



**BOARD OF SUPERVISORS
AGENDA LETTER**

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: County Executive Office
Department No.: 012
For Agenda Of: June 1, 2021
Placement: Departmental
Estimated Tme: 1 hour
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Directors
Contact Info: Jeff Frapwell, Assistant CEO
Mona Miyasato, County Executive Officer

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SUBJECT: Consideration of American Rescue Plan Act of 2021 Funding and Other One-time Resources for FY 2021-22

Recommended Actions:

It is recommended that the Board of Supervisors:

- a) Receive and file information on the American Rescue Plan Act of 2021 (ARPA) funding, other one-time resources available for FY 2021-22 and one-time prioritized projects and critical needs;
- b) Direct staff to incorporate Tier 1 Capital Improvement Projects (\$4,950,000) into the Recommended FY 2021-22 Budget from discretionary ARPA funds;
- c) Direct staff to allocate up to \$7 million in restricted ARPA funding to acquire and make improvements to real property for homeless housing unless other State or federal funding becomes available by November 2021;
- d) Identify other uses, if any, including any potential acquisitions of real property interests other than for homeless housing, for incorporation in the Recommended FY 2021-22 Budget;
- e) For the balance of ARPA funding, identify highest priority uses for referral back to staff for further evaluation and eligibility determination, and direct staff to return in fall 2021 for further direction;
- f) Provide other direction as appropriate; and
- g) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA), because pursuant to sections 15378(b)(4) and 15378(b)(5) the recommended actions consist

of organizational, administrative, or fiscal activities of government that will not result in direct or indirect physical changes in the environment.

Summary

In advance of the FY 2021-22 Budget adoption hearings, this Board letter provides greater information about eligibility requirements and possible uses of \$43.3 million in American Rescue Plan Act (ARPA) funds which are included in the County's Recommended FY 2021-22 Budget but not yet allocated to specific projects or services. These funds can be thought of as "restricted" to COVID response and recovery activities, to be used in compliance with the U.S. Treasury Department rules; and "discretionary" which has greater flexibility and equal to the amount of revenue losses incurred. In addition, this report reviews available cannabis tax revenue that is also available for one-time expenditures.

Staff is requesting direction on allocation of these funds so necessary documents can be prepared for the budget adoption hearings on June 8 and 10, 2021. At this time, staff is requesting direction on some specific expenditures; however, the Board can provide direction on some, all, or none of the ARPA funds. Staff can also return in the fall with more information and eligibility determination of desired projects once the U.S. Treasury Department final guidance and rules are released, which is expected late summer.

Discussion

One-Time Resources Available for Recovery, Capital Projects and Other Priorities

At budget workshops held April 14-16, 2021, the Board was informed that the County was awaiting specific guidance from the U.S. Treasury Department to better define eligible uses of the funds expected to be received as part of the federal American Rescue Plan Act (ARPA). In total, the County expects to receive approximately \$86.7 million in two equal parts over the next two years, which must be obligated for eligible purposes by December 31, 2024.

This report focuses on the approximate \$43.3 million in ARPA funds that are included in the Recommended FY 2021-22 Budget. The Treasury Department released, and circulated for a 60-day comment period, its Interim Final Rule on May 10, 2021. As a result of this timing with the budget cycle, ARPA funding is included in the recommended budget but has not yet been allocated to specific purposes. Based on the interim guidance, the County Executive Office recommends that the funds be divided into the following two categories:

- **Restricted ARPA funding:** Approximately \$25.3 million is for response and recovery efforts directly related to the public health emergency and its effect on our communities. Funding allocated in this category is in the County's FY 2021-22 budget and has not yet been allocated to specific uses. Staff is developing a Recovery Plan of eligible services and expenditures to ensure the County of Santa Barbara can recover in a way that is sustainable, resilient, inclusive, and equitable, by addressing a variety of individual and community health impacts of COVID-19, including physical, psycho-social, socio-economic, and institutional/structural effects. In addition, following budget workshops, other potential uses have been suggested. Details of these uses are described later in this report.

