

MEMORANDUM



TO: MAYOR, VICE MAYOR AND CITY COUNCIL

FROM: BUDGET TEAM

DATE: JUNE 30, 2021

SUBJECT: UPDATE ON THE AMERICAN RESCUE PLAN ACT (ARPA) FUNDING

The American Rescue Plan Act (ARPA) for State and Local Recovery Funds (SLFRF) provide a substantial infusion of resources to help turn the tide on the pandemic, address its economic fallout, and lay the foundation for a strong and equitable recovery. The American Rescue Plan Act for State and Local Fiscal Recovery Funds provide substantial flexibility for each government to meet local needs—including support for households, small businesses, impacted industries, essential workers, and the communities hardest hit by the crisis. These funds can also be used to make necessary investments in water, sewer, and broadband infrastructure.

On May 10, 2021, the United States Treasury released an Interim Final Rule (IFR) related to the guidance for eligible use of ARPA funds. There is a 60-day comment period which closes July 16, 2021 and then after reviewing comment they will issue a Final Rule which may differ slightly from the previous rule. The release of the Interim Final Rule gives the City of Flagstaff more guidance to what we can use the funds for within our city and community.

The US Treasury is also releasing Frequently Asked Questions (FAQs) which provides further understanding of how cities can apply the Interim Final Rule. In addition, the US Treasury has created a Compliance and Reporting Guidance document which we are beginning to review. A team of Stacey Brechler-Knaggs, Grants and Contracts Manager, Sarah Langley, Management Analyst and Rick Tadder, Management Services Director, have been participating in several education opportunities and had discussed the ARPA funding with the Budget Team.

The Compliance and Reporting Guidance breaks down the available expenditures into 7 categories and 66 reporting subcategories. The list on the following page provides a high-level list of allowable uses of ARPA funding:

Category	Example of eligible expenditures
Public Health Response	COVID-19 mitigation and prevention, medical expenses, public health related wages, mental health, and other public health services
Negative Economic Impacts	Small business assistance, aid to tourism, travel, hospitality, non-profits and impacted industries, rehiring staff, household assistance, and job training,
Services to Disproportionately Impacted Communities	Education assistance, healthy childhood environments, housing support, and social determinants
Premium Pay for Essential Employees	Premium pay to public sector employees

Category	Example of eligible expenditures
Revenue Replacement	Organizational wide revenue loss
Water, Sewer, and Broadband Infrastructure	Clean water, drinking water, broadband last mile projects and other broadband projects defined by the US Treasury
Administrative	Administrative expenses, data analysis and transfers to other governments

Recap of FY 2021-2022 Budget and City Allocation

During the April Budget Retreat, the Budget Team outlined our initial thoughts and expectations related to the ARPA Local Recovery funding based on the bill that was passed and signed by President Biden. We attempted to formulate some options for utilizing the funds, but also mentioned that until we get the US Treasury guidance they are not set in stone. The Budget Team’s purpose was to put some budgetary expense in our FY 2021-2022 budget to assure we had the appropriations to spend the funds. At the time, estimates provided by for the City of Flagstaff allocation was \$15.2 million. The Budget includes appropriations for this full amount broken into two methods.

1. The amounts we projected as revenue loss of approximately \$9 million is shown as a Revenue Transfer to the funds that were impacted and subsequently, we budgeted additional items to utilize these new funds.
2. The remaining \$6.2 million is budgeted in the ARPA Grant Fund with the use of these funds to be determined after we receive final guidance from the US Treasury.

When the Interim Final Rule was released, the US Treasury also updated the allocations to cities with the City of Flagstaff allocation being \$13.3 million, approximately \$2 million less than originally estimated. This information was shared with City Council in an email on May 12, 2021. For the official allocation to metropolitan cities, like Flagstaff is, there were 142 cities included in the list of metropolitan cities even though they had “deferred or relinquished” their entitlement. Those were not included in estimates from Congress. We have learned that this is unlikely to change.

While the adopted budget is higher than the new allocation, we will only be able to spend the allocated amounts.

The City submitted for our first half of the funds and received \$6,626,408 and the second half of the funds will likely be received June 2022.

Concerns About the US Treasury Interim Final Rule

There are some portions of the Interim Final Rule that we recommend outreach to the US Treasury during the comment period.

