
I N T E R

O F F I C E

MEMO

To: Randy Recklaus, Village Manager
From: Tom Kuehne, Finance Director/Treasurer
Date: June 18, 2021
Subject: AMERICAN RESCUE PLAN GRANT – SPENDING PROPOSAL

Over the past 12 years the Village has weathered two significant recessionary events. In 2008, the subprime mortgage crisis caused the Great Recession that devastated world financial markets, as well as banking, real estate, and other industries. To stave off a prolonged economic depression, the federal government stepped in to bailout numerous financial institutions and businesses. However, other businesses and governments were forced to retrench in order to bring their finances in balance. During this time, the Village reduced its staffing level by about 10%. Although staffing levels have remained at this lower level, it took the Village a number of years to regain its solid financial footing.

The Great Recession was followed by the Coronavirus pandemic which started in March 2020. For health and safety reasons, the Pandemic required the immediate shut down of the economy resulting in the immediate decrease in a number of the Village's revenue sources. By keeping vacant positions open, using reserves, reducing other expenses, and through the receipt of federal grants, the Village has been able to weather the recent coronavirus recession. In 2020, the Village received \$590,000 in federal Cares Act funds and \$122,500 in other federal grants, as part of the federal response to the pandemic's effects on local government finances. To provide additional economic stimulus, in 2021 the federal government approved the American Rescue Plan.

American Rescue Plan

The American Rescue Plan (ARP) Act of 2021 is a \$1.9 trillion economic stimulus bill passed by Congress to speed up the recovery from the economic and health consequences of the Pandemic. The ARP provides funding for economic impact payments, the expansion of the child tax credit, a state and local fiscal recovery fund, a homeowner assistance fund, capital projects funds, emergency rental assistance, a state small business credit initiative, employee retention and paid leave credit programs, and expanded unemployment compensation payments.

Of the \$350 billion allocated to the state and local fiscal recovery fund, \$65.1 billion is included for financial assistance for municipalities across the nation. Of that amount, \$45.57 billion is being allocated to metropolitan cities which have a population above 50,000. Funds to this group, including Arlington Heights, are being distributed based on the CDBG formula. **The bottom line is that the Village will receive \$6.78 million over two years. In May 2021 the Village received \$3.39 million, and the second tranche will be received in one year.** The goal of the plan is to distribute the funds as soon as possible, and to give recipient municipalities

broad flexibility to decide how best to use the funding to meet the needs of the community. However, we must ensure that the funds are used and reported in compliance with U.S. Treasury requirements. Staff has reviewed program guidance and answers to frequently asked questions provided by the U.S. Treasury and the Government Finance Officers' Association, and has consulted with our auditors and neighboring communities. The Village is in a fortunate position in that our key growth revenues have started to bounce back quickly. As such, the ARP funds can be used to solidify our financial position in the future, including enhancements to the Village's infrastructure maintenance program. Since this is one-time funding, Staff recommends that these funds not be used to pay for new or ongoing operations or programs.

What Are the Eligible Uses of the ARP Funds?

- a. Support public health expenditures, by funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health safety staff;
- b. Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector;
- c. Replace lost public sector revenue, using this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic;
- d. Provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors; and,
- e. Invest in water, sewer and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure and to expand access to broadband Internet.

Ineligible uses include using the funds to reduce taxes, making payments to pension funds to reduce the accrued unfunded liability, funding debt service, legal settlements, or deposits to reserves.

In conversations with other local communities and our auditors, most municipalities appear to be considering using item c. replace lost public sector revenue and item e. invest in water and sewer infrastructure as the basis for eligible uses of the ARP funds. As shown in **Exhibit A**, the Village of Arlington Heights' entire ARP funding amount qualifies under the lost revenue eligibility requirement with a net loss from 2019 to 2020 of \$7.1 million. This calculation includes a 2020 trend inflation of 4.1% as prescribed by the U.S. Treasury for this comparison. Beyond this calculation, the Village will need to keep the financial records and supporting documents related to ARP for a period of five years. This includes records and documents that demonstrate the funds were used for eligible purposes per U.S. Treasury Department regulations.

ARP Spending Proposals

1. Water & Sewer Fund Infrastructure

\$2,500,000

Exhibit B shows the current five-year plan for the Water & Sewer Fund. In addition to the water main replacement program, the Village will be replacing residential and commercial water meters over the next few years. The 2022 water tank painting project also saw a significant recent increase when it was determined that Well #17 last painted 24 years ago, shows significant corrosion of the steel securing the rafters and purlins. This will result in an additional \$1.055 million in unbudgeted costs. The additional ARP funding would provide immediate capital support and contribute to the ongoing health of this fund.

