



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 06/14/2021

ITEM NO: 5

DATE: June 3, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Preliminary "General Revenue" Calculation of the American Rescue Plan Act (ARPA) to Determine Revenue Loss

RECOMMENDATION:

Receive preliminary "General Revenue" calculation of the American Rescue Plan Act (ARPA) to determine revenue loss.

DISCUSSION:

On May 10, 2021, the Secretary of the Treasury (Treasury) published an Interim Final Rule to implement the Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund established under the American Rescue Plan Act related to Revenue Loss.

The Act allows recipients facing budget shortfalls to use payments from the Fiscal Recovery Funds to avoid cuts to government services and, thus, enable State, local, and Tribal governments to continue to provide valuable services and ensure that fiscal austerity measures do not hamper the broader economic recovery. The Interim Final Rule implements these provisions by establishing a definition of "general revenue" for purposes of calculating a loss in revenue and by providing a methodology for calculating revenue lost due to the COVID-19 public health emergency.

The Interim Rule clarified that recipients should calculate revenue on an entity-wide basis. Prior to this clarification, staff publicly demonstrated individual revenue impacts as encouraged by national and regional municipal associations. Treasury adopted this uniform aggregate approach to minimize the administrative burden for recipients, provide for greater consistency across recipients, and present a more accurate representation of the net impact of the COVID-19 public health emergency on a recipient's revenue, rather than relying on financial reporting

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: _____Town Manager _____Assistant Town Manager _____Town Attorney

DISCUSSION (continued):

prepared by each recipient, which vary in methodology used and which generally aggregates revenue by purpose rather than by source.

In the Interim Final Rule, any diminution in actual revenue calculated using the prescribed formula is presumed to have been "due to" the COVID-19 public health emergency. This presumption is made for administrative ease and in recognition of the broad-based economic damage that the pandemic has wrought.

Recipients are permitted to calculate the extent of reduction in revenue as of four points in time: December 31, 2020; December 31, 2021; December 31, 2022; and December 31, 2023. This approach recognizes that some recipients may experience lagged effects of the pandemic on revenues.

Upon receiving Fiscal Recovery Fund payments, recipients may immediately calculate revenue loss for the period ending December 31, 2020.

To calculate the extent of the reduction in revenue for each of these dates, recipients are directed to follow a four-step process:

- Step 1: Identify revenues collected in the most recent full fiscal year prior to the public health emergency (i.e., last full fiscal year before January 27, 2020), called the base year revenue.
- Step 2: Estimate counterfactual revenue, which is equal to base year revenue * $[(1 + \text{growth adjustment})^{(n/12)}]$, where n is the number of months elapsed since the end of the base year to the calculation date, and growth adjustment is the greater of 4.1 percent and the recipient's average annual revenue growth in the three full fiscal years prior to the COVID-19 public health emergency.
- Step 3: Identify actual revenue, which equals revenues collected over the past twelve months as of the calculation date.
- Step 4: The extent of the reduction in revenue is equal to counterfactual revenue less actual revenue. If actual revenue exceeds counterfactual revenue, the extent of the reduction in revenue is set to zero for that calculation date.

The following table represents the summary of the preliminary calculation based on current guidance provided in the Interim Final Rule, current Town estimates, and future forecasted Town revenues. The estimated amounts are unaudited, and staff will continue to adjust the analysis in the event Treasury produces more detailed guidelines or additional data become available.

DISCUSSION (continued):

FY 2018/19 Through 6/30/19 Actual Base (millions)	Growth Factor Annual		Calendar Year Through 12/31/2020 (millions)	Calendar Year Through 12/31/2021 (millions)	Calendar Year Through 12/31/2022 (millions)	Calendar Year Through 12/31/2023 (millions)
\$41.40	4.1%	Calculated Counterfactual Revenue	\$43.97	\$45.77	\$47.65	\$49.60
		Estimated Revenue (Budget and Forecast 4-19-2021)	\$39.93	\$39.77	\$40.30	\$41.21
		Estimated Revenue Shortfall	-\$4.04	-\$6.00	-\$7.35	-\$8.40

The adjusted base line calculation follows the preliminary guidelines excluding revenues such as interest, Successor Agency debt payments, interfund transfers, pass through revenues, and other one-time proceeds such as a property sale as noted in the exhibit. In addition, the calculation normalized the Measure G proceeds for the entire first year, since the base year (FY 2018/19) only included one-quarter of the additional sales collection. The table below illustrates guidance adjustments to develop the base year.

