



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: DECEMBER 10, 2024

FROM: OFFICE OF THE CITY MANAGER WARDS: ALL
FINANCE DEPARTMENT

SUBJECT: UPDATE ON THE AMERICAN RESCUE PLAN ACT EXPENDITURE PLAN AND
FINAL OBLIGATION OF FUNDS – SUPPLEMENTAL APPROPRIATION –
INTERFUND TRANSFER

ISSUE:

Receive an update on the American Rescue Plan Act Expenditure Plan (ARPA) and approve the final reallocation of ARPA funding and related supplemental appropriations and interfund transfers.

RECOMMENDATIONS:

That the City Council:

1. Receive an update on the ARPA Expenditure Plan;
2. With at least five affirmative votes, authorize the Chief Financial Officer, or designee, to record the final obligation of ARPA funding to include:
 - a. A reallocation of \$27,470,462.02, or actual amount, of unexpended funds from various ARPA projects of the ARPA Expenditure Plan to the Revenue Replacement - Provision of Government Services program, including approximately \$20,198,104.05 of obligated funds and \$7,272,357.97 of unobligated funds;
 - b. A reallocation of \$2,726,841.22, or actual amount, representing the reclassification of expenditures and the related appropriation from the Northside Heritage Infrastructure project, Citywide Park Improvement project, and Parkway Community Gardens project of the ARPA Expenditure Plan to the Revenue Replacement - Provision of Government Services program;
 - c. A supplemental appropriation and interfund transfer of \$30,197,303.24, or actual ARPA funds amount, from the Grants and Restricted Programs Fund, Revenue Replacement - Provision of Government Services program to the General Fund, representing the obligation of qualifying ARPA expenditures;
 - d. An appropriation of \$22,914,945.27, or actual amount of obligated funds and reclassified capital expenditures, in General Fund departmental budgets and applicable project accounts;

3. With at least five affirmative votes, authorize the Chief Financial Officer, or designee, to make the necessary accounting adjustments to effectuate the intent of the recommended supplemental appropriations and transfers described in this report, including interfund and interdepartmental appropriations and transfers of ARPA funding with a net zero impact to the citywide budget, thereby allowing for mechanical adjustments as needed to ensure full compliance with ARPA expenditure guidelines; and
4. Authorize the City Manager, or designee, to negotiate and execute any and all agreements, contracts and documents related to the approved reallocations in the Expenditure Plan for the American Rescue Plan Act funding, including making minor non-substantive changes.

LEGISLATIVE HISTORY:

On March 11, 2021, President Biden signed into law the American Rescue Plan Act 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 and Coronavirus Local Fiscal Recovery Fund, which provided 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:

ARPA aids eligible state, local, territorial, and tribal governments with funding for pandemic response needs, including mitigation and prevention, support to communities and populations most impacted by the COVID-19 pandemic, and filling revenue shortfalls. The City may use funds to best support the needs of the community in alignment with specified statutory categories, including:

1. To respond to the COVID-19 public health emergency or its negative economic impacts;
2. To respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the recipient that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
3. For the provision of government services, to the extent of the reduction in revenue of such recipient due to the COVID-19 public health emergency, relative to revenues collected in the most recent full fiscal year of the recipient prior to the emergency; and
4. To make necessary investments in water, sewer, or broadband infrastructure.

The City of Riverside received Fiscal Recovery Funds in two installments for a total amount of \$73,535,188. The City received the first allocation for \$36,767,594 in June 2021 and the second allocation for \$36,767,594 in June 2022.

On November 9, 2021, the City Council approved the ARPA funding Expenditure Category Plan for the first allocation in the amount of \$36,767,594 following the Interim Final Rule guidelines. Additionally, City Council directed staff to return with an itemized list for Parks infrastructure needs during the second allocation of funding for consideration. The Final Rule was issued on January 6, 2022 and became effective on April 1, 2022.

On November 15, 2022, a preliminary draft of the second round of ARPA funding was presented to City Council. The Mayor and City Council received and provided input to staff on the potential reallocation of additional funding to Parks projects and the Affordable Housing Fund.

On February 7, 2023, the City Council approved the second allocation of ARPA funding which included an additional \$5,000,000 for Parks projects, for total Parks projects funding of \$19,800,000; and \$588,797 for the Affordable Housing Fund, for total Affordable Housing funding of \$1,388,797.

