



STAFF REPORT

January 31, 2024
File Number 0430-80

SUBJECT

FISCAL SUSTAINABILITY, CAPITAL PROJECTS, AND AMERICAN RESCUE PLAN ACT (ARPA) RECOMMENDATIONS

DEPARTMENT

City Manager's Office

RECOMMENDATION

Request the City Council approve the recommended approach for expending American Rescue Plan Act and Park Development funds and approve the associated Budget Adjustment Request.

Staff Recommendation: Approval (Department Name: Christopher McKinney, Deputy City Manager, and Joanna Axelrod, Deputy City Manager)

Presenter: Christopher McKinney, Deputy City Manager, and Joanna Axelrod, Deputy City Manager

FISCAL ANALYSIS

Operating revenue has not kept pace with the growing costs of providing City services since the Great Recession, and as a result, the General Fund long-term financial plan has projected annual deficits creating a structural budget deficit. The City has maintained a hardline on expenditures, controlled costs by deferring maintenance and capital project costs, sought measures that ensure efficiency, and continued to utilize one-time grants and other sources of funding. Revenue-generating opportunities have also been explored and implemented as appropriate per City Council direction.

The American Rescue Plan Act provided the City of Escondido ("City") one-time funding of \$38,808,509 to cover expenses in response to the COVID-19 pandemic, make up for lost revenue, and ease the overall economic impact from the pandemic. Funds may only be used for project costs initiated on or after March 3, 2021, and must qualify within one of the eligible expenditure categories detailed below. All funds must be obligated by December 31, 2024 and fully spent by December 31, 2026.

PREVIOUS ACTION

On April 7, 2021, the City Council received an update on the American Rescue Plan Act and provided preliminary policy comments on the allocation of funds.



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On September 29, 2021, the City Council adopted Resolution No. 2021-146 and approved a budget adjustment allocating \$22,808,509 based on the initial guidelines established by the Treasury Department.

On April 20, 2022, staff provided an update on the ARPA funded projects and requested City Council feedback for allocating the remaining funds.

On December 7, 2022, staff provided an update on the ARPA funded projects and City Council approved a budget adjustment to: 1) add additional funding for parks projects that totaled \$2,410,000; 2) reallocate funds of \$1,086 that were remaining from the purchase of ambulance gurneys; and 3) reallocate \$3,200,000 for the Enterprise Resource Planning software (ERP) project, and utilize FY2021/22 available General Fund resources as a funding source.

On June 7, 2023, staff provided the FY2023/24 operating budget workshop which presented the projected General Fund budget deficit and provided scenarios for the programs and services to consider for elimination when all available one-time funds and reserve balances are depleted.

On June 14, 2023, staff provided an update on the ARPA funded projects and City Council approved a budget adjustment of \$781,957 to: 1) close the CPTED Business Improvement grant program due to low response rate and reallocate unused funding to the available balance; 2) return unused funds from the Technology Upgrades project; and 3) move the remaining balance of the Economic Revitalization Project into a new project number dedicated to the Website Development Project for easier tracking and grant compliance.

On September 27, 2023, City Council participated in a Visioning and Structural Deficit Strategy Workshop where they identified the City's Essential Services, Council Priorities, and provided direction on revenue options for staff to investigate.

BACKGROUND

As referenced in the financial analysis section above, operating revenue has not kept pace with the growing costs of providing City services, and as a result, the General Fund long-term financial plan has projected annual deficits. To address the predicted structural budget gap for the 2023/24 fiscal year, Departments were directed to submit their FY2023/24 General Fund operating budget at the same level as the prior year, FY2022/23, where possible. Once all revised General Fund budgets were submitted to the Finance Department, and a summary of projected revenue and expenditures was prepared, the General Fund operating budget projected a net operating deficit of \$11,295,840.

In order to continue to provide essential City services, staff made recommendations to close the deficit that included a combination of using reserve balances as well as deferring major purchases to future years. Until revenue is increased on an ongoing and structural basis, the City must continue to rely on short-term, one-time resources to continue operations and avoid substantial cuts to City services. With no



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funding plan or known option for replenishment, the reserves in Internal Service Funds will be depleted in the upcoming fiscal years. As the budget becomes tighter, to ensure budget savings the Historical Cost Savings Target will be stricter leading to slower hiring of positions. In addition, American Rescue Plan Act funds must be obligated by December 31, 2024 and will no longer be a source of revenue for the General Fund.

Recognizing that reserve funds and one-time sources of funds will not be available in future fiscal years without a new ongoing source of revenue, a Budget Workshop was held on June 7 that provided scenarios for the programs and services that the City will need to consider eliminating when all available one-time funds and reserve balances are depleted.

At the Visioning and Structural Deficit Strategy Workshop on September 27, 2023, City Council identified the following Essential Services and Council Priorities that now guide staff.

