and businesses. The City Council recently authorized additional rental, mortgage, and utility assistance which will provide an additional \$338,000 of CDBG funding for residents. The City will again partner with Home Start to implement the program.

Since last year, other governmental agencies have continued offering programs to assist

residents and businesses. The County provided a business assistance grant totaling \$9.5 million per supervisorial district. The State provided \$4 billion in small business relief grants. Ongoing programs to assist existing businesses include direct grants, forgivable loans, and low-interest loans. ARPA also created a Restaurant Revitalization Fund that provides an additional \$28.6 billion in relief. Business funds can be used to offset commercial rent, operating expenses, employee salaries, and costs related to the pandemic.

For residents, the County also continues to offer an emergency and rental assistance program. The County program allocated over \$100 million to rental assistance; funding is still available to income-qualified residents. Both the Federal and State governments also have taken steps to address economic uncertainties by increasing and extending unemployment benefits as well as providing protections from eviction through moratoriums.

ARPA is providing \$25 billion in Emergency Rental Assistance, \$9.9 billion in Mortgage and Utility Assistance, and \$5 billion for homelessness. Because ongoing assistance is imperative, governments at multiple levels continue providing relief through multiple aid packages.

American Rescue Plan: Eligible Expenditures

Unlike other forms of pandemic relief, ARPA is a direct source of funding from the Federal Treasury to the City of La Mesa. While there is some latitude in how funding can be spent, ARPA contains more specific provisions that better define how funds may be used by local governments. Costs related to pension obligations and offset tax cuts are *not eligible* expenditures. The following section briefly outlines allowable expenditure categories and identifies City-specific funding opportunities:

- **State and Local Fiscal Recovery:** ARPA uses Fiscal Year 2019 as the base year to measure revenue losses for Fiscal Years 2020 and 2021. The City experienced revenue decline, primarily from sales tax revenue and losses from program revenues such as recreation, as a result of the stay-at-home order. While it is possible that the economy will see an expedited recovery as more businesses open and restrictions on travel are lifted, the City could potentially continue experiencing revenue losses into Fiscal Year 2022. The City is working to calculate the eligible revenue recovery based on the recently released guidance by the Federal Treasury.
- **Pandemic Response:** ARPA provides reimbursement for direct expenditures related to COVID-19. Eligible expenditures include additional cleaning of municipal parks and facilities, COVID testing, personal protective equipment, day camps for childcare services, and staff-related payroll and leave costs. The City continues to incur unbudgeted costs to protect the health and safety of the public as well as members of the staff. Through Fiscal Year 2020, the City has incurred \$628,358 of Pandemic response related expenses. Staff recommends that ARPA funding be set aside to cover such incurred expenses.

- **Support for Essential Workers:** ARPA allows the City to provide premium pay for eligible workers performing essential work during the pandemic. Examples would include work performed by public works, public safety personnel, and other employees who have continued to interact directly with the public. Over the past year, City employees throughout various departments continued providing critical public services which created additional exposure to the virus. In 2020, the City suspended cost of living increases due to economic uncertainty during the early days of the pandemic. The City Manager recommends a portion of ARPA funds be allocated for this eligible expense as follows: \$2,000 per employee plus an additional \$500 if the employee completes a department prescribed training within a defined time frame.
- **Economic Recovery Program:** In addition to suspending business license fees and allowing businesses to operate outdoors, the City also provided \$865,000 in direct grants to local businesses. As noted, the Federal, State, and County governments continue providing direct financial business assistance. As the vaccines reduce infection and hospitalization rates, the State and County continue relaxing limitations on business operations with further changes expected in mid-June. The current business environment is still limited by the pandemic; however the State appears to be past the most restrictive limitations to business operations. Economic indicators also appear to predict strong consumer demand (due to reduced spending over the past year and an increased savings rate) which will boost the short-term economy as the pandemic winds down.

Notwithstanding potentially positive future economic developments, staff believes ARPA funding could be used to create a unique opportunity to catalyze and sustain a local economic development program to support current and future businesses. Staff is exploring a program that could provide direct grants, encourage property revitalization, and incentivize the opening of new businesses. Staff proposes to work with the East County Economic Development Council (“ECEDC”) and the Small Business Development Center (“SBDC”) to develop a program that would offer grants to encourage local entrepreneurs to start new brick and mortar businesses and create new jobs in La Mesa.