	Base Year FY 2018/19	Interest & Penalties	Project 3/4 Year Measure G*	Pass Thru	Transfers/RDA	Thru 6/30/19 Base
General Fund Revenue						
Property Tax	\$17,321,347.00	\$ (12,456.00)				\$ 17,308,891
Sales Tax	8,158,152		684,393			8,842,545
TOT	2,692,043					2,692,043
Business License	1,526,894					1,526,894
Construction Tax	6,309					6,309
Franchise Fees	2,475,916					2,475,916
Fees & Permits	3,102,444					3,102,444
Intergovernmental	945,191					945,191
Charges for Services	3,452,858					3,452,858
Other Sources	4,638,312					4,638,312
Fines & Forfeitures	510,266					510,266
Interest	1,445,640	(1,445,640)				0
Pass Thru Accounts	945,737			(945,737)		0
Successor Agency	1,915,373				(1,915,373)	0
Transfers In	1,578,911				(1,578,911)	0
	\$ 50,715,393	\$ (1,458,096)	\$ 684,393	\$ (945,737)	\$ (3,494,284)	\$ 45,501,669
Less Other One-Time Revenues						
CalFire General Plan Reimbursement						(36,225)
CIP Staff Time Reimbursement						(226,701)
Sale of Property						(1,912,316)
Misc Operating Revenue (Recognizing Compensated Absences)						(1,928,865)
Adjusted Base						\$ 41,397,562

* Measure G Collection started the third quarter of FY 2018/19, staff assumes a full year of collections

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DISCUSSION (continued):

The following table is for illustrative purposes and shows current estimates for calendar year revenues through 6/30/2024 following the same guidelines. The table lists actual revenues collected from 1/1/2020 through 6/30/2020 and 7/1/2020 through 12/31/2020 to establish estimated 2020 calendar year proceeds. Estimated 2021, 2022, and 2023 calendar year revenues assume that 50% of the forecasted revenues are collected in the first half of the fiscal year (July-Dec) and the other 50% collected on the second half of the prior fiscal year (January-June) to make the calendar year conversion.

	Actual Revenue 1/1/20 - 6/30/20 (Audited)	Actual Revenue 7/1/20 - 12/31/20 (Unaudited)	Total Revenue 1/1/2020 - 12/31/2020 (Unaudited)	Estimated Revenue 7/1/2020- 6/30/2021	Forecasted Revenue 7/1/2021- 6/30/2022	Forecasted Revenue 7/1/2022- 6/30/2023	Forecasted Revenue 7/1/2023- 6/30/2024
General Fund (GF) Revenue							
Property Tax	\$ 13,312,480	\$ 5,481,928	\$ 18,794,408	\$ 18,705,355	\$ 19,864,472	\$ 20,068,231	\$ 20,695,221
Sales Tax	4,776,217	2,813,652	7,589,869	7,135,131	8,177,859	8,410,879	8,659,783
TOT	958,879	399,620	1,358,499	707,723	920,040	1,104,050	1,214,460
Business License	1,296,580	224,388	1,520,968	1,300,000	1,250,000	1,312,500	1,378,130
Construction Tax	5,537	7,384	12,921				
Franchise Fees	1,630,943	807,883	2,438,826	2,521,970	2,597,630	2,675,550	2,755,810
Fees & Permits	1,206,169	1,572,739	2,778,908	2,997,257	2,726,779	2,807,810	2,891,380
Intergovernmental	693,193	818,352	1,511,545	4,257,997	3,881,836	867,835	883,785
Charges for Services	1,714,342	1,617,833	3,332,175	3,739,011	3,649,190	3,437,492	3,519,442
Other Sources	661,791	1,356,899	2,018,690	3,530,203	2,356,648	2,223,875	2,227,153
Fines & Forfeitures	136,410	31,638	168,048	102,332	203,450	209,640	216,020
Interest	1,903,773	(967,534)	936,239	597,371	441,233	338,190	171,337
Pass Thru Accounts	(707,144)	1,998,071	1,290,927				
Successor Agency	1,911,324	0	1,911,324				
Transfers In	497,669	104,659	602,328	609,493	633,352	636,196	639,126
	29,998,163	16,267,512	46,265,675	46,203,843	46,702,489	44,092,248	45,251,647
Less Other One- Time Revenues							
Interest (& Prop Tax)	(1,903,773)	967,534	(936,239)	(597,371)	(441,233)	(338,190)	(171,337)
Pass Thru Accounts	707,144	(1,998,071)	(1,290,927)	(672,500)	(695,720)	(676,100)	(679,810)
Successor Agency	(1,911,324)	0	(1,911,324)	(1,908,494)	(1,899,850)	(1,893,713)	(1,894,550)
Transfers In	(497,669)	(104,659)	(602,328)	(609,493)	(633,352)	(636,196)	(639,126)
ARPA				(2,844,315)	(2,844,315)		
43411 CalFire General Plan Reimb		(9,791)	(9,791)	(67,500)	(67,500)		
42412 SB 2 HCD Grant				(20,000)	(63,000)		
45921 Sale of Property		(1,200,902)	(1,200,902)				
43216 Coronavirus Relief Funds		(388,181)	(388,181)				
Adjusted GF Revenues	\$ 26,392,541	\$ 13,533,442	\$ 39,925,983	\$ 39,484,170	\$ 40,057,519	\$ 40,548,049	\$ 41,866,824