



## MEMORANDUM

**TO:** Mayor Diane Wolfe Marlin and Members of the City Council

**FROM:** William A. Kolschowsky, Management Analyst

**DATE:** April 14, 2022

**RE:** **A Resolution Approving the Allocation of ARPA Standard Allowance (Standard Allowance for Lost Public Sector Revenue)**

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### Overview

As part of the American Rescue Plan Act (ARPA), the City of Urbana will receive \$12,970,000 through the Coronavirus State and Local Fiscal Recovery Funds ([SLFRF](#)). The purpose of these funds is to support state and local governments in their response to and recovery from the COVID-19 public health emergency. There are four broad categories in which these funds can be spent: 1) replace lost public sector revenue, 2) respond to the far-reaching public health and negative economic impacts of the pandemic, 3) provide premium pay for essential workers, and 4) invest in water, sewer, and broadband infrastructure. Entities receiving funds are required to fill out periodic reports to the US Department of Treasury. ARPA funds must be obligated by December 31, 2024 and spent by December 31, 2026. Regulatory guidance on the use of funds was published in an [Interim Final Rule](#) in May of 2021.

In order to solicit meaningful public input, draft a concept plan outlining desired outcomes, and monitor and report on uses of ARPA funds in a fiscally responsible, outcome-oriented manner, the City entered into a Project and Fiscal Management Agreement with the Champaign County Regional Planning Commission (RPC) in August of 2021. In conjunction with the City, the RPC developed an ARPA timeline, summarized below and available in full at City's [ARPA website](#).

- Phase 1: Background Research and Synthesis of Priorities: Fall 2021-Spring 2022
- Phase 2: Develop a Concept Plan: Spring 2022
- Phase 3: Implementation: Fall 2022 – Spring 2027

The City is near the end of Phase 1, with the survey and dedicated public input period closing on April 14. The RPC is currently reviewing and synthesizing public input.

### Regulatory Changes Impacting Urbana's ARPA Process

On January 6, 2022, the US Department of Treasury released the [Final Rule](#) for use of SLFRF funding. One major change, beneficial to municipalities, was a new option for replacing lost public sector revenue. As an alternative to using the multi-year calculation method outlined in the Interim Final Rule, the Final Rule offers a "Standard Allowance" of up to \$10 million. By using the "Standard Allowance", recipients may use up to \$10 million of funds on government services, broadly defined as any service traditionally provided by a government (unless other regulations prohibit). The Standard Allowance provides recipients with the most flexible use of funds coupled with streamlined reporting and compliance requirements.

The [Project and Expenditure Report User Guide Vol. 2](#), published on April 1, 2022 states:

*As outlined in the final rule, recipients will have the option to make a one-time decision to either calculate revenue loss according to the formula outlined in the final rule or elect a "Standard Allowance" of up to*

*\$10 million, not to exceed the award allocation, to spend on government services throughout the period of performance. **Recipients must make this one-time decision during the April 2022 reporting deadline.***

The City's project and expenditure report is due April 30. At this time, the City will have to decide 1) which lost revenue allocation method to use, and 2) if using the "Standard Allowance", how much to allocate (up to \$10 million).

Unfortunately, this newly created and unanticipated deadline does not correspond well to the City's current ARPA process.

### **Previous Discussion Concerning the Use of ARPA Funds for General Governmental Services**

At the [January 24, 2022 City Council Meeting](#), it was briefly discussed during the ARPA presentation that the City would be developing a proposal for a revenue replacement allotment needed to maintain effective service delivery levels.

At the [February 28, 2022 City Council Meeting](#), the Mayor and City Council had a preliminary discussion on the need for using ARPA funds for lost revenue and some potential projects and expenditures that would become possible if the City used the Standard Allowance. At the meeting, the Mayor proposed taking a Standard Allowance amount of approximately \$6.5 million. This allocation would either directly pay for, or facilitate, the following:

- \$2,500,000 for general services, in part related to loss of revenue from lower census figures<sup>1</sup>
- \$1,000,000 for multi-purpose space in two new fire stations
- \$415,180 for program administration (RPC Contract)
- \$84,820 for program administration (other incidental City expenses)
- \$2,500,000 for the Urbana Park District Health and Wellness Center

Council discussion did not bring up any concerns about using the Standard Allowance for general services. However, several council members shared concerns about using the Standard Allowance for projects that would otherwise be eligible for ARPA funds and subject to the City's ARPA Concept Plan process.

Concerning eligibility for ARPA funds, many of the proposed uses would be eligible under alternative SLFRF categories:

- Program Administration: is an explicitly identified eligible expense.
- Urbana Park District Health and Wellness Center: given the proposed nature and use, it would very likely qualify under "*Responding to Public Health and Economic Impacts of COVID-19*".
- Fire Station Community Space: the Final Rule clarifies that capital expenditures may be an eligible expense by using the same eligibility standards as other eligible uses in regards to responding to the public health and economic impacts of COVID-19. Therefore, this expense could potentially be eligible, depending on its purpose and programming.

### **Options and Outcomes**

As stated above, on the April 30, 2022 report, the City will have to indicate 1) which lost revenue allocation method to use, and 2) if using the Standard Allowance, how much to allocate (up to \$10 million). Given the nature of the methodology and future economic uncertainty, the original lost revenue allocation method is not well suited to the City's needs, and the Standard Allowance is preferred.

