



MEMORANDUM

TO: Timothy J. Baroody, City Manager
FROM: Brenna Erford, Budget Manager
DATE: August 17, 2021 (for August 24, 2021 City Council Meeting)
SUBJECT: Amending the FY 2022 Budget to Appropriate American Rescue Plan Act Funds

ISSUE

City Council is asked to amend the FY 2022 budget to appropriate \$5,000,000 in federal pandemic assistance awarded to the City through the American Rescue Plan Act (“ARPA”) to fund eligible capital projects, homelessness initiatives, ongoing City operations and ongoing COVID-19 pandemic response.

RECOMMENDATION

A public hearing was held at the August 10, 2021 meeting and was held open through the August 24, 2021 meeting. There are some new developments concerning the capital projects and COVID response portions of the funding that require additional development. Therefore, the staff wishes to bring forward a resolution for first reading on September 14, 2021.

DISCUSSION

Signed into law on March 11, 2021, The American Rescue Plan Act of 2021 provided \$350 billion in additional funding for state and local governments. As a Community Development Block Grant (CDBG) entitlement jurisdiction, the City of Fredericksburg has been awarded \$10.78 million from this funding pool, which will be disbursed to the City direct from the U.S. Treasury in two tranches. The first half of the total award was received in June 2021, and the second and final payment is anticipated to be received in May 2022.

Staff recommends that the second part of the payments be considered and included along with the FY 2023 budget process (March – May 2022).

Additional Background – Eligible Uses

All expenditures of ARPA funds must meet the eligibility requirements for the use of the funds outlined by the federal government. There are four broad categories of eligibility, as listed in the following table.

Eligible Uses	Restrictions
<ul style="list-style-type: none">• Revenue replacement for the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency, relative to	<ul style="list-style-type: none">• Funds allocated to states cannot be used to directly or indirectly to offset tax reductions or delay a tax or tax increase;

Eligible Uses	Restrictions
revenues collected in the most recent fiscal year prior to the emergency, <ul style="list-style-type: none"> • COVID-19 expenditures or negative economic impacts of COVID-19, including assistance to small businesses, households, and hard-hit industries, and economic recovery, • Premium pay for essential workers, • Investments in water, sewer, and broadband infrastructure. 	<ul style="list-style-type: none"> • Funds cannot be deposited into any pension fund. • Funding must be spent by the end of calendar year 2024.

Investment in critical infrastructure is particularly suitable use of ARPA funds because it is a non-recurring expenditure that can be targeted to strategically important long-term assets that provide benefits over many years.

Revenue Replacement Determination – Special Discussion

The category listed as Revenue Replacement (or “Revenue Loss”) provides for uses for ARPA local relief funds that is fairly broad and involves the provision of “government services.” US Treasury’s Interim Final Rule provides a non-exclusive list of “government services” that include providing services or aid to citizens. Under the rule, municipalities can also spend on pay-go building, which means that a municipality can start a capital project with these funds and finish it with future economic revenues or bonds. Other areas listed as non-exclusive include cybersecurity; healthcare services; school or education services; and police, fire, or public safety.

The Act provides a calculation to determine what a local government can assume as “lost revenue” given various assumptions about revenue growth prior to the pandemic. Staff has applied the formula in the rule and determined that the City can utilize \$8.4 million, which is 77% of the total fiscal aid, under the revenue loss criteria.

US TREASURY RULE, REVENUE LOSS CALCULATION

Base year City of Fredericksburg total revenue (FY19)	\$ 107,004,453
Treasury-specified annual revenue growth assumption, FY17-FY19	4.10%
Average annual general revenue growth, FY17-FY19	3.98%
Reference amount	4.10%
Growth factor to use (greater of the two options):	4.10%
Actual FY20 revenue	\$ 105,211,877
18 months / through Dec 31 2020	18
Revenue factor (4.1% annual rate @ 18 months)	6.21%
Revenue, adjusted (FY21 proxy)	\$ 113,652,226
FY21 Revenue Loss	\$ 8,440,349

The water & wastewater capital projects partially funded by this proposal meets eligibility criteria for ARPA funds under both the revenue loss and water & sewer capital infrastructure scenarios. The pandemic relief funding would also meet the criteria for COVID-19 expenditures, so that all spending of the direct ARPA relief will meet one of those three criteria.

The Commonwealth of Virginia General Assembly is also meeting in special session currently to determine how the Commonwealth will be utilizing the federal resources available to it under the ARPA. This proposal does not address any revenue that the state may share with us in addition to the direct federal grant. Staff will continue to monitor the special session and inform Council and propose budget amendments as necessary once the General Assembly budget is finalized as well.

FISCAL IMPACT

The proposed budget amendment increases total Fund 230 revenue and expenditures by \$5 million. The City has received a payment of \$5,391,374 and should receive a second payment of that amount next year. The difference between the \$391,374 may be held as a pandemic-related reserve and, if not spent, be included in the next year's budget process as well.

