

CITY COUNCIL STUDY SESSION

Update on the City's General Fund and the American Rescue Plan Act.

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Finance & Asset Management

DIRECTION

Tonight's Study Session will provide City Council with an update of the City's general fund financial condition. Additionally, this Study Session will provide a brief update on the American Rescue Plan Act (ARPA), which includes \$20.1 million of direct federal funding for the City of Bellevue. Staff request direction to bring back a Resolution to accept this federal funding on a future consent calendar.

RECOMMENDATION

Direct staff to return with a Resolution authorizing acceptance of the Coronavirus State and Local Fiscal Recovery Funds authorized by the American Rescue Plan Act.

BACKGROUND & ANALYSIS

General Fund Financial Update

The City's General Fund supports most of the direct services to the community including fire, police, parks and community services, community development, transportation, as well as most of the administrative functions such as legal, city management, finance, customer service, human resources, and others. It is funded through a mix of revenues, primarily property tax, sales tax, business & occupation tax, utility taxes, and other revenue including state-shared, grants, interlocal, and parks fees.

2020 Performance

Over a year ago, Governor Inslee declared a state of emergency across Washington in response to the outbreak of COVID-19. Since that time, the City has endured a complete shutdown of the economy and gradual re-opening with the end goal to prevent the spread of COVID-19.

The economic impact was swift and substantial on the City's finances, especially on the sales and business & occupation taxes. Early estimates, as noted at the May 18, 2020 study session, were that the City's general fund would face a revenue loss of up to \$28 million or 13 percent. As 2020 ended, the actual revenue loss was \$24 million or 11 percent. Once aware of the potential impact, the City planned quickly and implemented three mitigation strategies to stabilize the City's financial condition for 2020 which, as the financial books closed, reduced expenditures by \$19 million (rounded).

- **Underspending \$11.5M:** In April 2020, the City implemented a 3 percent savings or \$6.5 million target for all departments to intentionally reduce spending. Strategies included eliminating all

non-necessary travel and training, and other discretionary costs, and implementing a hiring freeze for non-essential personnel. At year-end, departments realized \$11.5 million in savings due to hiring only essential personnel, eliminating discretionary spending, and savings associated with community centers and other City sites being closed to the public.

- Health Benefit Holiday \$3.6M: The City, with the agreement of labor, utilized excess reserves in the Health Benefits Fund to provide a three month premium holiday which saved \$3.6 million in the General Fund. The premium holiday allowed both the City and employees to not contribute premiums for the final three months of 2020. The reserve level in the Health Benefits Fund remains within policy as agreed to with labor.
- CARES Act \$4.1M: The City received \$6.5 million in CARES Act federal funding administered by the Washington State Department of Commerce. Of this, approximately \$4.1 million was used to reimburse COVID-19 related expenditures that the City incurred. The remaining \$2.4 million was used to support small businesses, community organizations, and nonprofits impacted by the COVID-19 public health emergency.

To balance 2020, the City utilized \$4.5 million of general fund reserves, leaving a remaining reserve balance of 18.5 percent, staying above the 15 percent City Council policy.

2021-2022 Budget Development and 2021 First Quarter Monitoring

To respond to the COVID-19 economic recession, the City Council adopted the 2021-2022 Budget with reduced expenditures or raised revenue to address a \$32 million shortfall (\$16 million annually).

- Cost containment: \$16 million for the biennial (\$8 million annually)
 - Reduced spending for consultants, discretionary travel/training, and others all which limit surge capacity
 - Reduced spending in certain maintenance areas including non-safety-based repairs and reduced service levels for mowing, weeding, and watering
- One-time bridge structures: \$15 million biennial (\$9 million in 2021, \$6 million 2022)
 - Adjusted Fire Station #10 opening to a phased approach
 - Temporary (2-year) adjustment of the sales tax policy allocation to the general fund
 - Using reserves as needed to be limited by the 15 percent Council reserve policy (2021 included using \$4.7M to bring the budget into balance)
- Increased revenues \$3 million biennial (\$2 million annually)
 - 1 percent property tax adjustment for 2021 and 2022 (\$9 for a \$1M property)
 - A modest increase in basic life support fee
 - Ensure compliance with existing business & operations tax

Through the first quarter of 2021, the City is tracking closely to the adopted budget. Overall, the budget assumed \$4.7 million use of reserves, and as of the first quarter, staff estimate that 2021 will require \$3.0 million. The reduction of \$1.7 million in reserve usage is driven by slightly better revenues and slightly worse expenditures.

- The general fund revenues are projected to be \$2.6 million (1.2 percent) higher than budgeted in 2021 primarily due to the positive economic impact of the vaccine being widely distributed

earlier than originally anticipated. However, projected revenues are still lower than pre-pandemic forecasts. The impacts of COVID-19 remain highly uncertain and increased levels of economic activity are dependent on returning to pre-pandemic activities.

- Unfortunately, general fund expenditures are expected to be approximately \$840 thousand (0.4 percent) higher than budget due to the negative impacts of winter weather events and other unforeseen one-time costs.

Staff will continue to monitor and update the City Council throughout 2021 as the City's financial picture evolves.

In the coming months, the City Manager will be working on developing a mid-biennium budget that reflects the latest financial outlook. The mid-biennium, as in past practice, will address technical adjustments or correction of errors as well as any financial impacts from policy decisions. This will include overview materials, meetings as well as a public hearing as is customary for the City's mid-biennium budget process.

