



## Takoma Park City Council Meeting – September 18, 2024 Agenda Item 6

### **Work Session**

American Rescue Plan Act (ARPA) Budget Discussion

### **Recommended Council Action**

Review the presentation and provide guidance on next steps

### **Context with Key Issues**

During the FY25 budget, Council received an updated version of the 5-year spending plan for the City's approximately \$17.5M in ARPA funds. Council included approximately \$3.6M in total ARPA spending in FY25. These expenditures included \$625,000 for the "phasing out" of reliance on ARPA funds for ongoing operational expenditures and "bridging" ARPA programs into the future by beginning to fund programs with a portion of general fund dollars. The Council also reallocated approximately \$1M in surplus or program-lapse dollars for several CIP projects. Following Council adoption of the FY25 budget, Council approved the July FY25 1<sup>st</sup> budget amendment, which moved approximately \$5.8M in ARPA dollars from incomplete FY24 CIP projects, namely, the Library (\$3.5M) and the Community Center Renovations (\$1M).

As a reminder, US Treasury ARPA regulations provide that the full balance of each community's award must be obligated by December 31, 2024 and spent by December 31, 2026. In late 2023, the US Treasury provided updated guidance on the definition of "obligated" that it will use in its oversight of the ARPA program. To the US Treasury, "obligation" means formally encumbering funds through a contract, grant award, or other type of formal IOU. This means that any funds for ARPA projects within the FY25 budget and in the City's spending plan that are not successfully "obligated" by the end of this calendar year would lose their funding as the balance would be required to be returned to the US Treasury. Prior to and during the FY25 ARPA Budget presentation, the City's ability to "obligate" funds within this definition for each of the City's over 30 projects and programs was raised as an "emerging issue" that staff would continue to monitor. Following meetings with the City's Senior Leadership Team, staff currently project that approximately \$1.7M of budgeted projects will not be successfully "obligated" by the December 31, 2024 deadline. The largest portion (\$1M) of this is the City's Community Center Renovation, commonly known as the "Atrium" project, which has been delayed due to delays in the Library project.

In addition to the \$1.7M in currently projected unobligated funds, staff recommends an additional \$1M be reallocated to current projects in order to provide flexibility if there is future desire to reallocate funds for other ongoing ARPA programs, particularly those where the City anticipates it may receive funding from other sources.

This City of Takoma Park is certainly not unique in its position as many municipalities throughout the country and now having to make similar decisions. The City's Leadership Team has worked to identify projects and programs within the FY25 budget that would successfully meet the "obligation" requirements of the US Treasury. A list of these specific reallocation recommendations are listed in the posted presentation and will be formally presented as part of Budget Amendment No. 2 at the October 9<sup>th</sup> Council Meeting. These projects and programs already budgeted within FY25 are a

necessary blend of both “revenue replacement” projects and those that fall into other ARPA expenditure categories.

By reallocating these ARPA funds with FY25 expenditures, it is anticipated that this will create an intentional surplus within the General Fund. In order to continue to advance what would now be unfunded ARPA projects, staff recommends that the Council create an Allocated Reserve Fund that will capture this surplus into the reserve fund. The reserve fund would be restricted in use to only fund the projects originally intended while also providing flexibility for transfer back to the general fund if additional funding sources for those projects are secured. For example, Staff recommends the ARPA funding for the Mental Health Clinicians Pilot program be transferred to this account, as it is looking likely the City will receive funding from another source in the near future. This could then “free up” these funds for another needed community purpose as determined by a future Council.

### **Council Priorities**

Advancing a Community of Belonging; Fiscally Sustainable Government; Environmentally Sustainable Community; Engaged, Responsive, Service-Oriented Government; Community Development for an Improved and Equitable Quality of Life.

### **Environmental Considerations**

Multiple projects included in the ARPA Spending Plan have an environmental benefit to the City and further implement the Takoma Park Climate Action Plan goals.

### **Fiscal Considerations**

Reallocations and the creation of an allocated reserve fund will be codified during the FY25 Second Budget Amendment. These reallocations will satisfy US Treasury regulations, meet FY25 project needs, and ensure that the programs and projects originally planned with ARPA funding continue to advance.

### **Racial Equity Considerations**

The American Rescue Plan Act is designed to assist our neighbors who are disproportionately affected by COVID-19 through direct and indirect funding. Reallocations will ensure that currently funded ARPA programs will be able to continue beyond US Treasury deadlines.

Attachments and Links

Council PowerPoint Presentation