On October 10, 2023, the City Council received an update and approved the reallocation of ARPA funding which included \$3,000,000 to the Citywide Park Improvement Program and \$2,193,244 to General Fund revenue replacement.

On August 20, 2024, the City Council received an update and approved the reallocations of ARPA funding and related supplemental appropriations.

ARPA funding must be obligated no later than December 31, 2024, and expended by December 31, 2026. This report serves as the third and final update to the City Council on the status of ARPA funding prior to the December 31, 2024, obligation deadline.

DISCUSSION:

As the December 31, 2024, ARPA obligation deadline approaches, the City must ensure compliance with all ARPA guidelines to mitigate the risk of funding loss. Failure to meet the ARPA obligation and expenditure deadlines may result in forfeited funds, significantly limiting the City's ability to support critical community recovery and development projects. This could mean missed opportunities for improvements in public safety, health services, and infrastructure, directly impacting residents' quality of life.

In recent months, the City engaged Moss Adams LLP, a consulting firm specializing in ARPA expenditure and grant compliance, to review its ARPA expenditure activity through October 31, 2024. The firm was tasked with providing guidance on the most prudent actions for addressing unobligated and unexpended funds, with the specific goal of minimizing the risk of ARPA funding loss. The recommendations within this report are informed by the experience and guidance of Moss Adams.

Revenue Replacement

During Moss Adams' review, they noted that many recipient entities elected to allocate their funding to revenue replacement under a "Provision of Government Services" program, as this category offers the most flexible use of ARPA funds and helps mitigate the risk of funding loss or untimely obligation and expenditure. This category is subject to streamlined reporting and compliance requirements, covering expenses such as government employee payroll, contracts, grants, supplies, equipment, rent, and other costs associated with service delivery. Unlike other categories, funds allocated under this provision do not need to be reported by individual project but must be substantiated with qualified expenditures incurred during the allowable period and reported as a total amount.

Allocating all unexpended funds to the Provision of Government Services, supported by qualifying public safety expenditures, will allow the City to safely meet the obligation deadline for all unobligated funds, and report all ARPA funding as fully expended well in advance of the expenditure deadline. Leveraging public safety expenditures as qualifying costs,

the savings generated by the ARPA coverage of those qualifying costs can be utilized for the obligated funds' previously approved purpose. Unobligated funds are recommended to be transferred into the General Fund as an unappropriated revenue source pending the first quarter analysis of the City's financial performance for fiscal year (FY) 2024/25.

Capital Projects

During Moss Adams' review, they noted that, according to Treasury guidance, any capital expenditure exceeding \$1 million requires a written justification. This justification includes a description of the harm or need to be addressed and an explanation of why a capital expenditure is appropriate. Additionally, a comparison of the proposed capital project against at least two alternative capital expenditures and demonstration of why the proposed capital expenditure is superior is required.

Due to the impending deadline and analysis necessary to meet this requirement, Moss Adams suggested that the City consider reallocating the project expenditures to the Revenue Replacement - Provision of Government Services category. As a result, staff recommends reallocating FY 2024/25 capital expenditures totaling \$2,716,841.22 for the Northside Heritage Infrastructure project and the Citywide Park Improvement project (refer to Attachment 1).

Other Items

In addition to reallocating capital project expenditures, Moss Adams identified \$10,000 of prior year planning expenditures charged to ARPA for the Parkway Community Gardens Project that was subsequently cancelled by City Council. Costs associated with canceled projects should not be charged to ARPA, as all expenses allocated to ARPA must be justified and connected to allowable projects. As a result, this amount will be reallocated to the Revenue Replacement - Provision for Government Services program.

Reallocation of Expenditure Plan Funds

The following table provides a summary of the ARPA Expenditure Plan (Attachment 1) by Expenditure Category. The Proposed Reallocation represents the sum of the Obligated and Unobligated amounts, plus capital expenditures of \$2,716,841.22 and other expenditures of \$10,000, which will be reallocated to the Revenue Replacement - Provision of Government Services program under the Revenue Replacement category.