Revenue Loss Calculation: The US Treasury in the Interim Final Rule and further guidance by way of the Frequently Asked Question response has provided some specific guidance on how cities can calculate our revenue loss due to the pandemic. The base year for our calculations will be the Fiscal Year ended June 30, 2019. The revenue loss will be calculated as the entire organization revenues (excluding utilities) and is based on the US Census definitions of general revenues. This does not consider that revenue resources are restricted for certain uses and that certain revenue were heavily impacted by the pandemic such as our BBB Funds which rely heavily on tourism related activities. So those impacts are blended into the entire organization revenues. The calculation excludes all federal funding but includes all state funding including grants that may be one-time in nature for projects.

The biggest concern is that there is no guidance related to taxes and fees adopted after the baseline revenues are determined at June 30, 2019. Our city revenue increases after this date include:

- Lone Tree Overpass tax adopted by the citizens and effective July 1, 2019 with an estimated new revenue of \$5 million,
- Our Use Tax increase adopted August 1, 2019 with an estimated new revenue of \$900,000,
- The new Market Place retail sales tax effective October 1, 2019 with an estimated new revenue of \$830,000,
- Stormwater fee increase on July 1, 2019 with an estimated new revenue of \$2+ million and some various other revenue increases.

These are almost \$9 million in new revenues to address specific projects and needs of our communities. If those are included in our calculation, this will wipe out \$9 million of our actual revenue losses during the pandemic. It is unreasonable for the US Treasury to not allow these types of deductions and we need to voice our concerns during the comment period. Staff will be working on a white paper, contacting our lobbyist, and providing information on how to submit our concerns.

So, why is revenue loss calculation important for the City of Flagstaff? By recognizing revenue loss to be supplemented with ARPA funding, this provides unrestricted resources to be spent as the City determines and no longer is tied to the other ARPA restriction. Had the City not seen revenue loss related to the pandemic, there would have been many more priority operation needs address in our budget.

In April, we were estimating about \$9 million in revenue losses over several funds across our city. The table below summarizes the revenue losses by fund which the Budget Team discussed at the retreat and provided recommendations for uses. Without the change in the revenue loss formula, the \$9 million in lost revenues would be offset by the \$9 million in new taxes and fees we are collecting. We will not be able to spend the funds that were allocated for many important infrastructure, equipment, and operational needs. Some material items in the General Fund were:

- \$500,000 for both Climate Action and Housing Emergencies,
- \$250,000 fiber grant match,
- \$200,000 each for leased building improvements and electrifying vehicles,
- and several other priority needs.

Estimated Revenue Loss by Fund	Estimated Revenue Loss March 2020 to June 2021	FY 2021-2022 Budget Adoption
General Fund	\$ 4,424,000	Various operational needs
Beautification	450,800	Added to fund balance
Economic Development	214,175	Business grants/incentives, Master Plan
Tourism	670,000	Winter clean up, clean team, reduce General Fund support
Arts and Science	169,075	Arts grants and fund balance
Recreation BBB	743,750	Add to westside park
Highway User Revenue	968,000	Equipment Replacement
Park Flag	1,408,400	Reserve
	\$ 9,048,200	

Of note, there are some items approved may be eligible for use of ARPA funding based on the current guidance we are receiving, but not all items would fall under eligible ARPA uses.

Next Steps:

1. Staff is requesting to have Council submit a comment to the US Treasury related to the Revenue Loss calculations. The memo provides similar talking points as mentioned above. Change is critical to allow our city to replace truly lost revenues that are not offset by new fees and taxes approved after the 6/30/2019 base year for calculating revenues. This is a \$9 million impact. Sarah Langley has provided a letter (attached) for submitting comments on behalf of Council on July 9th. In addition, staff will also be providing comments to the US Treasury and sharing our comments with other cities to encourage that they submit comments as well.
2. Staff will continue to gain education on ARPA and will provide Budget Team updates on the Interim Final Rule and the newly released Compliance and Reporting Guidance report. Budget Team will look to make some smaller authorizations of use of ARPA funds over the next several weeks. Some items being considered are small business grants, events grants, fee waivers for events, and Human Resources recruitment assistance. We look to continue moving these items forward, as timing is important to get some community benefits provided from ARPA funding, and to assist the City in filling many vacant positions.
3. After the summer break, we will schedule an agenda item to provide Council an update on the ARPA funding and offer open discussion for Council to provide feedback and direction in relation to utilizing the funds. Attached is a list of current eligibility categories from ARPA fund use. Eligible Costs Timeframe begins on March 3, 2021 and ends on December 31, 2024, if the funds for the obligations incurred by December 31, 2024 are expended by December 31, 2026.

If Council has any questions related to the American Rescue Plan Act, please direct those to Rick Tadder at rtadder@flagstaffaz.gov or 928-213-2205.