Upon the release of the Treasury Department's final guidance, the County Executive Office, in conjunction with the Auditor-Controller's Office and the County's external auditors as required, will review the proposed uses to ensure that they are consistent with the final guidance. We expect to return to your Board with a detailed recommended spending plan by October 2020.

- **Discretionary ARPA funding:** Approximately \$18 million to replace “general revenues”, as defined by the interim guidance, lost as a result of the emergency, is also included in the County’s FY 2021-22 budget and not yet allocated to specific uses. This amount may be allocated to provide general governmental services or fund eligible priority capital, maintenance, and other one-time projects.

In general, recovery funds may be used to offset losses or reductions in “general revenues” experienced as a direct result of the public health emergency. The interim guidance defines “general revenues” and provides the methodology by which the amount of revenue loss is calculated. Specifically, recipients will compute the extent of their reduction in revenue by comparing their actual revenue to an alternative representing what could have been expected to occur absent the pandemic. Analysis of this expected trend begins with the last full fiscal year prior to the pandemic and projects forward at either a) the recipient’s average annual revenue growth over the three full fiscal years prior to the public health emergency, or b) 4.1%, the national average state and local revenue growth rate from 2015-18 (the latest available data).

As with previous COVID-19 relief packages, implementation will be an extensive process as new or updated guidance may be developed and released by the U.S. Treasury Department. At this time, lost revenues potentially eligible for reimbursement based on the interim guidance with this one-time funding are estimated at \$18 million, consisting of \$14 million in General Fund losses and \$4 million of losses within the Transportation Fund. Based on the interim guidelines, the negative effect on other departmental operating revenues within the General Fund, special revenue funds and special districts are not likely eligible for reimbursement under ARPA. However, these are preliminary estimates that will need to be thoroughly vetted, refined, and updated to ensure compliance with final Treasury guidelines and to include new losses incurred through the current year and into the next.

- **Cannabis Tax Revenue:** During budget workshops, the Board deferred discussion of capital and maintenance projects to be funded from one-time cannabis tax revenue pending the ARPA guidance, in order to have a holistic picture of resources available for one-time uses. As discussed during budget workshops in April, cannabis tax revenue has proven recession-resistant, as steady growth over the past year is expected to continue into next fiscal year, with ongoing annual revenues estimated at \$19 million. The recommended budget includes a one-time balance of cannabis tax revenue carryover of \$8.849 million that is available for one-time projects or other critical needs.

Interim Federal Guidance on Eligibility

The recently issued interim federal guidance related to ARPA allocations provides clarification on eligible uses, which include: 1) response to the public health emergency with respect to COVID-19 or its negative economic impacts, including assistance to households, small businesses, and non-profits, or aid to impacted industries such as tourism, travel, and hospitality; 2) provision of government services to the extent of the reduction in revenue of such county due to such emergency; 3) to provide premium pay for essential workers; or 4) to make necessary investments in water, sewer, or broadband infrastructure. The Act explicitly prohibits the use of ARPA funds to reduce unfunded liabilities within public retirement systems or to make debt service payments on public borrowings. In general, all ARPA funding must be expended by the end of calendar year 2024.

ARPA makes it clear that a nexus to one of the broad use categories described therein is required and that the use of the funds will be included as part of our annual Single Audit performed by the County's external auditors. In addition, the federal government will likely conduct further audits to ensure spending is consistent with ARPA requirements. Jurisdictions that cannot clearly demonstrate the nexus will be required to refund the Treasury.

Potential Use of Restricted ARPA Funds

(1) Response to Public Health Emergency and Economic Impacts

Mitigating the impact of COVID-19 continues to require an unprecedented public health response, including resources for provision of care for those impacted by the virus and for services to address disparities in public health that have been exacerbated by the pandemic. Local governments may use funding to address a broad range of public health needs across COVID-19 mitigation and recovery, medical expenses, behavioral healthcare, and public health resources, including the expansion of services to underserved and vulnerable populations. In addition to vaccinations, medical expenses, testing, contact tracing, and isolation or quarantine, funding can help support enhancement of healthcare facilities capacity, public health data systems, a wide variety of behavioral health services, and capital investments in public facilities to meet pandemic operational needs, among other categories.