The capital projects proposal includes several items that will be eligible under the criteria, that are scheduled to be funded using debt issuance. The use of ARPA funds for these projects would offset future debt issuance to a degree, although debt issuance will still be necessary to do all of them. This use of ARPA funds saves future interest costs. The four projects under consideration together are well in excess of \$2 million, and they include:

- 1) The City's share of an expanded Motts Water Treatment Plant project, including the purchase of additional capacity;
- 2) The replacement of pedestrian bridges over the Rappahannock Canal;
- 3) The replacement of streetlights in the downtown area that are at the end of their useful life; and
- 4) A portion of the Wastewater Treatment Plant project.

The homelessness initiatives are a programmatic set-aside as proposals are developed by the staff and the George Washington Regional Commission to address homelessness issues within the City. The additional set-aside of \$1 million for pandemic response is for expenditures related to the pandemic, similar to expenditures made under the CARES Act.



August 24, 2021
Regular Meeting
Resolution 21-

MOTION:

SECOND:

RE: Amending the Fiscal Year 2022 Budget to Appropriate Federal American Rescue Plan Act Funds

ACTION: APPROVED: AYES:0; NAYS: 0

FIRST READ: _____

SECOND READ: _____

The City Manager has submitted to the City Council a proposed amendment to the FY 2022 budget.

The City Council wishes to utilize federal American Rescue Plan Act (ARPA) funds to support critical City capital projects; pursue homelessness initiatives; and support the City's ongoing pandemic response.

Therefore, the City Council resolves that that total appropriations of \$5,000,000 be made on a project basis in the following funds. Revenues will be used to reduce other funding sources for capital projects. The full budget amounts are shown as follows:

Fund 230

Sources

ARPA Federal Assistance	0230	3xxxxx	\$ 5,000,000
TOTAL			\$ 5,000,000

Uses

ARPA Homelessness Initiatives	0230	4xxxxx	\$ 2,000,000
ARPA Transfer to Capital	0230	4xxxxx	\$ 2,000,000
ARPA Pandemic Response	0230	4xxxxx	\$ 1,000,000
TOTAL			\$ 5,000,000

Fund 303

Sources

Transfer from ARPA	0303	3xxxxx	\$ 1,000,000
Bond Issues	30398140	341040	(1,000,000)
TOTAL			\$ -

Fund 304

Sources

Transfer from ARPA	0303	3xxxxx	\$ 1,000,000
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Bond Issues	0303	341040	(1,000,000)
TOTAL			\$ -

The annual appropriation in the sum of \$5,000,000 for Fiscal Year 2022 be made from the CARES ACT COVID-19 RELIEF FUND (Fund 230) which monies are to be expended in accordance with law for purposes authorized and approved by the Fredericksburg City Council; and appropriations listed above shall take effect July 1, 2021, and will expire upon completion of the project, in accordance with federal guidelines.

The City Council further resolves that the City Manager is authorized to make line item changes within budget program totals and such changes shall be reported to the City Council by way of periodic financial reports. The City Council further resolves that as of the close of Fiscal Year 2022, the City Manager is authorized to amend the Fiscal Year 2023 budget and appropriate the balance of any unexpended funds.

Votes:

Ayes:

Nays:

Absent from Vote:

Absent from Meeting:

Clerk's Certificate

I certify that I am Clerk of Council of the City of Fredericksburg, Virginia, and that the foregoing is a true copy of Resolution No. 21- , adopted at a meeting of the City Council held August 24, 2021, at which a quorum was present and voted.

***Tonya B. Lacey, MMC
Clerk of Council***



**NOTICE OF PUBLIC HEARING
CITY OF FREDERICKSBURG FY 2022 BUDGET AMENDMENT APPROPRIATING
AMERICAN RESCUE PLAN ACT FUNDS**

A FY 2022 budget amendment appropriating American Rescue Plan Act funds on a project basis is hereby prepared and published solely for the purpose of fiscal planning and public information. The City Council will hold a Public Hearing on this budget amendment Tuesday, August 10, 2021 at 7:00 p.m., or as soon as practicable thereafter, at the City Hall Council Chambers, 715 Princess Anne Street, Fredericksburg, Virginia. All citizens have the right to attend and share their views on the proposed budget within such reasonable time limits as shall be determined by the City Council. Additional public access to the meeting will be provided by television broadcast on Cox Channel 84 and Verizon Channel 42 or online at www.regionalwebtv.com/fredcc and www.facebook.com/FXBGgov. Speakers should submit written public hearing comments.

AMERICAN RESCUE PLAN ACT, FUND 230 – Federal Assistance

Revenues:

Federal Government.....	\$ 5,000,000
Total Revenues.....	\$ 5,000,000

Expenditures:

Capital Projects	\$ 2,000,000
Homelessness Initiatives	\$ 2,000,000
COVID-19 Pandemic Response.....	\$ 1,000,000
Total Expenditures	\$5,000,000

Written public hearing comments received by 4:30 p.m. on August 10, 2021 will be read into the record at the public hearing. People may deliver their written comments by (1) dropping them in the Deposit Box at City Hall, (2) U.S. Mail, (3) through a form on the City website: <https://www.fredericksburgva.gov/677/public-comment> or (4) email to the Clerk of Council. Persons requiring accommodations to facilitate participation are encouraged to contact the City Manager’s Office at (540) 372-1010.

This proposed synopsis is for informative and fiscal planning purposes only and does not constitute an obligation or commitment on the part of the City Council.

Mary Katherine Greenlaw
Mayor