



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JULY 13, 2021**

FROM: CITY MANAGER'S OFFICE **WARDS: ALL**

SUBJECT: FINAL REPORT ON THE IMPLEMENTATION OF THE APPROVED EXPENDITURE PLAN FOR CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT FUNDING; AND CONSIDERATION OF THE AMERICAN RESCUE PLAN ACT FUNDING EXPENDITURE CATEGORY PLAN FOR THE FIRST ALLOCATION IN THE AMOUNT OF \$36,747,594 - SUPPLEMENTAL APPROPRIATION

ISSUES:

Receive a final report on the implementation of the approved Expenditure Plan for Coronavirus Aid, Relief, and Economic Security (CARES) Act funding and consider the American Rescue Plan Act (ARPA) funding expenditure category plan in the total amount of \$36,747,594.

RECOMMENDATIONS:

That the City Council:

1. Receive a final report on the implementation of the approved Expenditure Plan for Coronavirus Aid, Relief, and Economic Security (CARES) Act funding;
2. Review and provide input on the proposed expenditure categories for the development of the Expenditure Plan for the American Rescue Plan Act funding; and
3. With at least five affirmative votes, and upon receipt of the award, authorize the Chief Financial Officer, or his designee, to record an increase in revenue and appropriate expenditures in an equal amount of \$36,747,594, to accounts to be established by the Finance Department.

LEGISLATIVE HISTORY:

Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law to provide emergency appropriations during the Coronavirus pandemic (COVID-19). The CARES Act represented the third package of assistance from the federal government, providing \$2.2 trillion in economic relief to individuals, families, businesses, and nonprofit organizations. Funding for governments was also included through the creation of the

Coronavirus Relief Fund, which allocated \$150 billion to various State, local and Tribal governments. The Coronavirus Relief Fund (CRF) was distributed to State, local and Tribal governments based on relative population. Local governments with a population of 500,000 or more were eligible to receive a direct allocation from the CRF. Given the population threshold, the City was not eligible to receive a direct allocation.

Big City Mayors Advocacy and the State Budget

Throughout the COVID-19 pandemic, the Big City Mayors (BCM) have met with federal and state elected officials to advocate for much needed assistance. As part of this effort, the BCM engaged the State's legislative leaders and Governor to solicit support for the creation of a dedicated funding opportunity for the seven cities (Long Beach, Oakland, Bakersfield, Anaheim, Santa Ana, Riverside, and Stockton) of the coalition that did not receive a direct allocation from the CRF. This targeted advocacy effort resulted in the inclusion of a specific \$225 million set-aside for these seven cities as part of the State budget.

The State provided a portion of its CARES Act funding to local governments (\$500 million to cities and \$1.3 billion to counties) to combat the COVID-19 pandemic. As noted, the State budget provided \$225 million to cities with populations greater than 300,000 that did not receive a direct CARES Act allocation from the Federal Government, with the funds distributed according to their relative populations; Riverside received \$27,991,888. An additional \$275 million was provided to cities with populations less than 300,000, with the funds distributed according to their relative populations, with each city guaranteed a minimum of \$50,000. Cities were required to use the funds according to state and federal law. California received a total of \$15.3 billion from the CRF. Of this amount, the State received \$9.5 billion, and the eligible cities and counties with populations over 500,000 received \$5.8 billion (16 counties and five cities in total received direct allocations).

Reports to the California Department of Finance (DOF)

To formally receive the funds from the State, the City was required to submit a certification form to the DOF affirming the City's adherence to federal guidance and the state's stay-at-home requirements and other health requirements as directed in gubernatorial Executive Order N-33-20, subsequent executive orders or statutes, and all State Department of Public Health orders, directives, and guidance issued in response to the COVID-19 public health emergency. Additionally, the City was required to submit reports detailing expenditures and to return any funds that were unspent by October 31, 2020 unless extended by the DOF. In November 2020, the DOF extended the City's expenditure deadline to December 30, 2020.

Since approval of the Expenditure Plan, the City submitted four reports to the DOF detailing the progress made in expending the funds with the most recent update provided on April 6, 2021 (Cycle 4 Reporting). The DOF has concluded their review of expenditures reported through September 30, 2020 (Cycle 2 Reporting) for compliance with state and federal law, as required by the U.S Treasury.

The priority of the City Team was to expend the CARES Act funds consistent with the approved CARES Act Expenditure Plan to the extent possible. Notwithstanding, staff implemented the following actions to ensure all funds were expended by the deadline:

1. Provide additional funds to the Small Business Assistance Grants program;
2. Acquired additional computer equipment and software to support telecommuting efforts consistent with continuity of government operations; and

3. Offset payroll costs for public safety employees, consistent with the Office of the Inspector General/California Department of Finance guidance.

