



Satpal Singh Sidhu
Whatcom County Executive



MEMO

Date: June 1, 2021
To: County Council Members
From: Satpal Singh Sidhu, County Executive
RE: Discussion of Fiscal Recovery Funds

Whatcom County has been allocated \$44,528,542 of the Coronavirus State and Local Fiscal Recovery Funds authorized under the America Rescue Plan Act (ARPA). The first 50% installment has been deposited and the second is expected in approximately 12 months.

The purpose of this memo is to describe the framework of potential uses of these funds and begin discussions to establish priorities, identify opportunities and take the appropriate next steps.

General Framework

The Federal Government has identified four categories of expenses which are intended to be funded through the State and Local Fiscal Recovery Funds in ARPA.

1. Support urgent COVID-19 response efforts
2. Replace lost revenue for local governments to support vital public services and retain jobs
3. Support immediate economic stabilization
4. Address systemic public health and economic challenges

The Treasury provided both high-level (below) and more detailed elaboration (see Interim Final Rule) of eligible expenses.

- To support public health expenditures, by funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff;
- To address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector;
- To replace lost public sector revenue, using this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic;
- To provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors;
- To invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet.

- The funds must be obligated by December 31, 2024, and must be expended with all work performed and completed by December 31, 2026.

Within the categories of eligible uses, Whatcom County has broad flexibility to decide how best to use this funding to meet the needs of our community.

Guiding Principles for Use of ARPA Funds

- ARPA funds are non-recurring, so their use should be applied primarily to non-recurring expenditures.
- Care should be taken to avoid creating new programs or add-ons to existing programs that do not have a dedicated funding source upon the exhaustion of ARPA funds.
- Investment in infrastructure is a particularly well-suited use of ARPA funds, because it is a one-time expenditure that can be targeted to strategically important long-term assets that provide benefits over many years.
- We should be aware of plans for ARPA funding from the state and other jurisdictions as well as other buckets of money allocated through ARPA in addition to the direct allocation of Fiscal Recovery Funds.

County Government and Community-wide Priorities

It is recommended that we consider utilization of the ARPA funds in a two-tiered approach. As has been the case with the distribution of CARES Act funding, this will require us to be strategic, flexible and adaptive. One main difference between the CARES Act funding and the ARPA funds is that the ARPA funds has an extended timeline and can be used through 2024. This allows time for thoughtful and deliberate decisions for the betterment of our organization and community to provide long-term resiliency.

First, the County intends to utilize these funds in 2021 to support the continued efforts of urgent COVID-19 Public Health response efforts, replace lost public sector revenue, and to rebuild and strengthen the County's vital public services by retaining, rehiring, and hiring for County jobs to sustain and improve the post-pandemic level of service provided to the constituents of Whatcom County. The County administration will be bringing forward budget supplementals between now and the end of the year to implement this to ensure the continuity of vital government services.

Second, the County Administration also intends to work with the community seeking ideas / projects for long-term resilient framework on how best to utilize this substantial infusion of resources to help turn the tide on the pandemic, strengthen the public health system, provide economic stabilization and lay the foundation for a strong and thriving economy. This process will be timed along with the upcoming mid-biennium budget process through the fall of 2021. It is envisioned that we will continue our collaboration between the public sector (Whatcom County, City of Bellingham, Small Cities, Port of Bellingham, etc.) and the non-profit sector (Food Security Taskforce, Childcare Taskforce, Child & Family Taskforce, housing and human services agencies, local foundations, etc.) to formulate and prioritize community wide programs for ARPA expenditures.

County Government Operations Priorities

The County Administration proposes some specific near-term actions related to supporting vital public services within County Government.

1. Calculation of Revenue Loss

Whatcom County will compute reduction in revenue by comparing actual revenue to an alternative representing what could have been expected to occur in the absence of the pandemic. Analysis of this expected trend begins with the last full fiscal year (2019) prior to the public health emergency and projects forward at 4.1% growth for next 3 years (Dec 31, 2024), which was the national average state and local revenue growth rate from 2015-18. The Treasury allows recipients to presume that any diminution in actual revenue relative to the expected trend is due to the COVID-19 public health emergency.

Based on the Interim Final Rule, it remains unclear whether capital grants are to be considered as revenue for the purpose of this calculation. In 2020, Whatcom County fell short of the financial benchmark (2019 revenues + 4.1%) and had a revenue reduction of approximately \$9 million excluding grants or by \$1 million including grants. Calculating capital grants (restricted revenue) into general revenue replacement does not seem to meet the intent of the revenue replacement section of the act and we are hopeful for additional direction and guidance on this topic.