Attachments

- City Council Letter to US Treasury
- List of ARPA eligible expenditure categories from the Compliance and Reporting Guidance

References:

US Treasury Website for State and Local Recovery Funds:

<https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds> (*Frequently asked questions are on the right*)

US Treasury Comment Website:

<https://www.regulations.gov/document/TREAS-DO-2021-0008-0002>



July 6, 2021

Honorable Secretary Janet Yellen
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

RE: Concerns related to revenue loss calculation

As members of the Flagstaff City Council, we would like to express our gratitude and appreciation for the passage of the American Rescue Plan Act (ARPA) of 2021, which recognizes the critical role that cities play in the provision of essential services and in supporting the health and well-being of their residents. After the release of the Interim Final Rule and subsequent Frequently Asked Questions documents, the City of Flagstaff identified several areas in which guidance could be improved to allow for the most efficient and effective use of funds. Before issuing the Final Rule, the City requests that the Treasury make the following three changes:

1. **Exclude new taxes and fees from the revenue loss calculation.** The most significant concern for the City of Flagstaff is that Treasury-issued guidance instructs municipalities to include in their lost revenue calculations new taxes and fees that were adopted after June 30, 2019. Prior to the COVID-19 pandemic, the City of Flagstaff had already planned to adopt several new taxes and fees to support specific projects to serve its residents. These funds are already encumbered and cannot be used to backfill revenue lost due to COVID-19. Specific taxes and fees adopted by the City after June 30, 2019 include:

Revenue Purpose	Effective Date	New Revenue Amount
Lone Tree Overpass	July 1, 2019	\$5,000,000
Use tax increase	August 1, 2019	\$900,000
Market Place retails sales tax	October 1, 2019	\$830,000
Stormwater fee increase	July 1, 2019	\$2,000,000+
Total		\$8,730,000+

The City of Flagstaff calculated that it has seen over \$9M in lost revenues due to the COVID-19 pandemic. If new revenues are not excluded from the revenue loss calculation formula, the City's new revenues will nearly offset any revenue loss funds the City would be able to receive from ARPA, thereby eliminating the City's ability to fund \$9M in capital and operational priorities that were not funded due to pandemic revenue loss.

2. **Allow cities to calculate lost revenue at the fund level.** Treasury-issued guidance instructs municipalities to calculate lost revenue at the entity-wide level. While we understand that the intention is to relieve administrative burdens, this approach fails to recognize that cities use fund-level accounting and that many



CITY OF FLAGSTAFF

FLAGSTAFF CITY COUNCIL

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types of revenues are restricted for specific uses. For example, revenue generated by the City's Bed Board and Beverage (BBB) tax experienced steep declines due to the drop in tourism-related activities caused by the COVID-19 pandemic. Grouping lost BBB revenues together with revenue declines and surpluses in other funds masks the impacts to the service areas that experienced significant revenue losses.

3. **Exclude one-time grants from the revenue loss calculation.** Treasury-issued guidance instructs municipalities to include state grants in their lost revenue calculations. The City often receives one-time state grant funding for projects and equipment which are restricted for specific use and is not available to offset revenue losses in the organization. For example, we have received grants for public safety equipment, forest fuel reductions, and library support which cannot be used to offset revenue losses due to the pandemic. This would lead to overstated revenue calculations as these grants are one-time revenue sources that may not continue in future fiscal years and are restricted for use.

The Flagstaff City Council believes that the three changes requested above would shape the Final rule to better reflect the original intent of the American Rescue Plan Act and enable local governments to adequately address negatively impacted revenues in our community.

Sincerely,

Paul Deasy
Mayor of Flagstaff

Becky Daggett
Vice Mayor of Flagstaff

Austin Aslan
Flagstaff City Councilmember

Jim McCarthy
Flagstaff City Councilmember

Regina Salas
Flagstaff City Councilmember

Adam Shimoni
Flagstaff City Councilmember

Miranda Sweet
Flagstaff City Councilmember

**Appendix 1: Expenditure Categories**

The Expenditure Categories (EC) listed below must be used to categorize each project as noted in Part 2 above. The term “Expenditure Category” refers to the detailed level (e.g., 1.1 COVID-10 Vaccination). When referred to at the summary level (e.g., EC 1) it includes all Expenditure Categories within that summary level.