The SBDC would train entrepreneurs on the fundamentals of starting a business through coursework, partner them with a long-term mentor, help the entrepreneur develop and implement a viable business plan, obtain financing, and locate a storefront in La Mesa. Once the new business is open, the business owner would qualify for grant funding. Eligible expenses could include rent, operating expenses, hiring employees, and tenant improvement costs. Staff continues consulting with the federal guidance regarding this conceptual program and will present additional program details at an upcoming meeting should the City Council support the creation of this program.

- **Capital Projects Fund:** Because of limited availability of General Funds in La Mesa, most capital improvement projects are dependent on some type of outside funding or grant in order to proceed. ARPA specifically identifies water, sewer, and broadband as

eligible capital project categories. Staff is working to identify projects for consideration of this funding that will be presented at a later date.

Funding Proposal:

As noted, the Federal Treasury will disburse the City's total allocation in two tranches of approximately \$5.4 million each. Staff has identified the first tranche of funding as "ARPA Phase 1" for discussion purposes. The second tranche of funding, expected in May 2022, will be referenced as ARPA Phase 2. Staff separated ARPA funding into phases because it facilitates calculating revenue losses and expenditures in each fiscal year rather than using projections that are likely to change over time. For example, assuming the economy continues to recover, the City's revenue losses could potentially decrease and provide funding for other eligible activities.

As of the writing of this report, the League of California Cities is working with the Federal Treasury to provide guidance to cities on the calculation method for revenue loss. Therefore, until that methodology is made clear, staff is proposing reimbursements and assistance programs within the known scope of the legislation. As discussed, the City has until December 31, 2024, to expend all ARPA funds which should provide sufficient time to have an informed discussion regarding sources and uses of funding.

The proposed allocation for ARPA Phase 1 includes eligible expenditures for unanticipated COVID expenses and programs. Staff believes that, the categories identified below allow the City to recover some costs and support the ongoing needs of residents and businesses. If the City Council approves additional funding for the rental and business assistance program, staff would utilize the same program criteria used for the CARES Act funding last year. Importantly, the City expects that ARPA funding will be subject to a single audit in the future. Therefore, funding eligible activities that can be ready within a short period of time will maximize the City's ability to spend the funding according to Federal law.

Staff organized the information into a table identifying incurred expenses for Fiscal Year 2020 as well as the City's COVID-related expenditures. The balance of ARPA Phase 1 funding is proposed to be used for essential workers and support for residents and businesses. A summary of this proposal is reflected on the following page in Table 1.

Table 1: Proposed ARPA Phase 1 Funding Allocations To Date

	FY2020	FY2021	FY2022	TOTALS
Costs to Respond to Public Health Emergency				
COVID-Related Leave	\$291,272			\$291,272
City Emergency Leave	\$167,269			\$167,269
Unbudgeted City Expenses Related to COVID	\$169,817	\$60,000		\$229,817
Support for Essential City Workers		\$650,000		\$650,000
	\$628,358	\$710,000		\$1,338,358
Support for Residents and Businesses				
Mortgage, Rental, and Economic Development Program Business Grants		\$1,100,000	\$500,000	\$1,600,000
Totals Per Fiscal Year	\$628,358	\$1,810,000	\$500,000	\$2,938,358

CONCLUSION:

Over the past two fiscal years, the City reduced operations where appropriate to mitigate the revenue losses and ensure the future financial viability of the community. As the community begins to emerge from the significant health and financial impacts of the pandemic, the City is working to plan for a post-COVID environment that provides needed assistance to residents, attracts new businesses and jobs, and invests in capital projects. ARPA ensures cities can be “made whole” in the wake of lost tax revenue needed to sustain operations and make strategic investments that benefit the entire community. Staff is presenting the first phase of options in this report to facilitate feedback from the City Council and ensure that the forthcoming two-year budget incorporates these priorities. Staff recommends that the City Council provide direction on the proposed use of ARPA funds shown in the table above.

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