Category	Approved Allocation	Expended as of 11/08/2024	Obligated as of 11/08/2024	Unobligated as of 11/08/2024	Proposed Reallocation
1. Public Health	\$1,949,457.16	\$1,251,385.41	\$ 558,250.02	\$139,821.73	\$(698,071.75)
2. Negative Economic Impacts	26,830,804.65	13,413,879.71	12,332,809.30	\$1,084,115.64	(13,416,924.94)
3. Services to Disproportionally Impacted Communities	400,000.00	400,000.00	-	-	-
5. Infrastructure	10,000.00	10,000.00	-	-	(10,000)
6. Revenue Replacement	44,044,926.19	30,926,758.01	7,307,044.73	5,811,123.45	(15,835,009.40)
Revenue Replacement - Provision of Government	-	-	-	-	30,197,303.24

Services					
7. Administrative	300,000.00	62,702.85	-	237,297.15	(237,297.15)
Total	\$73,535,188.00	46,064,725.98	20,198,104.05	\$7,272,357.97	\$ -

Prior Period Revenue Replacement

To date, the City Council approved transfers totaling \$17,324,634.33 to the General Fund for revenue replacement; however, costs were not identified to support the transfer. Staff will correct this oversight by reporting qualifying public safety expenditures for the applicable reporting periods. There is no fiscal impact resulting from this action.

U.S. Department of the Treasury Meeting

Staff will meet with the U.S. Department of the Treasury (Treasury) on December 5th, 2024, to review the actions recommended in this report, as well as amounts allocated in the ARPA expenditure plan and reported in the Treasury’s ARPA portal to date. **Should additional action be required to further safeguard the City’s \$73.5 million ARPA allocation, staff will rely upon the delegations of authority requested in Recommendations #3 and #4 to make the necessary appropriation and accounting adjustments, identify qualifying expenditures, make reallocations, and adjust ARPA reporting to minimize the possibility of funding loss.** These actions will result in a net zero fiscal impact to the citywide budget.

STRATEGIC PLAN ALIGNMENT:

The ARPA Expenditure Plan is interwoven throughout the entire Envision Riverside 2025 Strategic Plan and Goals.

The item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – Riverside is committed to providing a transparent process and gathering community input to support how funds will be used. To assist with these efforts, the City has developed an ARPA webpage that includes program information, a public survey and dedicated ARPA email address.
2. **Equity** – Riverside is supportive of the ongoing evaluation of potential programs and projects that ensure a response to disproportionately impacted groups and the exacerbation of health inequities along racial, ethnic, and socioeconomic lines.
3. **Fiscal Responsibility** – This item ensures fiscal responsibility of ARPA funds via a periodic review of spending activity and critical funding needs and ensuring that ARPA funding is encumbered and expended within the required timeframe.
4. **Innovation** – Riverside is committed to responding to the community’s changing needs and preparing for the future through developing ARPA funded projects/programs that build on collaborative partnerships.
5. **Sustainability & Resiliency** – This item ensures sustainability through ongoing evaluation of projects and programs to allow adaptation to meet the current COVID-19 public health emergency and future needs ensuring the City’s capacity to persevere, adapt, and grow.

FISCAL IMPACT:

There is a net zero fiscal impact to the recommended actions. Upon Council approval, a supplemental appropriation and interfund transfer of \$30,197,303.24, or actual amount, will be recorded from the Grants and Restricted Programs Fund to the General Fund. Of this amount, \$22,914,945.27, or actual amount of obligated funds and reclassified capital expenditures, will be recorded in General Fund departmental budgets in project accounts to be established by the Finance Department. The project accounts will ensure continued transparency as to the use of this ARPA funding.

The balance of unobligated funds, totaling approximately \$7,272,357.97, will be recorded in the General Fund, Transfers In account. This incoming resource will remain intact as an unappropriated revenue source pending the presentation of the FY 2024/25 First Quarter Financial Report and accompanying Council direction.

Due to the complexity of accounting adjustments required for recording past and current qualifying expenditures, staff recommends that Council delegate authority to the Chief Financial Officer, or designee, to make any necessary adjustments to safeguard the City's ARPA allocation of \$73.5 million. These adjustments will have no net fiscal impact to the citywide budget, as they will be limited to the transfer and appropriation of ARPA funds received to date.

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Certified as to availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Edward Enriquez, Assistant City Manager/Chief Financial Officer/Treasurer
Approved as to form: Jack Liu, Interim City Attorney

Attachments:

1. ARPA Expenditure Plan
2. Finance Presentation - Reallocations
3. CMO Presentation – Project Status