Beyond the mid-biennium, the City's revised forecast remains consistent with many prior iterations. The out-year forecast continues to show that expenditures grow faster than revenues, this is partly due to limitations on revenue growth by state law. The current forecast shows that sales and business & occupation tax, the most economically volatile, will return to 2019 levels in 2022. If no actions are taken, current reserves are estimated to drop below the 15 percent Council policy around 2024. As with all COVID-19 recovery discussions, the economic outlook is dynamic and uncertain as the economy comes back online. City staff are absorbing diverse sources of economic information to best calibrate the forecast and to better understand an evolving and uncharted economic landscape. Staff will return to the City Council as the situation continues to develop.

American Rescue Plan Act of 2021 (ARPA)

Since the start of the pandemic, the City of Bellevue has directed over two million dollars and countless hours into public health and community support initiatives to combat the virus and its economic consequences. From issuing cash grants to small businesses, providing funding for emergency food and rental assistance, and partnering with King County to distribute vaccines, the City has marshaled substantial resources and tapped federal, state, and county funding sources to meet community needs. The American Rescue Plan Act (ARPA) provides additional opportunities for the City to invest in the community.

Staff have not included in the current financial monitoring any allocation of the ARPA funding. This funding will require Council direction for allocation at a future date. Tonight, staff are requesting direction to return with a Resolution to authorize acceptance of the funding.

Background

On March 11 President Biden signed the American Rescue Plan Act of 2021 into law. This legislation allocated \$1.9 trillion in aid across a variety of programs intended to address the impacts of COVID-19. Over 70 percent of the ARPA funding went towards direct individual economic impact payments (\$1,400 one-time checks for individuals with less than \$75,000 in income), providing enhanced unemployment insurance (\$300 per week in additional unemployment payments), expansion of

business and individual tax credit programs, and direct funding for education and pension systems. In addition, there was substantial funding for economic development and small business relief (\$40 billion), relief for children and families (\$15 billion), housing and utility assistance (\$47 billion), food assistance programs (\$8 billion), disaster relief (\$50 billion), and state and local government fiscal aid (\$350 billion).

ARPA is not the only significant piece of legislation that has passed in the past several months supporting human services programs, economic recovery, small business support, and public health which the City of Bellevue, residents, small businesses, nonprofits, and community organizations can potentially access for relief funding. The Consolidated Appropriations Act of 2021 (\$323 billion), Washington House Bill 1368 (\$772 million), King County's COVID-19 Supplemental Budget (\$631 million), and the 2021-2023 Washington State Budget (\$3.9 billion) all have additional funding available to address economic recovery, human services, and COVID-19 relief needs. The amounts noted in parenthesis above are the funds potentially available for relief funding. The City is taking deliberate action to connect businesses, community organizations, and residents to resources through existing networks and outreach. These programs are grant-based and provide funding that is restricted to specific uses.

City of Bellevue Fiscal Recovery Fund Allocation

The ARPA established the Coronavirus State and Local Fiscal Recovery Funds (CSFRF/CLFRF, or Fiscal Recovery Funds) to deliver \$350 billion to eligible states, metropolitan cities, counties, Tribal governments, and non-entitlement units of local government to bolster their response to the COVID-19 emergency and its economic impacts. As a metropolitan city, the City of Bellevue was allocated \$20.1 million in funding to be distributed directly from the United States Department of the Treasury. The funding will be disbursed to the City in two \$10 million tranches, the first when the agreement with the Treasury Department is signed and the second in mid-2022.

The funding has a broad range of eligible uses. Per the Treasury Department's Interim Final Rule (IFR) – the federal guidance governing this program – the legislative intent of the funds is to “provide support to state, local, and tribal governments in responding to the impact of COVID-19 and in their efforts to contain COVID-19 on their communities, residents and businesses.” The guidance identifies the following broad categories as eligible uses of funds:

1. Responding to the public health emergency or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality.
2. Providing premium pay to eligible essential workers employed by local governments, 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 relative to revenues collected in the most recent full fiscal year prior to the emergency, factoring in growth.
4. To make necessary investments in water, sewer, or broadband infrastructure.

The Treasury Department interprets the requirements laid out in ARPA that eligible costs “be incurred” by December 31, 2024, to require only that recipients have obligated the funds by December 31, 2024. Funds may be spent to cover such obligations through December 31, 2026. Per the IFR, the City of

Bellevue will be required to provide quarterly monitoring reports through the end of 2026 to the Treasury Department regarding the use of these funds.

This funding is the most fungible due to the broad allowable uses. Staff suggest continuing to pursue all grant restricted funding available in federal, state, and county funding packages noted above before using this more fungible funding to obtain the best uses for the community.

Next Steps

Tonight, staff seek direction to return with a Resolution authorizing acceptance of the Coronavirus State and Local Fiscal Recovery Funds of \$20.1 million to be received in two tranches in 2021 and 2022. This will allow the City to receive and hold the funding until Council directs the allocation.

Staff will continue to work intentionally with businesses, community organizations, and residents to assist in connecting the community to the many available restricted resources to ensure the most funding for the community.

Staff are formulating a list of gaps in community needs that cannot be filled with accessing the most restricted federal, state, and local funds that could be filled with the City's \$20.1 million allocation. As noted earlier, the time horizon to encumber the funds is December of 2024, and there continues to be many unknowns as the community recovers from COVID-19. Staff will return to Council for further discussion and direction regarding the gap analysis and allocation of the funding.

POLICY & FISCAL IMPACTS

Policy Impact

Bellevue City Code 4.28.200(B) requires Council approval for the execution of grant agreements exceeding \$90,000.

Fiscal Impact

There is no fiscal impact associated with this study session item.

OPTIONS

1. Direct staff to return with a Resolution authorizing acceptance of the Coronavirus State and Local Fiscal Recovery Funds authorized by the American Rescue Plan Act.
2. Provide alternative direction to staff.

ATTACHMENTS & AVAILABLE DOCUMENTS

N/A

AVAILABLE IN COUNCIL LIBRARY

N/A