As part of the response effort, funds can be used to reimburse the County for eligible costs, including staff time coded to the emergency in public health and public safety capacities; public communications costs associated with operating the Public Health Department's Department Operations Center (DOC), the County's Emergency Operations Center (EOC) and the Joint Information Center (JIC); as well as curating and distributing timely updates to the public via the Public Health information portal, the Santa Barbara County Recovers website, social media, media relations, and direct community outreach materials. Staff is compiling an inventory of eligible costs and will return to the Board with updates on expenditure reimbursement.

Subject to your Board's direction, funding recipients may also provide aid to tourism, travel, and hospitality industries that responds to the negative economic impacts of the pandemic, such as to support safe reopening of businesses in these industries and to districts that were closed during the pandemic, or to support a planned expansion or upgrade of tourism, travel, and hospitality facilities delayed due to the pandemic. Nationwide, the leisure and hospitality industry has experienced an approximately 17% decline in employment and 24% decline in revenue, in net, due to the COVID-19 pandemic. To aid in the efforts to reinvigorate tourism and the local economy, an allocation to organizations that promote economic recovery could be considered by your Board.

With one exception described below for homeless housing, staff recommends that these funds be allocated to specific uses once the Treasury Department issues final guidance and the services later this summer and uses below are more precisely defined and vetted for eligibility. The proposed uses currently being evaluated by staff as part of recovery plan in this category include, but are not limited to, the following:

- a. Expansion of behavioral health services and programs to assist community recovery from the impacts of the pandemic;
- b. Implementation of interim and long-term solutions for housing relief and sustainability, focused specifically on keeping people housed and avoiding evictions, providing emergency housing for vulnerable populations, deploying strategies to address homeless encampments, expanding the availability of permanent supportive housing opportunities, and enhancing our community

outreach efforts to ensure all unsheltered persons have access to comprehensive case management services;

- c. Addressing the economic impacts realized as a result of the pandemic;
- d. Improving access to community services, especially to the underserved/under-resourced in order to help bridge the digital divide;
- e. Offsetting staffing, operational impacts, and facility modifications incurred by County departments as a direct result of the public health emergency; and
- f. Enhancing the County's community engagement, communications and data transparency efforts.

(2) Homeless Facility Acquisition and Renovation

Subsequent to budget workshops, the Community Services Department has identified the opportunity to acquire an existing facility within Isla Vista to provide temporary emergency shelter beds. The Department is working with General Services to evaluate the cost to purchase and renovate the facility to meet sheltering requirements. The Phase II Community Action Plan, recently considered by your Board, identifies the need for an additional 369 temporary beds in South County. Given the increasing number of unsheltered persons during the current public health emergency, additional shelter beds are desperately needed to address public health and safety concerns in the surrounding area. The estimated cost of acquiring and renovating the facility is \$7.0 million. The acquisition is being reviewed for potential use of direct ARPA funding related to pandemic response needs. ARPA provides eligibility for funding to aid disproportionately impacted populations and communities, including programs and services that address housing insecurity, lack of affordable housing, or homelessness. Should other State and federal funding become available for this purpose prior to the County entering escrow on the property, staff would recommend using the new funds in lieu of the County's restricted direct ARPA funding.

Potential Use of Discretionary ARPA Funds and/or Cannabis Tax Revenue

(1) One-time Prioritized Capital and Maintenance Projects and Other Critical Needs

The County has numerous capital and deferred maintenance projects that have been discussed and presented to the Board in April at budget workshops. To facilitate a holistic discussion on one-time project resources, unfunded projects were prioritized for the Board's consideration. A summary of those projects is listed below and further detailed in this section:

Summary of One-Time Prioritized Capital and Maintenance Projects

| Description | Amount |
|--|---------------------|
| CIP - Tier 1 Priority Projects | \$4,950,000 |
| CIP - Tier 2 Priority Projects | \$6,080,000 |
| CSD Pavement Expansion Request | \$1,000,000 |
| PW Pavement Expansion Requests ** | \$4,332,000 |
| Subtotal | \$16,362,000 |
| Homeless Facility Acquisition and Renovation (Restricted ARPA Funding) | \$7,000,000 |
| Total | \$23,362,000 |

