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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the report on the American Rescue Plan Act and direct staff to calculate the City's revenue replacement value for 2020

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

In March 2021, the American Rescue Plan Act (ARPA) was signed 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 coronavirus pandemic and lay the foundation for a strong recovery.

The Coronavirus Local Fiscal Recovery Fund (CLFRF), established under ARPA, serves as the funding source for local governments receiving ARPA funds. The CLFRF identified communities as entitlement or non-entitlement. In general, entitlement communities, also referred to as metropolitan cities, are defined as those with a population exceeding 50,000 or a recipient of Community Development Block Grant (CDBG) funds. Metropolitan cities receive direct funding from the U.S. Treasury, while non-entitlement communities receive funding through their state government. The City of Naperville is classified as a metropolitan city, both by population and by status as a CDBG recipient.

As a metropolitan city, Naperville received a direct allocation of \$13,308,689. Funding allocations for

metropolitan cities were based on the CDBG funding formula, however, the funds are not tied to CDBG and are managed under separate program rules. The dollars will be provided in two tranches. The first half of the funds were released in May, and the second half is to be released one year later. The City received its initial deposit of \$6,654,344.50 on May 19. All funds must be used by Dec. 31, 2024.

The U.S. Treasury released interim guidance on the acceptable use of funds on May 10. The guidance lays the groundwork for the City to consider how this one-time infusion of resources can be best used to the benefit of the community.

DISCUSSION:

Staff introduced this topic for discussion during the March and May financial reports to City Council. At that time, only preliminary guidance on the acceptable use of funds existed. On May 10, the U.S. Treasury released their Interim Final Rule on the use of funds. This 151-page document establishes specific guidance on state and local use of stimulus funds. While the defined uses are broader than those established under the CARES Act of 2020, the U.S. Treasury is clear that funds must be used according to published guidance. The Interim Final Rule will undergo 60 days of review, after which it may be revised and published as the Final Rule.

As the City prepared to receive its allotment of stimulus funds, staff considered the various ways these funds could be put to work and developed a series of goals to assist the Council to establish policy around the use of funds. Staff has analyzed U.S. Treasury guidance to ensure that the City's goals align with the goals of the ARPA. Below are the preliminary goals offered for consideration and a more detailed explanation as to their alignment with federal program goals. These goals are offered in no particular order unless otherwise noted.

1. Solidifying the City's financial position through the replenishment of City funds

The ARPA provided state and local governments the ability to use stimulus funds to address the reduction in revenues experienced due to the pandemic. This use was specifically prohibited in the CARES Act of 2020. The U.S. Treasury established a formula for calculating revenue reductions. This calculation looks at general revenue on an entity-wide basis, not a fund-by-fund basis and excludes certain categories of revenue from consideration. Some of the excluded items are revenues generated by utilities, proceeds from the issuance of debt, insurance trusts, and intergovernmental transfers from the federal government. Most notably, the \$7 million the City received under the CARES Act in 2020 is not considered general revenue.

The federal government clearly states that the revenue replacement provision is intended to support government services as cuts to programs, services, or personnel could hamper the broader economic recovery. Once a shortfall in revenue is identified, **recipients have broad latitude to use funds to support government services**. Recipients may use funds to provide essential services or fund capital projects that might otherwise be delayed. However, the U.S. Treasury states that **funds shall not be allocated to reserve or rainy-day funds**. They must be spent to the benefit of the community.

This goal is purposefully offered at the top of the list. By identifying the City's revenue replacement value, the flexibility around the use of those dollars becomes much greater and can be applied more broadly across the remaining goals.

2. Using funds and partnerships to drive transformative, innovative and long-term economic re-investment to our local economy's business sector

One of the primary goals of the ARPA is to address the economic impacts of the coronavirus pandemic and lay the foundation for a strong economic recovery. While certain sectors continue to be impacted, economic indicators over the past several months suggest the Naperville community, in general, is well positioned. ARPA funds could be used as a catalyst to drive economic development in the City, which would continue to grow the City's tax base. While a broad spectrum of potential uses exists within the specific confines of the act, dollars identified through revenue replacement could be also be allocated to achieve this goal.

This goal offers wide-ranging potential for transformative thought and ideas that strengthen the economic base of the City. That may include innovative partnerships that drive business development or capital projects that make Naperville a more attractive place to do business and provide a competitive advantage over other suburbs moving forward.

On the topic of capital projects, the ARPA specifically allows for funds to be used toward water, sewer, and broadband infrastructure; however, the U.S. Treasury also points out that other capital projects are allowable under the revenue replacement provision of the Act.