Essential Services

- Police Services
- Fire/EMS Services
- Keep City Clean for Public Health and Safety
- Land Use/Development
- Clean Water; Sewer
- Public Works/Infrastructure
- Maintenance of Parks facilities/Open Spaces

Council Priorities

- Eliminate Structural Deficit
- Improve Public Safety
- Increase Retention and Attraction of People and Businesses to Escondido
- Encourage Housing Development

The recommended plan outlined below is the first step on the path of making progress toward accomplishing these priorities by depressing future obligations to the General Fund and removing non-essential services in an effort to achieve financial sustainability.

This plan also addresses changes to the rules associated with the obligation and expenditure of American Rescue Plan Act Funds and proposes a path forward for accomplishing all of the projects identified previously by the City Council while keeping them on a strict timeline for delivery.

On March 11, 2021, the American Rescue Plan Act of 2021 (“ARPA”) was signed into law, which contains \$1.9 trillion in overall national spending to support COVID relief and economic recovery efforts. ARPA



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provides a \$350 billion allocation of Coronavirus State & Local Fiscal Recovery Funds (“CSLFRF”) to state, local, territorial, and tribal governments. Within the guidelines of ARPA, the City of Escondido was categorized as a Metropolitan City and was allocated \$38,808,509. Funds may only be used for project costs initiated on or after March 3, 2021, and must qualify within one of five eligible expenditure categories. All funds must be obligated by December 31, 2024 and fully spent by December 31, 2026.

The Treasury identified the following five eligible categories of expenditures:

- Support public health expenditures;
- Address negative economic impacts caused by the public health emergency;
- Replace lost public sector revenue;
- Provide premium pay for essential workers; and
- Invest in water, sewer, and broadband infrastructure.

Since the distribution of funds, City Council has approved 25 different projects prioritizing those that provide long-term benefits Citywide and to those most impacted by COVID-19. The projects include resources that have supported the public health response, funding to promote and stimulate economic growth and enhance the financial stability of the City, as well as programs that supported the nonprofit and local business community. As of December 2023, \$15,089,020 of ARPA funds have been spent.

Amendment to the Definition of “Obligation” at 31 CFR 35.3

In November 2023, the Treasury Department issued an Obligation Interim Final Rule (“Obligation IFR”) to address the definition of the obligation period noted in the 2022 Final Rule. The Obligation IFR revises the definition of “obligation” in Treasury’s implementing regulations for the SLFRF program.

Under the revised definition of “obligation,” the term continues to mean an order placed for property and services and entry into contracts, subawards, and similar transactions that require payment, but a resolution or budget adjustment by City Council is not sufficient to meet this definition. Funds must be encumbered through a contract for goods or services. Additionally, per the Obligation IFR, recipients cannot re-obligate funds or obligate additional ARPA funds after the obligation deadline of December 31, 2024. For instance, if a contractor makes a change order request after December 31, 2024 that necessitates a contract amendment, the City would not be permitted to obligate additional ARPA funds to the project because the obligation deadline would have passed.

The Obligation IFR also now requires recipients of APRA funds to submit a preliminary report of estimates for spending all available funds by April 30, 2024. Recipients must return to Treasury any ARPA funds not obligated by December 31, 2024.



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STAFF RECOMMENDATION

These new rules have necessitated a revision to our expenditure plan. The goals of this revised approach are to support City Council's priorities, to adhere to the deadlines imposed by these new Treasury rules, and deliver as many community benefit projects as quickly and cost effectively as possible.

Library Management Agreement - \$6,157,990

Libraries have been at the forefront of keeping communities connected during the COVID-19 pandemic, and continue to play key roles in addressing education, employment, and health needs during the ongoing recovery. As a reminder, the Escondido Public Library is owned by the City and managed by Library Systems & Services (LS&S) under a Management Agreement. The current Management Agreement term is set to expire on June 30, 2027. It is the staff's recommendation to terminate the current agreement and negotiate a new ARPA-funded agreement through FY2026. This sustains library operations for two fiscal years during which alternative revenue sources can be sought in order to sustain library operations on a longer-term basis. This also eliminates more than \$3 million annually from the estimated \$10 million structural budget deficit for the next two fiscal years. Beyond this action, there is no future funding for this service.

California Center for the Arts, Escondido (CCAЕ) Management Agreement - \$1,837,330

The tourism industry was severely impacted by the COVID-19 public health emergency. The allocation of \$1,837,330 will be provided to the CCAЕ to fund their FY2025 Management Fee and utilities costs. This allows the ad-hoc Council CCAЕ Subcommittee and the CCAЕ Board time to develop a recommendation for how to proceed in future fiscal years. It also eliminates almost \$2 million from FY2025's projected \$10 million structural budget deficit. Beyond this action, there is no future funding for this service.

Reidy Creek Equipment - \$475,000

Since the onset of the pandemic, there has been a significant increase in demand for public outdoor spaces. For the past three years, golf has enjoyed an almost-unprecedented surge in popularity. The allocation of \$475,000 will be used to purchase critical equipment needed to improve the conditions of the greens at the Course to minimum standards. This includes a tractor, bunker rake, utility vehicle, greens mower, turf sprayer, and broadcast topdresser.