The United States Department of the Treasury Office of the Inspector General (OIG) had opined that payroll records would be sufficient substantiation for all payroll costs for public health and public safety employees, as these payments are presumed to be entirely for services “substantially dedicated to mitigating or responding to the COVID-19 public health emergency.” Funds used in this manner could free up general funds that could be reprioritized to address local priorities or mitigate the impacts of the public health emergency.

American Rescue Plan Act

On March 11, 2021, President Biden signed into law the American Rescue Plan Act (ARPA) to facilitate the recovery from the devastating economic and health effects of the COVID-19 pandemic. The American Rescue Plan Act established the Coronavirus State Fiscal Recovery Fund (CSFRF) and Coronavirus Local Fiscal Recovery Fund (CLFRF), which provides a combined \$350 billion in assistance to eligible state, local, territorial, and Tribal governments to assist in the economic and health recovery by providing resources to address impacts resulting from the crisis.

BACKGROUND:

The City Council considered the proposed Expenditure Plan for CARES Act funding on July 21, 2020. Following discussion, the City Council directed the report be presented for final consideration on August 4, 2020 and that staff engage the community through a confidential online survey to solicit input on the community’s most pressing needs.

On August 4, 2020, the City Council approved the proposed Expenditure Plan for CARES Act funding as presented, with the funding for the Emergency Operations Center Ops Room furniture (\$100,000) and half of the \$2,262,083 designated for computer replacement removed and reallocated equally to the line items for small business and rental assistance.

In November 2020, the DOF extended the expenditure deadline to December 30, 2020 and authorized the City to develop a contingency plan to reallocate unspent funds to programs that were oversubscribed or displayed a demonstrated need for additional funds. On November 17, 2020, the City Council received an update on the implementation of the approved expenditure plan including fund reallocation in alignment with the contingency plan.

A confidential online survey soliciting input on the community’s most pressing needs was posted on the City’s website on July 24, 2020. The results of the survey served as a basis to inform revisions to the CARES Act Expenditure Plan that was presented and approved by City Council on August 4, 2020. In addition to the survey, staff remained apprised of the community needs communicated to them as programs came to fruition, were implemented and ended in December 2020.

The American Rescue Plan Act established the Coronavirus Local Fiscal Recovery Fund (CSFRF) that provides resources to support communities that are struggling with impacts of COVID-19. Many community needs experienced during the response phase of the crisis persist and resources may be used to support a strong and equitable recovery.

DISCUSSION:

Coronavirus Aid, Relief, and Economic Security Act

The City Council Approved Expenditure Plan outlined \$27,991,888 in expenditures into three benefit categories: Housing/Homelessness, Community and Business Support, and Organizational Needs for COVID-19 Compliance. The table below identifies the City Council approved expenditure priorities, which allocated 25% of CARES Act funding toward Housing/Homelessness programs, 59% Community and Business Support, and 16% to Organizational Needs for COVID-19 Compliance.

Council Approved CARES Act Expenditure Plan		
Approved August 4, 2020		
Housing/Homelessness	\$6,927,770	25%
Community and Business Support	\$16,662,288	59%
Organizational Needs for COVID-19 Compliance	\$4,401,830	16%
Total	\$27,991,888	100%

The needs of the community evolved over the course of the pandemic resulting in a reallocation of resources as permitted in the expenditure and contingency plan. Fund reallocation occurred in late November 2020, shifting resources from the Housing/Homelessness category to both the Community and Business Support and Organizational Needs for COVID-19 Compliance category. In late December 2020, the DOF authorized any unspent CARES Act funds to be allocated to Public Safety Payroll in lieu of returning monies back to the state. Revised CARES Act expenditures by benefit category are identified on the table below.

Revised CARES Act Expenditure Plan		
December 2020		
Housing/Homelessness	\$2,261,467	8%
Community and Business Support	\$18,511,072	66%
Organizational Needs for COVID-19 Compliance	\$7,219,349	26%
Total	\$27,991,888	100%

The table below identifies the Final CARES Act Expenditures. A line item list of final CARES Act expenditures is outlined in Attachment 1; the CARES Act earned \$124,739 in interest which is reflected in the expenditure total.