Using the Standard Allowance, the City must select an amount between \$0 and \$10 million. A few allocation options and their outcomes are summarized below. The April 30 deadline is for the allocation of funds; actual expenditures of the funds would come at a later date, either in the FY 23 adopting Budget Ordinance or in a budget amendment, as appropriate. In either case, the City Council will vote on the expenditure of the funds allocated under the Standard Allowance.

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<sup>1</sup> The Mayor intends to propose with the FY23 budget a one-time, across the board COVID Recognition Payment that acknowledges the extraordinary work that every City employee put forth over the past two years and counting. This would not be considered Premium Pay under the Treasury guidelines for use of recovery funds. However, using the Standard Allowance to pay for general services would lessen the burden of this payment on the City's Fund Balance.

Allocate \$10 million. Electing \$10 million under the Standard Allowance would cover all expected negative revenue impacts and provide the City maximum flexibility for the use of funds and in reporting requirements. The financial security gained by using these funds for general services would potentially free up other City capacity that could be used to support programs and projects that would support the forthcoming Concept Plan. By using non-ARPA funding for these priorities, different programs may be eligible for funding and the reporting requirements would be less burdensome. The drawback to allocating the full amount is that this would deviate from the originally proposed ARPA process and that using alternative funds to fulfill Concept Plan priorities would not immediately happen and would require a further staff work and discussion with the Mayor and City Council.

Allocate \$2.5 million. Electing \$2.5 million under the Standard Allowance would allow the City to confidently maintain current service delivery levels in the face of expected Census-related revenue loss and rising costs. As a result of the 2020 Census, the City's population dropped by 2,914 people, or nearly 7%. This will result in a reduction of State transfers to the City, costing the General Fund approximately \$500,000 a year. Motor Fuel Fund transfers would be reduced by approximately \$115,000 a year. Additionally, because of the flexibility of the "Standard Allowance", these funds could also help offset any increase in costs, especially with regards to staffing. Without the "Standard Allowance" the City would only be able to address any potential staff costs in a limited way using ARPA Premium Pay provisions; Premium Pay requirements restrict payments for: the period of time, scope of work, and maximum wages.

It is staff's expectation that \$2.5 million will be sufficient to absorb Census losses and increases in cost of governmental services until a cost/benefit analysis of a Special Census can be conducted. This figure has been previously discussed with City Council in a public setting and has not received any direct negative feedback. Allocating this amount would be a direct response to a discrete need. An allocation of \$2.5 million would balance the City's financial stability with current ARPA priorities and process.

Allocate \$0. Not electing any Standard Allowance would result in having more funds available to fund projects and programs that meet the priorities of the forthcoming ARPA Concept Plan. However, general governmental services are not typically eligible for ARPA funds. This would limit the City's flexibility and resiliency in providing core governmental services. In the event that the City's financial condition worsened, the City would not be able to use ARPA funds to maintain existing service levels.

### **Recommendation**

It is recommended that the City allocate no less than \$2.5 million of ARPA funds using the "Standard Allowance" on the April 30 Project and Expenditure Report. This \$2.5 million would provide the City financial stability and flexibility in providing core services for the next few years while complying with the intent of the ARPA process.

The City may also elect a greater Standard Allowance, up to the \$10 million maximum. This would not necessarily prohibit funding ARPA priorities. Any future City funds dedicated to the priorities would be more flexible and have less administrative burden. Decisions on the use of other funds would come at a later date and could coincide with the ARPA process.

### **Attachments**

1. A Resolution Approving the Allocation of the ARPA Standard Allowance: Standard Allowance for Lost Public Sector Revenue

**RESOLUTION NO. \_\_\_\_\_**

**A RESOLUTION APPROVING THE ALLOCATION OF ARPA STANDARD ALLOWANCE**

**Standard Allowance for Lost Public Sector Revenue**

**WHEREAS**, the City of Urbana, classified as a metropolitan city with a population below 250,000, was awarded \$12.97 million in funds as part of the State and Local Fiscal Recovery Fund (SLFRF) under the American Rescue Plan Act (ARPA) in March 2021; and

**WHEREAS**, the US Department of the Treasury released its Final Rule on the Coronavirus State and Local Fiscal Recovery Funds on January 6, 2022, effective April 1, 2022; and

**WHEREAS**, the Final Rule revised the methodology for replacing lost public sector revenue by offering an additional option of a standard allowance for revenue loss of up to \$10 million and allows entities to use that amount for governmental services, with streamlined reporting requirements; and

**WHEREAS**, the City’s initial project and expenditure report is due on April 30, 2022, and on this report the City must indicate its one-time decision on whether to elect a “Standard Allowance” of up to \$10 million.

**NOW, THEREFORE, BE IT RESOLVED** by the City Council, of the City of Urbana, Illinois, as follows:

The City of Urbana, using the “Standard Allowance” methodology allowed by the Final Rule, allocates \$2.5 million of ARPA SLFRF funds for the purposes of replacing lost public sector revenue to be spent on governmental services.

**PASSED BY THE CITY COUNCIL** this Date day of Month, Year.

AYES:

NAYS:

ABSTENTIONS:

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Phyllis D. Clark, City Clerk

**APPROVED BY THE MAYOR** this Date day of Month, Year.

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Diane Wolfe Marlin, Mayor