



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5883
June 1, 2021
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 5883: American Rescue Plan Funds Update	<input checked="" type="checkbox"/> Discussion Only
RECOMMENDED ACTION:	Receive report and provide feedback on framework to prioritize uses and draft project list for the first allotment of ARPA funds.	<input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

DEPARTMENT:	Finance
STAFF:	Matt Mornick, Finance Director Merrill Thomas-Schadt, Recreation & Operations Coordinator
COUNCIL LIAISON:	n/a
EXHIBITS:	n/a
CITY COUNCIL PRIORITY:	2. Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability.

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

SUMMARY

This agenda bill is intended to update the City Council on the latest information and guidance for American Rescue Plan Act funding as of May 26, 2021. The presentation will expand upon any additional findings received between now and June 1, 2021, from the U.S. Department of Treasury and State of Washington Office of Financial Management.

BACKGROUND

The American Rescue Plan Act (ARPA) is a Federal economic stimulus package that was signed into law on March 11, 2021, in response to the economic and public safety impacts of the COVID-19 Pandemic (pandemic). The \$1.9 trillion legislation includes \$19.53 billion to cities and towns with less than 50,000 residents to aid in their response and recovery from the pandemic. A separate pool of \$45.6 billion was set aside for metropolitan cities with populations over 50,000.

On May 10, 2021, metropolitan cities received their final allocation figures. Several communities saw a significant reduction in their estimated allocation based on the final calculation by the Department of Treasury. Rather than basing allocations on population size, money was allocated using a long-standing U.S. Department of Housing and Urban Development (HUD) formula to distribute block grants to cities to address

community development need. This new methodology fundamentally changed the allocation estimates for metropolitan cities.

The Department of Treasury has not yet released allocation amounts for “Non-Entitlement Units (NEU),” which are communities like Mercer Island with less than 50,000 residents. The original estimate indicates Mercer Island would receive \$5.64 million in ARPA funds.

As of publication of the June 1, 2021 agenda packet, the Department of Treasury has directed NEU cities in Washington to coordinate with the State of Washington Office of Financial Management (OFM) regarding the timing of and final totals for allocations. No information on the final allocation for the City of Mercer Island has been provided by the OFM.

Per direction from the Department of Treasury, cities are expected to receive half of their allocated funds by June 10, 2021, and a second installment one year later. The deadline to spend these funds is December 31, 2024. We remain uncertain about OFM’s ability to meet the June 10 deadline for this first installment of funds.

ELIGIBLE USES

On May 10, 2021, the Department of Treasury released guidance for qualified uses of ARPA funds to local governments, expanding on the general list of eligible uses previously issued. The expanded guidance includes the following parameters:

- **Investing in Water, Sewer, and Broadband Infrastructure:** Potential investments include building or upgrading facilities for transmission, distribution, and storage systems of drinking water; wastewater projects such as treating stormwater or subsurface drainage water and securing publicly owned treatment works; and broadband infrastructure that reliably delivers last mile connections.
- **Supporting Public Health Expenditures:** Vaccination programs, purchases of personal protective equipment (PPE), public health communication efforts, services, or outreach to promote access to health and social services and behavioral services exacerbated by the pandemic.
- **Replacing Lost Public Sector Revenue:** The Department of Treasury established a methodology for local governments to determine the shortfall as well as categories of revenue to exclude from final lost revenue estimates. Local governments do not have to prove that COVID-19 caused the revenue shortfall; any shortfall is presumed to be due to COVID-19.
- **Addressing Negative Economic Impacts Caused by the Pandemic:** Small business (including the tourism and hospitality sectors) support through loans, grants, or in-kind assistance to enable them to rebound, invest in COVID-19 prevention/mitigation, and activities to rebuild public sector capacity, such as rehiring staff and building capacity to implement economic relief programs.

While cities have the flexibility to use ARPA funding to address diverse community needs, restrictions on use applies. Funds may not be used for reductions in net tax revenues, nor can any funds be used for the purposes of reducing an accrued, unfunded liability. Finally, the funds may not be used to pay down debt service, legal settlements, or be deposited into financial reserves.

The City of Mercer Island will be required to file annual project and expenditure reports to the Washington State Office of Financial Management, the first of which will be due no later than October 31, 2021, for activities through September of this year.

ARPA FUNDING PRIORITIES

At the April 27, 2021, City Council meeting, Council discussed potential uses of the City's allocation of ARPA funding under the program guidelines that had been released at the time ([AB 5857](#)). The City Council voiced support for two specific early action items identified by City staff as priorities for ARPA funding: parks maintenance "catch-up" costs to address the backlog of work remaining in the parks system and technology modifications at certain City facilities to accommodate both in-person and online public meetings.

The City Council also requested that staff evaluate using the remaining funds to accelerate critical infrastructure investments as allowed under the ARPA guidelines. From this preliminary analysis:

- The City's highest priority infrastructure projects focus on sewer utility needs, as identified in the City's General Sewer Plan ([AB 5510](#)).
- Staff identified a potential park space acquisition site related to pump station management that may qualify under the ARPA guidelines.
- Staff is exploring other projects that will potentially meet ARPA guidelines related to capital investments in the Storm Water and Water Utility.

With much of the City's utility infrastructure originally installed in the 1950's and 1960's, reinvestment in capital infrastructure remains one of the highest City priorities. Aging water, sewer, and storm water systems are more prone to failure and longer service interruptions. On average, the city experiences twelve water main breaks per year amounting to over a million gallons of lost water. Through mid-April 2021, Public Works crews have responded to six water main breaks. Continued reinvestment in these utilities is essential for safe, effective, and reliable delivery of services.

NEXT STEPS

Under direction from the City Council, staff will prepare a recommendation as to the highest priority infrastructure projects eligible for ARPA funding and identify a strategy to accelerate these projects. Staff will return to City Council later this year to share more detailed project information and a recommendation for appropriating the City's share of these funds. Staff will also receive and analyze guidance from the Department of Treasury and the State of Washington as soon as it becomes available.

RECOMMENDATION

Receive report. Confirm general direction for staff to evaluate the highest priority infrastructure project needs related to water, sewer, and storm water utilities, identify a strategy to accelerate projects, and return with a recommendation to the City Council on the ARPA funding appropriation later this year.