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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the report on the status of American Rescue Plan Act funds and direct staff to obligate funds to approved 2023 capital improvement projects

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

In March 2021, the federal government passed the American Rescue Plan Act (ARPA) into law. This \$1.9 trillion coronavirus relief package included \$350 billion in direct assistance to state and local governments. These funds are intended to address the economic impacts of the pandemic and lay the foundation for a strong recovery.

The Coronavirus Local Fiscal Recovery Fund (CLFRF), established under ARPA, is the funding source for local governments receiving ARPA funds. The City of Naperville received a direct allocation of \$13,308,689 through CLFRF. The first half of the funds were received in May 2021, and the second half in May 2022. The funds are held in a special revenue fund separate from other budgetary funds.

The United States Department of Treasury is the administrator and rulemaking authority over the CLFRF funds. The U.S. Treasury established clear rules for allowable fund uses and the timeline under which they must be used. All funds must be obligated by Dec. 31, 2024, with final expenses paid by Dec. 31, 2026. Any unspent funds must be returned to the U.S. Treasury.

The City has not spent any CLFRF funds; the entire \$13,308,689 remains available.

DISCUSSION:

Staff first presented the City Council with a discussion on the CLFRF funds in June 2021. During that discussion, staff outlined the permissible uses of funding and offered several potential strategies for the City to consider when deciding how best to allocate the dollars. A point of emphasis was that these funds are a one-time revenue source. Fiscal best practice dictates that one-time revenues should be allocated to one-time expenses instead of creating new programs or services for which the City would need to identify future funding sources. Staff encouraged transformative uses that would drive economic re-investment in the local economy and further solidify the City's strong financial position for the future.

Over the past two years, staff has considered various uses that meet the abovementioned criteria. As part of that process, staff met with community stakeholders, such as the Naperville Development Partnership, Downtown Naperville Alliance, and Downtown Advisory Committee, to seek feedback and generate additional ideas on the most impactful use of the funds. While several potential projects have been discussed, none can be classified as fully vetted, shovel-ready projects capable of moving forward under the time constraints placed on the CLFRF funds. Additionally, recent debt ceiling negotiations at the federal level included the potential return of unspent funds. Ultimately, the debt ceiling legislation resulted in the return of some ARPA funding for federal programs, but the CLFRF funds were not impacted. That said, the debt ceiling negotiation is a reminder that the rules and timeline for using these funds can be amended at the federal government's will.

Considering the above, staff finds it in the City's best financial interest to report the obligation of funds to the U.S. Treasury, beginning with the next required quarterly report to be filed on July 31, 2023.

Staff recommends that the funds be obligated to capital projects previously approved in the 2023 annual budget. By obligating the CLFRF funds to those projects, the City would comply with the allowable uses and timeline and satisfy reporting requirements to the U.S. Treasury.

The 2023 capital improvement budget includes \$72 million in general government (non-utility) capital projects. By allocating the CLFRF funds to these projects, the previously identified funding sources for these projects would remain unspent and available for future capital projects. Those funds would offset future borrowing needs on major capital projects, such as upgrading Naperville's public safety radio network.

FISCAL IMPACT:

Allocating CLFRF funds to previously approved capital projects does not increase the annual budget and has no adverse impact on the City finances. It merely changes the proposed funding source for the previously approved projects and appropriately allocates funds for reporting to the U.S. Treasury.