Treasury's guidance gives recipients broad latitude to use funds for the provision of government services to the extent of reduction in revenue; the greater the revenue loss demonstrated, the larger the pot of money available with few eligibility constraints. This funding may not be used to directly or indirectly offset a reduction in net tax revenue. Additionally, the funds may not be placed in reserve or "rainy day" funds.

2. Public Health and Safety General Fund Positions.

A portion of personnel costs (namely, public health and safety staff dedicated to COVID response) typically funded through the General Fund can be covered by ARPA funds. This will result in a healthier balance in the General Fund, which can in turn be deployed more flexibly.

3. Frozen Positions and Workforce Support

As departments prepare to reopen for more in-person services, it is important to unfreeze unfilled positions. Additionally, due to financial projections at the onset of COVID, the County implemented financial austerity measures that impacted our employees. These measures included employee furloughs and a number of un-represented and represented employee groups did not get cost of living adjustments in 2020 and 2021. We believe that we need to support our valuable workforce to strengthen the County's vital public services by retaining and rehiring County jobs to sustain and improve the post-pandemic level of service provided to the constituents of Whatcom County.

4. Criminal and Civil Justice Backlog

The pausing of jury trials and other COVID-related limitations has created an unprecedented backlog of unresolved court cases. The cost of delayed access to justice is very high for our community. We propose funding temporary positions in the public defender's office, prosecutor's office and the courts until the backlog is addressed.

5. Economic Relief & Recovery – Grant Writing and Administration

An unprecedented amount of money has been allocated through ARPA in addition to the funds which the County receives directly. For perspective, allocations to county governments represented less than 3.5% of the American Rescue Plan. We also know that Congress is working on a sweeping infrastructure package. Access to these funds will be contingent on our ability to identify opportunities, align projects with funding eligibility requirements, and submit well-written and timely applications.

To accomplish this, Whatcom County needs both grant writing and grant administration capacity. We propose to establish a small Economic Relief & Recovery team working under Administrative Services and tasked with identifying opportunities, preparing and managing grant applications using ARPA funds. The goal of this team will be to improve efficacy of programs that help address negative economic impacts through: use of data analysis, consumer outreach, improvements to data or technology infrastructure and impact evaluations. This team's work would not be limited to County projects. It would also offer grant writing support services to the Small Cities and, where appropriate, non-profit organizations which serve the public benefit.

The team may include outside consultants and at least one FTE within Administrative Services. The team's performance and effectiveness would be reviewed after three years, with the expiration of ARPA funds, and a decision could be made regarding the program's future.

Community Funding Priorities

The County Administration wants to engage Council and the public in meaningful discussions about community-wide funding priorities. We want to recognize that Council has already been engaged in discussions about priorities, drawing attention to such issues as childcare, workforce housing, low-income housing and homeless services.

It is important to note that Treasury's guidance suggests there are eligibility hurdles for using ARPA funds directly on such projects. For instance, the guidance links funding eligibility for some categories; including but not limited to affordable housing, homeless services, childcare, early learning services, mental and behavioral health services, and more to recognized low-income census tracts (Qualified Census Tracts – QCTs - QCTs must have 50% of households with incomes below 60 percent of the Area Median Gross Income (AMGI) or have a poverty rate of 25 percent or more.) In 2021, four census tracts in Whatcom County are identified as QCTs, all in the City of Bellingham. However, there is a caveat. Whatcom County can provide this broader array of services to other populations, households, or geographic areas disproportionately impacted by the pandemic. In identifying these disproportionately impacted communities, we must be able to support that determination for how the pandemic disproportionately impacted the populations, households, or geographic areas to be served. For instance,

we know that some of our communities have been disproportionately impacted by the border travel restrictions. The closure of Intalco also disproportionately impacted a specific geographic area, but it would be challenging to link that event to the pandemic, which is key to eligibility.

We will be seeking more clarification / Guidance from Treasury (through State and NACO) for small Counties like ours, where it is difficult to use the established QCTs in this manner, like large metropolitan cities and counties of 1 million or higher population. We will propose such an amendment to the Interim Final Rule to allow more flexibility to rural counties like ours.

Below are some categories which have been flagged as potentially of interest.