3. Providing direct financial assistance to businesses and/or residents

Throughout the pandemic, the City has sought opportunities to help businesses and residents navigate its financial impacts. In the early months, assistance came in the form of relaxing certain areas of the Municipal Code to make it easier to do business. Later, the City offered a limited amount of direct financial assistance to complement broader assistance programs offered by the state and federal governments. These include the Small Business Assistance Grant and the Temporary Utility Assistance program.

The ARPA allows the City to continue offering assistance to businesses and residents using these funds. Acceptable uses are quite broad. For residents, assistance may come in the form of food, rent, mortgage or utility assistance; home repairs or weatherization; and job training programs. For businesses, assistance may include grants or loans to mitigate financial hardship; grants, loans, or in-kind assistance to implement coronavirus prevention measures; or technical assistance, counseling, or business planning needs.

While the acceptable uses are broad in this category, the U.S. Treasury is careful to point out that any assistance must be based on a demonstrated need. In aiding any resident or business, ***the City must define the negative impact suffered by the recipient and how the aid responds to these impacts.***

4. Supporting the health and well-being of our community through our non-profits and partners

Another primary goal of the ARPA is to support the public health response to the coronavirus pandemic. Stimulus funds may be used broadly across this category to address direct public health services and programs, such as vaccination, testing and contact tracing, prevention, and mitigation services. Funds may also be used to address the behavioral health impacts of the pandemic through mental health and substance abuse treatment, crisis intervention, and outreach services.

Services provided directly by the City are limited in this category as the City does not maintain a public health department and is not a direct provider of mental health services beyond the immediate needs addressed by our public safety departments. For this reason, the community may be best served by the City using funds to further support local service providers in these areas.

That said, the City has some capacity to leverage funds for its own needs, such as enhancing public communication efforts, capital investment in facilities to improve pandemic operations, and equipment purchases that support public health. This may include anything from resupplying PPE to the purchase of an ambulance.

5. Allocating funding in a way that maximizes support for unique efforts and economic sectors not already covered by existing ARPA assistance channels

This final goal is offered not as an area of investment, but for consideration of how funds may be best utilized to benefit the community. The U.S. Congress constructed the ARPA in a manner that pushed financial aid to nearly every sector of the U.S. economy. From direct payments to households to aid for small businesses, schools, and non-profits, it is difficult to identify a sector of the economy that does not have direct access to ARPA funding through the federal programs established under the Act. A prime example is the restaurant and bar industry with access to nearly \$30 billion through the Restaurant Revitalization Fund. While this does not relieve the City from a responsibility to evaluate needs across all sectors of the community, it does call for careful evaluation to ensure that funds do not become duplicative.

Additionally, not all units of government received aid through the state and local government aid package. Special districts, such as park districts and fire protection districts, were not included. U.S. Treasury rules do allow for the City to transfer funds to other units of government; however, the City then assumes responsibility for that entity as a sub-recipient and must monitor and report that entity's activity.

Specific Exclusions

The U.S. Treasury guidance describes a very broad range of acceptable uses. The guidance is so broad that in some categories, they include the disclaimer that their list of acceptable uses is non-exclusive so long as a recipient can tie the need for an expense to the coronavirus pandemic. That said, there are several exclusions specifically called out by the U.S. Treasury. They include:

- Deposits to pension funds
- Directly or indirectly offsetting a tax revenue reduction due to a change in law (specific to states/territories)
- Funding debt service
- Legal settlements or judgments
- Deposits to reserves

Timing Considerations

Naperville's strategic planning process, currently underway, seeks to identify the community's priorities for the next three years to help prioritize programs, policies and initiatives from a financial and personnel resource allocation perspective. The 2022 budget preparation process will run concurrently with the second phase of engagement in the strategic planning process, with the draft

budget scheduled for publication just prior to scheduled adoption of the strategic plan.

Understanding that budget preparation occurs before the strategic plan is finalized and considering that the ARPA funding is not required to be spent before the end of 2024, opportunities exist to leverage ARPA dollars to supplement identified priorities not necessarily accounted for in the 2022 budget. Budgetary amendments can also be utilized for this purpose.

Action Requested and Next Steps

Staff is compiling recommendations for projects that may meet the above-mentioned parameters for Council consideration. Recommendations will be closely evaluated against U.S. Treasury guidance as they are developed.

A logical first step in this process is to identify the City's revenue replacement value for 2020. ***Staff is seeking Council direction for staff to perform this calculation and identify funds as revenue replacement.*** This action will provide flexibility and broaden the scope of projects and programs that can be considered in the future. Funds will remain segregated in a new budgetary fund, the American Rescue Fund, to ensure that the use of dollars remains transparent.

Staff will bring future ARPA-related topics to the Council through monthly financial reports as well as through the 2022 annual budget process.

FISCAL IMPACT:

Directing staff to calculate the revenue replacement value for 2020 will allow the City to realize up to \$6.65 million in federal grant revenue in the newly created American Rescue Plan Fund.