** Largely offset due to the availability of discretionary ARPA funds.

CIP - Tier 1 and Tier 2 Priority Projects

On April 6, 2021, the Board approved a Five-Year Capital Improvement Program (CIP) FY 2021-22 through FY 2025-26. As part of that presentation, General Services prioritized some unfunded projects identified by GS, Community Services, and Public Works that would be most critical if funding was available. These projects were categorized as Tier 1 or Tier 2. Tier 1 projects are aging systems and alleviate multi-yearly work orders and replace equipment beyond their useful life. Tier 2 projects value and opportunity cost savings projects that will allow the County to progress in operations and system management. These projects, totaling \$11,030,000, are listed below:

| Tier 1 Priority Projects | Cost |
|--|---------------------|
| Boiler System Replacement – SB Courthouse | \$2,000,000 |
| Central Elevator Replacement, SB Main Jail | \$500,000 |
| Tucker’s Grove Park, San Antonio Creek Bridge | \$1,350,000 |
| Roof & Window Replacement, SB Eng. Bldg. | \$400,000 |
| HVAC Replacement, 4444 Calle Real | \$300,000 |
| HVAC Replacement, Units 4 5, 6 at SM Juvenile Hall | \$400,000 |
| TOTAL TIER 1 | \$4,950,000 |
| | |
| Tier 2 Priority Projects | Cost |
| Modoc Road Multiuse Trail | \$1,300,000 |
| Repaving/Restriping Maintenance Program County Parks | \$400,000 |
| Orcutt Community Ball Field, Lighting System | \$550,000 |
| South County Demolition of Substandard Buildings | \$1,850,000 |
| Countywide Building Energy Management Systems (BEMS) | \$450,000 |
| Energy Efficient Lighting, SB Courthouse | \$300,000 |
| Park Fitness Zones, Countywide | \$480,000 |
| Office Interior Renovations, Santa Maria, Cook, and Miller | \$750,000 |
| TOTAL TIER 2 | \$6,080,000 |
| GRAND TOTAL | \$11,030,000 |

(2) Budget Workshop Maintenance Expansion Requests

At the budget workshops held April 12-16, 2021, the Board also heard expansion requests related to maintenance of pavement or roads from Public Works and Community Services, totaling \$5.3 million, that were deferred to budget hearings.

| Department | Expansion Request | Cost |
|----------------------------|------------------------|--------------------|
| Public Works - Roads | Maintain PCI at 56 | \$4,332,200 |
| Community Services - Parks | Pavement Refurbishment | \$1,000,000 |
| Total | | \$5,332,000 |

Additionally Identified Potential Use of ARPA Funds (Restricted or Discretionary) and/or Cannabis Tax Revenue

Subsequent to budget workshops, our office received wide input on other potential uses of the County's ARPA funding. These ideas will require additional discussion and refinement in order to determine their eligibility for the use of ARPA funds and to prioritize them with other Board priorities. The list below, although not exhaustive, illustrates the diversity of interest in the potential uses of this federal funding.

- Building and supporting a strong child care network
- Acquisition of open space
- Development of multi-use and recreational trails
- Expansion of camping opportunities
- Subsidized Planning & Development fees for affordable housing projects
- Improvements, repairs, and equipment upgrades within regional and community parks
- Broadband improvements
- Renewable energy and battery storage projects
- Library construction
- Development of workforce housing
- Long Range Planning projects focused on improving tourism and economic vitality
- Improvements to specific local roads and intersections
- Participation in a regional study to define expansion of broadband to unserved or under-served communities
- Debris basin modifications and improvements
- Creek channel improvements
- Project Clean Water stormwater improvements (\$1.4 million)
- CSA 12 sewer extension (\$2 million)
- Laguna Sanitation system improvements (\$45 million)

These additionally identified potential uses will need to be further refined for eligibility once final Treasury rules are issued, in conjunction with the Auditor-Controller's Office and the County's external auditors as required. Staff requests the Board identify its highest priority projects and services among the list for referral back to staff for further evaluation and eligibility determination. The highest priority projects can be funded by restricted ARPA funds, if eligible; discretionary ARPA funds; or cannabis tax revenue funds. With direction from the Board on its highest priorities, staff can return to your Board with a detailed recommended spending plan by October 2020.