1. Childcare – eligible for direct funding only in QCTs, indirect funding possible in other areas

If the County's ARPA funds are committed to invest in childcare, it would be important to ensure that either the investment is not a recurring expense or that a dedicated funding mechanism is established to sustain any recurring costs after ARPA funds are fully deployed. There have been discussions around the idea of committing some of the County's banked capacity to create a sustainable funding source for a countywide Child & Family program. We expect the Child & Family Taskforce to bring forward community-supported ideas and proposals as it proceeds with its work.¹

2. Affordable Housing – eligible for direct funding only in QCTs, indirect funding possible in other areas

Affordable housing projects may be an attractive, non-recurring investment for ARPA funds. However, the current guidance limits such investments to QCTs and any areas identified as being disproportionately impacted by the pandemic.

3. Behavioral Health Needs – eligible for direct funding

The guidance recognizes that government services may be needed to meet behavioral health needs exacerbated by the pandemic and respond to other public health impacts. Eligible services include mental health treatment, substance misuse treatment, other behavioral health services, hotlines, crisis intervention, overdose prevention, infectious disease prevention, and services or outreach to promote access to physical or behavioral health primary care and preventative medicine.

4. Broadband – eligible for direct funding

To be eligible for funding, a broadband project must establish or improve broadband service to unserved or underserved populations to reach an adequate level to permit a household to work or attend school

1 A key challenge is identifying childcare investments that would not be covered by new state and federal childcare initiatives. The Fair Start for Kids Act passed in Olympia this past session provides more than \$400 million to increase subsidy rates, reduce copays and make capital investments in childcare facilities. Additionally, through ARPA, Washington State is receiving \$633 million for childcare. It remains unclear whether this level of spending by the state and federal governments will be sustained.

from home, and that are unlikely to be met with private sources of funds. The Port of Bellingham has already developed the Whatcom County Rural Broadband Project, which is shovel ready. The routes have been established and the cost estimates developed. However, the funding mechanism envisioned for this project already includes a mix of local, state and federal funds with specific matching requirements. Fiscal Recovery Funds are subject to pre-existing limitations in other federal statutes and regulations and may not be used as non-federal match for other Federal programs whose statute or regulations bar the use of Federal funds to meet matching requirements.

5. Infrastructure, including County Capital Projects

Making necessary improvements to infrastructure, such as water, sewer and stormwater facilities are vital investments for the long-term. It is recommended that we work with the Cities (including COB) to establish infrastructure projects throughout the County that will provide for increased areas for long-term economic development, including commercial/industrial opportunities as well as potential affordable housing development.

Also, capital projects for County facilities are generally not eligible for ARPA funding. However, ARPA funds which cover revenue loss can be used for almost any government expense. The County can also use existing county revenue from CARES Act reimbursement for this purpose.

6. Other Economic Relief – eligible for direct funding

Treasury's guidance allows for small business support, aide to non-profit organizations, and aide to tourism, travel, hospitality, and other impacted industries. Providing utility, rental or other financial assistance to households negatively impacted by COVID is also an eligible expense. However, it is important to recognize that small grant programs typically come with a heavy administrative burden.

Next Steps

Following discussion with Council on June 1, the Administration will be drafting an ordinance with budget amendments enabling the County to move forward on the near-term actions outlined in this memo.

We will continue to explore eligibility criteria and develop investment options supporting economic relief and recovery with the Council's guidance and input. Our expectation is to have an ongoing discussion with Council and the public as part of the 2021-2022 Mid-Biennium Review process. This process will be further defined and will last through the fall of 2021. We encourage anyone who is interested in proposing possible uses of Fiscal Recovery Funds to read the [Interim Final Rule](#), which lays out in detail the types of services and projects that are envisioned. A [Quick Reference Guide](#) is also available for a concise presentation of the guidance.

Based on past experience, we expect the guidance to evolve as the Treasury reviews and responds to feedback from local governments.

Next Biennium Budget 2023-24

We will start the next biennium budget process in June/July of 2022. We believe that by that time ARPA rules and guidance will be further clarified, and we will have some results from our 2021 initiatives. We expect the second installment of \$22.5 million in May of 2022. At that time, we will also know the outcome of two major Federal Initiatives currently being discussed, namely, the American Jobs Plan (transportation, digital infrastructure, electrical grid, climate resiliency, etc.) and the American Families Plan (childcare, pre-school, post-secondary education, tax relief, etc.). These are substantial outlays and could play a huge role in our local planning for future long-term community investments. This will provide the Council and the Administration additional opportunity to review and revise our plans for remaining APRA funds within the framework of our discussions for the next Biennium budget.

With all these points of consideration, the Administration proposes a collaborative and measured approach to ensure that we make well-informed budgeting decisions over the next couple of years.