Final CARES Act Expenditures		
Housing/Homelessness	\$2,251,863	8%
Community and Business Support	\$15,639,218	56%
Organizational Needs for COVID-19 Compliance	\$10,225,545	36%
Total	\$28,116,626	100%

American Rescue Plan Act

The American Rescue Plan Act established the Coronavirus State and Local Fiscal Recovery Funds (Fiscal Recovery Funds) to provide emergency assistance for eligible state, local, territorial, and Tribal governments. The Secretary of Treasury (Treasury) issued the Interim Final Rule to implement the Fiscal Recovery Funds. These funds can be used to respond to the pandemic

response needs including mitigation and prevention, support communities and populations most impacted by the COVID-19 crisis, and for the provision of services impacted by revenue shortfalls. The Fiscal Recovery Funds provide flexibility for each jurisdiction to meet local needs and also invest in building, maintaining, or upgrading their water, sewer, and broadband infrastructure. Recipients may use funding to:

1. Support public health expenditures: address a broad range of public health needs across COVID-19 mitigation, medical expenses, behavioral healthcare, and public health resources.
2. Address negative economic impacts caused by the public health emergency: delivering assistance to workers and families, supporting small businesses, speeding the recovery of the tourism, travel, and hospitality sectors, and rebuilding public sector capacity.
3. For the provision of government services to the extent of the reduction in revenue due to the public health emergency.
4. Serving the hardest-hit communities and families: addressing health disparities and the social determinants of health, investments in housing and neighborhoods, addressing educational disparities, and promoting healthy childhood environments.
5. Provide premium pay for essential workers.
6. Invest in water, sewer, and broadband infrastructure.

State, local, territorial, and Tribal governments that are facing budget shortfalls may use Fiscal Recovery Funds to avoid the reduction of government services. Treasury’s Interim Final Rule establishes a methodology that can be used to calculate lost revenue. This calculation considers revenue expected in the absence of the crisis compared to actual revenue. Funding allocated to the provision of government services should be considered a temporary source of funding and not a long-term solution to the City’s ongoing fiscal challenges. Additionally, any funds allocated must be used to maintain services or aid to citizens and cannot be used for pensions, debt service or saved in a rainy-day fund. All allocated funds must be fully exhausted.

The City will receive Fiscal Recovery Funds in two installments for a total amount of \$73,535,189. The first allocation in the amount of \$36,767,594 was received in June 2021, and the second half in the amount of \$36,767,594 will be received in June 2022. The City is required to submit a one-time interim report with expenditures by Expenditure Category from the date of the award to July 31, 2021. Additionally, the City is required to submit quarterly Project and Expenditure Reports and annual Recovery Plan Performance Reports.

For purposes of this staff report, the ARPA proposed Expenditures by Category recommendation is based upon insights from the community input received from the CARES Act survey, as well as experience and lessons learned from CARES Act funded services. Further, the ARPA Expenditures by Category recommendations are to address needs that persist in the community as well as identified needs that were not covered by CARES Act funding. The table below is a proposed Expenditure by Category for consideration and input for the first allocation of funding. The Expenditure Categories are those that must be used per US Department of the Treasury. The term “Expenditure Category” refers to the detailed level and “Category” refers to all expenditures within that Category.

Category Recommendations		
1: Public Health	\$3,676,759	10%
2: Negative Economic Impacts	\$14,707,038	40%
3: Services to Disproportionately Impacted Communities	\$7,353,519	20%

4: Premium Pay	\$0	0%
5: Infrastructure	\$3,676,759	10%
6: Provision of Services	\$7,353,519	20%
7: Administrative	\$0	0%
TOTAL	\$36,767,594	100%

The Department of the Treasury (Treasury) issued the Interim Final Rule and changes may be made to the rule that may impact how a program or service is structured. On June 24, 2021, the Treasury issued Version 1.1 of the State and Local Fiscal Recovery Funds Compliance and Reporting Guidance (Attachment 2) that provides information that guides staff in structuring programs, services, and projects to meet reporting requirements and compliance.

FISCAL IMPACT:

The fiscal impact of the proposed Expenditure Plan for ARPA totals \$36,767,594. With at least five affirmative votes from the City Council and upon receipt of the funds, the Finance Department will increase the revenue by such an amount in accounts to be established and appropriate such funds in the same amount. The City will receive its allocation in installments, with the first allocation being one-half of the funds and 12 months later the remaining half for a total amount of \$73,535,189.

Prepared by: Kris Martinez, Interim Assistant City Manager
 Certified as to availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer
 Approved by: Al Zelinka, FAICP, City Manager
 Approved as to form: Kristi Smith, Interim City Attorney

Attachments:

1. Final CARES Act Expenditures and Funding Overview
2. State and Local Fiscal Recovery Funds Compliance and Reporting Guidance
3. US Department of the Treasury FAQ
4. Presentation