1: Public Health	
1.1	COVID-19 Vaccination ^
1.2	COVID-19 Testing ^
1.3	COVID-19 Contact Tracing
1.4	Prevention in Congregate Settings (Nursing Homes, Prisons/Jails, Dense Work Sites, Schools, etc.)*
1.5	Personal Protective Equipment
1.6	Medical Expenses (including Alternative Care Facilities)
1.7	Capital Investments or Physical Plant Changes to Public Facilities that respond to the COVID-19 public health emergency
1.8	Other COVID-19 Public Health Expenses (including Communications, Enforcement, Isolation/Quarantine)
1.9	Payroll Costs for Public Health, Safety, and Other Public Sector Staff Responding to COVID-19
1.10	Mental Health Services*
1.11	Substance Use Services*
1.12	Other Public Health Services
2: Negative Economic Impacts	
2.1	Household Assistance: Food Programs* ^
2.2	Household Assistance: Rent, Mortgage, and Utility Aid* ^
2.3	Household Assistance: Cash Transfers* ^
2.4	Household Assistance: Internet Access Programs* ^
2.5	Household Assistance: Eviction Prevention* ^
2.6	Unemployment Benefits or Cash Assistance to Unemployed Workers*
2.7	Job Training Assistance (e.g., Sectoral job-training, Subsidized Employment, Employment Supports or Incentives)* ^
2.8	Contributions to UI Trust Funds
2.9	Small Business Economic Assistance (General)* ^
2.10	Aid to Nonprofit Organizations*
2.11	Aid to Tourism, Travel, or Hospitality
2.12	Aid to Other Impacted Industries
2.13	Other Economic Support* ^
2.14	Rehiring Public Sector Staff
3: Services to Disproportionately Impacted Communities	
3.1	Education Assistance: Early Learning* ^
3.2	Education Assistance: Aid to High-Poverty Districts ^
3.3	Education Assistance: Academic Services* ^
3.4	Education Assistance: Social, Emotional, and Mental Health Services* ^
3.5	Education Assistance: Other* ^
3.6	Healthy Childhood Environments: Child Care* ^
3.7	Healthy Childhood Environments: Home Visiting* ^
3.8	Healthy Childhood Environments: Services to Foster Youth or Families Involved in Child Welfare System* ^



3.9	Healthy Childhood Environments: Other* ^
3.10	Housing Support: Affordable Housing* ^
3.11	Housing Support: Services for Unhoused Persons* ^
3.12	Housing Support: Other Housing Assistance* ^
3.13	Social Determinants of Health: Other* ^
3.14	Social Determinants of Health: Community Health Workers or Benefits Navigators* ^
3.15	Social Determinants of Health: Lead Remediation ^
3.16	Social Determinants of Health: Community Violence Interventions* ^
4: Premium Pay	
4.1	Public Sector Employees
4.2	Private Sector: Grants to Other Employers
5: Infrastructure²⁷	
5.1	Clean Water: Centralized Wastewater Treatment
5.2	Clean Water: Centralized Wastewater Collection and Conveyance
5.3	Clean Water: Decentralized Wastewater
5.4	Clean Water: Combined Sewer Overflows
5.5	Clean Water: Other Sewer Infrastructure
5.6	Clean Water: Stormwater
5.7	Clean Water: Energy Conservation
5.8	Clean Water: Water Conservation
5.9	Clean Water: Nonpoint Source
5.10	Drinking water: Treatment
5.11	Drinking water: Transmission & Distribution
5.12	Drinking water: Transmission & Distribution: Lead Remediation
5.13	Drinking water: Source
5.14	Drinking water: Storage
5.15	Drinking water: Other water infrastructure
5.16	Broadband: “Last Mile” projects
5.17	Broadband: Other projects
6: Revenue Replacement	
6.1	Provision of Government Services
7: Administrative	
7.1	Administrative Expenses
7.2	Evaluation and Data Analysis
7.3	Transfers to Other Units of Government
7.4	Transfers to Non-entitlement Units (States and territories only)

*Denotes areas where recipients must identify the amount of the total funds that are allocated to evidence-based interventions (see Use of Evidence section above for details)

^Denotes areas where recipients must report on whether projects are primarily serving disadvantaged communities (see Project Demographic Distribution section above for details)

²⁷ Definitions for water and sewer Expenditure Categories can be found in the EPA’s handbooks. For “clean water” expenditure category definitions, please see: <https://www.epa.gov/sites/production/files/2018-03/documents/cwdefinitions.pdf>. For “drinking water” expenditure category definitions, please see: <https://www.epa.gov/dwsrf/drinking-water-state-revolving-fund-national-information-management-system-reports>.