2. Police and Fire Vehicle Purchases (Fleet Fund)

\$2,500,000

Exhibit C shows the current five-year plan for the Fleet Fund. The Fleet Fund internal service charge to the General Fund is based on the depreciation schedule of the purchased vehicles. Vehicle replacement costs are typically higher than the original vehicle, but the interest income earned by the fund is intended to cover this increased cost. However, over the last decade, interest rate levels have been kept near zero through actions by the Federal Reserve. As a result, the Fleet Fund is currently only 59% funded. Support for public safety operations are explicitly identified as an allowable cost in the Treasury's frequently asked questions, and use of the ARP funds would provide an immediate benefit to Village residents. While this fund does not need to be 100% funded, a 75% funding level would put the Fleet Fund in a better position. By covering a portion of the cost of the upcoming Police and Fire vehicle purchases over the next three years with the proposed ARP funds, the Fleet Fund could improve to a 75% funded position. The other alternative to improve the funding level would be to increase General Fund vehicle/equipment use charges which would put pressure on property taxes.

3. Capital Projects Fund

\$1,272,596

During last year's 2021 Budget process, one of the steps the Village took to ensure a zero percent property tax increase was to allocate \$3 million in one-time 2020 bond proceeds to the Capital Projects Fund and shift \$1.1 million in the annual property tax levy to the General Fund from the Capital Projects Fund to cover ongoing operating expenditures. The goal was to then increase the Capital Project Fund property tax level over the next few years to bring it back to its prior level. The addition of these ARP funds would help bridge the gap to a sustainable funding level for the Capital Projects Fund in the future. The proposed ARP funds would be spent as part of the Village's planned capital spending by the end of calendar year 2024 as required by ARP.

4. Arlington Heights Park District Capital Projects

approximately \$500,000

Under the ARP rules, the Village can allocate direct funds to other government agencies within its jurisdiction to help offset that government's revenue losses due to the Pandemic. The Arlington Heights Park District has made such a request for a portion of the Village's ARP funding. Unlike the Village, which had to continue to provide services during the Pandemic, the Park District cancelled programs, closed recreational facilities, and deferred capital projects. The Park District had to make many difficult decisions regarding service reductions, but they were one of the few local governments that weren't eligible for ARP funding or other significant federal grants. In 2020, the Park District received only \$5,000 through the federal Cares Act program.

After considering the Village's long-term financial needs, Staff is recommending that approximately \$500,000 be allocated to the Park District for eligible capital projects that will be completed by 2024 as per the ARP's requirements. As part of this proposed allocation of significant ARP funds to the Park District, Staff recommends that this include the Park District's agreement of the Village's use of Park District property, which the Village is currently discussing with the District for a Stormwater Project at Raven Park (part of the Berkeley-Hintz Stormwater Improvement Plan). Like the Greenbrier-Roanoke plan currently under construction, this project requires the use of Park District owned property for stormwater detention.

Along with the Raven Park land use agreement for the Village's stormwater project, allocating a portion of the Village's ARP funds for eligible Park District capital projects completed by 2024, would help the Park District manage the financial effects of the pandemic on their operations, and would provide enhanced park and stormwater facilities to Village residents. The Park District would be considered a subrecipient of the Village, and would be required to provide documentation that any funds it receives are spent in accordance with ARP guidelines.

Total ARP Spending Proposal

\$6,772,596

One additional item that is not related to the pandemic, but involves other Village funds is the planned closure of the Public Building Fund during 2021. This fund was used to account for the construction of a number of new Village buildings including Public Works, Fire Station 1, Village Hall, and the Police Station. With the completion of these projects this fund is scheduled to be closed in 2021. Per the approved 2021 Budget, the remaining \$3.23 million in this fund is currently being distributed as follows:

\$2 million to the IT Fund for the ERP software

\$780,000 to help stabilize the Fleet Fund

\$450,000 to help support the A & E Fund

Since the Fleet Fund stabilization is proposed to be addressed with ARP funds as noted above, it is recommended that the \$780,000 be reallocated in 2021 as follows:

- \$580,000 - to account for 2020 lost revenue in the Parking Fund due to the pandemic; and
- \$200,000 - additional funds to the A & E Fund to account for a portion of the 2020 lost revenue due to the pandemic.

It is Staff's intention to include a discussion of these items on the June 28th COW Meeting agenda.

Cc: Anthony Cervini, Sikich, LLP
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