Economic Development UCANR Contract - \$115,000

The County of San Diego has the greatest number of small farms of any County in the United States. Agriculture remains an economic priority industry in the City of Escondido according to the City's Comprehensive Economic Development Strategy (CEDs). Agricultural small businesses in Escondido (farmers and suppliers) were disproportionately affected by the COVID-19 pandemic as restaurant and venue closures decreased demand for locally supplied produce and agricultural goods. To support small scale agricultural operations and bring forward a brighter future for the local agriculture industry, the City of Escondido is partnering with the University of California Agricultural and Natural Resources department to conduct a feasibility study to create a Southern California agricultural center of excellence that would



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include a business incubator and workforce development resources for the regional agricultural industry. The feasibility study will examine the local market for agriculture, agriculture technology (AgTech), as well as workforce needs, and global trends to determine the resources that should be made available at the center of excellence. This center will be one of several University of California statewide resources to serve the future of US agricultural operations through The VINE network which is dedicated to fostering agriculture, food, and biotech innovation in California. Approval of this contract was recommended by the City of Escondido City Council Economic Development Subcommittee on December 7, 2023.

Parks Capital Projects

After considering the status of each park project and whether they are far enough along to be under contract by the deadlines imposed via the obligation rules noted above, staff are recommending to fund the following projects with Park Development Funds instead of ARPA. The City Council's decision on October 18, 2023 not to proceed with design and construction of the aquatics facility, combined with the revenue of development projects in the pipeline to generate permit fees in the next two fiscal years, is sufficient to fund the completion of these projects.

- Park Projects to be funded with Park Development Funds instead of ARPA funds:
 - Grape Day Park Improvements
 - Westside Park Skate Park
 - Pickleball
 - John Masson Bike Park
 - Ryan Park Field Lighting

This recommended reallocation frees up over \$8 million in ARPA funding to be utilized for Grand Avenue Phase II, Escondido Creek Trail construction management, and Public Access Sidewalk Improvements that are further along in the process and guaranteed to be under contract by the ARPA deadlines.

Grand Avenue Phase II - \$6,357,650

This project is designed to help alleviate the economic hardships caused by the pandemic and speed the recovery of the particularly hard-hit hospitality sector through permanent expansion of outdoor dining areas into public spaces along Grand Avenue. The project builds upon the grant-funded phase I improvements by expanding sidewalks into street and parking areas on Grand Avenue between Maple and Juniper. To maximize area available for outdoor dining and enhance walkability, a roundabout will be constructed at Broadway and Grand and a second roundabout is proposed at Kalmia and Grand to calm traffic and minimize potential conflicts between vehicles and pedestrians. Construction bids were received on November 28, 2023 that included the Kalmia Roundabout as an option. It is staff's recommendation to include the Kalmia Roundabout in the bid award as it is a critical design and safety element, and including it now will result in a cost savings compared to constructing it separately at a later time. This also minimizes the disruption to Grand Ave by allowing all of Phase II to be completed in a seven-month window beginning in October 2024.



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Even with the recommended reallocations of ARPA and Park Development funding, there is still a gap in funding of \$1,221,000 needed to construct the Kalmia roundabout. It is staff's recommendation to fund this gap with FY2023 General Fund surplus.

Escondido Creek Trail Expansion and Renovation Project Construction Management - \$1,200,000

Design of this project is complete and the construction bid is anticipated to be released in spring 2024. With a 25% vacancy rate in Development Services, there are insufficient staffing resources to construction manage this project internally. In order to avoid incurring future cost increases resulting from a delay in construction, it is recommended that \$1,200,000 in ARPA funding be allocated to hire a construction management firm who will also oversee environmental compliance monitoring.

Public Access Sidewalk Improvements - \$223,000

The sidewalk repair portion of the project has been completed. Staff are working with property owners to secure easements to expand landscaping and install a sidewalk along East Valley Parkway from Midway to Rose. An additional \$223,000 is needed to complete the project.

Splash Pad at Grove Park - \$2,500,000

On October 11, 2023, staff provided a financial report on the FY2022/23 General Fund and reported that there is \$6,902,060 available for allocation. As noted above in the section on Grand Avenue Phase II, it is recommended that \$1.2 million of this funding be used to construct the Kalmia Roundabout. Additionally, there is an opportunity for City Council to provide direction to staff to fund a splash pad at Grove Park utilizing this same funding source. Following Council's direction related to the Aquatics Facility project, staff executed an amendment with design consultant LPA Design Studios that allows us to rescope their existing contract in order to perform the services needed for a splash pad in Grove Park. Staff are currently evaluating maximum size based on existing restroom fixtures. Staff will continue to seek additional funding sources to offset the use of surplus, but a baseline commitment of the project cost, estimated to be \$2,500,000 is needed to proceed with that project.

A detailed update on each ARPA funded project is provided in **Attachment 1**.

ATTACHMENTS

- a. Attachment 1 – American Rescue Plan Act Project Update
- b. Attachment 2 – Budget Adjustment Requests