Summary of Recommended FY 2021-22 Use of ARPA and One-Time Cannabis Funds

| Available Sources | Amount |
|--|---------------------|
| Restricted ARPA Funding | \$25,300,000 |
| Discretionary ARPA Funding (Reimbursement of Lost Revenue) | \$18,000,000 |
| One-Time Cannabis Tax Revenues | \$8,849,000 |
| Total Funding Available | \$52,149,000 |
| | |
| Recommended Uses | Amount |
| Tier 1 Capital Improvement Projects (Discretionary ARPA funds) | \$4,950,000 |
| Housing Project Acquisition and Renovations (Restricted ARPA funds) | \$7,000,000 |
| Public Health Emergency Response & Economic Impacts - amount incorporated in the FY 2021-22 Budget but final use deferred to October (Restricted ARPA funds) | \$18,300,000 |
| Reimbursement of lost revenue from ARPA funds - incorporated in the FY 2021-22 Budget but final use deferred to October (Discretionary ARPA funds) | \$13,050,000 |
| Unallocated one-time cannabis tax revenue to be held in fund balance for Board allocation. | \$8,849,000 |
| Total Recommended Funding Allocation | \$52,149,000 |

Background

State and federal governments have allocated a significant amount of one-time funding towards COVID-19 response and community support over the past year, either directly or by pass-through distributions to the County. On July 14, 2020, the Board of Supervisors approved an allocation plan for the \$46.1 million in funding received under the Coronavirus Aid, Relief, and Economic Security (CARES) Act to address costs incurred as part of our pandemic response. The federal CARES funding, received from the State, was allocated to public health response costs; care of vulnerable populations, including the unsheltered; technology to support the delivery of public services and telecommuting; direct COVID-19 service employee costs; impact on County facilities; and direct community and small business assistance. The County incurred eligible costs in excess of the amount of funding received.

On February 16, 2021, the County of Santa Barbara began offering more than \$13.3 million in federal Emergency Rental & Utility Assistance through United Way of Santa Barbara County to eligible County of Santa Barbara residents who have experienced income loss due to the COVID-19 pandemic and can demonstrate the need for rental support. This Emergency Rental Assistance Program is intended to prevent homelessness by providing direct aid to residents. Assistance is available to all Santa Barbara residents in an amount up to \$6,000 over three months. The website to apply and find information is: unitedwaysb.org/rent. The County has recently been allocated an additional \$16.6 million in federal

funding to expand our emergency rental assistance efforts. In addition to these two funding allocations received directly from the US Treasury, the State has allocated \$14.3 million for Santa Barbara County through its State Emergency Rental Assistance Program. The State's program is currently being developed and will be coordinated with the County's local program.

The State is also attempting to address business relief by extending sales tax payments by three months for taxpayers with less than \$1 million in sales tax, expanding interest-free payment agreements to larger companies with up to \$5 million in sales tax, issuance of \$100 million in funding for main street hiring tax credits, grants up to \$25,000 for small businesses/nonprofits/cultural institutions, and issuance of \$125 million for low-interest loans for small businesses. On February 17, 2021, the Governor and legislators reached agreement to provide an additional \$9.6 billion in immediate action pandemic relief to low-wage workers and small businesses.

On March 11, 2021, the President signed into legislation the American Rescue Plan Act (ARPA), a \$1.9 trillion COVID-19 relief package that includes \$350 billion in aid for state and local governments, along with additional funding for other areas like education, rental assistance, and transit. ARPA directly allocates \$86.7 million to Santa Barbara County and another \$88 million to the local cities.

Fiscal Impacts:

The purpose of this agenda item is to provide the Board with information related to the American Rescue Plan Act and to seek for direction regarding the use of federal funds received under the Act. Although there are no impacts to the County's current fiscal year budget, direction received from the Board will be incorporated into the FY 2021-22 Recommended Budget for consideration during budget hearings in June.

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