



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 04/06/2021

ITEM NO: 13

DATE: March 29, 2021
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Provide Direction for the Following Potential Uses of the American Rescue Plan Act Funds Earmarked for Los Gatos and that any unprogrammed funds should be allocated to the Economic Recovery Fund account:

1. Utilize approximately \$3.2 million to replace lost revenue sufficient to balance the FY 2020/21 and FY 2021/22 budgets.
2. Utilize \$60,000 to provide additional \$15,000 grants to West Valley Community Services, Counseling and Support Services for Youth (CASSY), Next Door Solutions, and Live Oak Senior Nutrition.
3. Utilize \$250,000 to provide additional support to the Parklet grant program.
4. Utilize \$180,000 to provide a 50% waiver of rent and utilities for the Town of Los Gatos lessees New Museum of Los Gatos (NUMU), Friends of the Library, Billy Jones Railroad, Soccer and Little Leagues, and Los Gatos-Saratoga Community Education and Recreation (LGS Rec) for FY 2021/22.
5. Utilize \$50,000 for continued Conditional Use Permit 50% subsidies.
6. Other Council considerations consistent with eligible uses.

RECOMMENDATION:

Provide direction for the following potential uses of the American Rescue Plan Act (ARPA) funds earmarked for Los Gatos and that any unprogrammed funds should be allocated to the Economic Recovery Fund account:

1. Utilize approximately \$3.2 million to replace lost revenue sufficient to balance the FY 2020/21 and FY 2021/22 budgets.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

RECOMMENDATION (continued):

2. Utilize \$60,000 to provide additional \$15,000 grants to West Valley Community Services, Counseling and Support Services for Youth (CASSY), Next Door Solutions, and Live Oak Senior Nutrition.
3. Utilize \$250,000 to provide additional support to the Parklet grant program.
4. Utilize \$180,000 to provide a 50% waiver of rent and utilities for the Town of Los Gatos lessees New Museum of Los Gatos (NUMU), Friends of the Library, Billy Jones Railroad, Soccer and Little Leagues, and Los Gatos-Saratoga Community Education and Recreation (LGS Rec) for FY 2021/22.
5. Utilize \$50,000 for continued Conditional Use Permit 50% subsidies.
6. Other Council considerations consistent with eligible uses.

BACKGROUND:

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. The \$1.9 trillion package (the Act) provides financial aid to families, governments, businesses, schools, non-profits and others impacted by the COVID-19 public health crisis. Of the \$1.9 trillion, \$350 billion is being directed toward state and local governments. All 19,000 municipal governments are entitled to a direct, non-competitive federal formula grant from the U.S. Treasury Department. The portion allocated to cities, towns, and villages totals \$65.1 billion of which \$19.5 billion is obligated toward cities with less than 50,000 residents. On March 10, 2021, the Mayor received notification from Congressional Representative Eshoo's Office that Los Gatos will receive \$5,688,630 based on a modified version of the Community Development Block Grant formula.

Receipt and use of the ARPA funds were established within the Act and potentially subject to future clarification and revision. To date, the Act establishes that the U.S. Treasury is required to pay the first tranche to states, counties, and entitlement communities no later than 60-days after enactment (March 11), and the second payment no earlier than 12 months after the first payment. States will have 30 days to distribute funds to nonentitlement communities (e.g., Los Gatos) based on population, with potential for up to three extension requests by a State. All Fiscal Recovery Funds will remain available until December 31, 2024.

Specifically, Section 603. *CORONAVIRUS LOCAL FISCAL RECOVERY FUND* of the Act identified four eligible uses for funding, as follows:

(A) to respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;

BACKGROUND (continued):

(B) to respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers of the metropolitan city, nonentitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;

(C) for the provision of government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or

(D) to make necessary investments in water, sewer, or broadband infrastructure.

The Act also identified the following two ineligible uses:

(A) No state, metropolitan city, nonentitlement unit of local government, or county may use funds made available under this section for deposit into any pension fund.

(B) Cannot be used to either directly or indirectly offset a reduction in the net tax revenue resulting from a change in law, regulation, or administrative interpretation during the covered period of March 3, 2021 to the end of the fiscal year in which the local government last uses these funds, that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase.

DISCUSSION:

Staff has identified eligible ARPA uses for Council consideration that are consistent with the intent of the Act, in alignment with previous Council guidance, or both. In addition, the staff recommendation considers the multiple needs of the Los Gatos community in terms of equitable continuation of Town services, business support, and assistance to local nonprofits. The Council need not program all of the dollars on April 6th. Staff recommends that any unprogrammed funds should be allocated to the Economic Recovery Fund account.

(A) to respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID–19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;

Following is a listing of previous Council actions which align with this eligibility section. Council could consider expanding on previous monetary relief efforts to businesses and nonprofits.

DISCUSSION (continued):

- On April 7, 2020, the Town Council authorized additional funding to several annual grant recipients to enhance resources devoted to individuals and families that may be experiencing financial hardship, lack of food access, mental health challenges, domestic violence, and/or other effects associated with the COVID-19 pandemic and related Public Health Orders requiring sheltering in place. Specifically, additional \$10,000 grants were provided to West Valley Community Services, Counseling and Support Services for Youth (CASSY), Next Door Solutions, and Live Oak Senior Nutrition for a total of \$40,000.
- On April 21, 2020, the Town Council authorized waiver of rent and utilities for the Town of Los Gatos lessees New Museum of Los Gatos (NUMU), Friends of the Library, Billy Jones Railroad, Soccer and Little Leagues, and Los Gatos-Saratoga Community Education and Recreation (LGS Rec) for the duration of the Santa Clara County shelter-in-place order due to significant business disruption.
- May – November, the Town Manager through her emergency proclamation authorization funded \$6,475 toward deep COVID cleaning for the LG Methodist Church Shower Ministry to maintain weekly showers for the Homeless.
- On May 26, 2020, the Town Council held a special meeting to discuss opportunities that could provide support to the business community through Community Vitality and Economic Recovery initiatives. An Economic Recovery Resolution was drafted and adopted (6/2/2020) to provide the implementation of a pop-up parklet program, land use permit and process streamlining opportunities, and reduced fees including the absorption by the Town of 50% of all Conditional Use Permit fees for the period of one year.
- June 2020, the Town Manager through her emergency proclamation authorization funded \$2,800 toward protein purchases for House of Hope food pantry.
- On June 8, 2020, the Town Council authorized the Town Manager to expend up to \$750,000 for the creation and deployment of temporary parklets for businesses to leverage outdoor space due to public health orders.
- On September 15, 2020, the Town Council authorized the expenditure of approximately \$150,000 for the Los Gatos Chamber of Commerce proposal to install holiday light displays to enhance the desirability of the Town as a shopping destination during COVID-19.
- On October 6, 2020, the Town Council approved the continuation of the Economic Recovery parklet program (temporary with kral) through March of 2021, adopted a

DISCUSSION (continued):

grant match program for businesses who make ADA accommodations to these temporary parklets, extended the duration of the pilot parklet program (adopted in February of 2019) to a semi-permanent timeframe with no set end date, and directed staff to return to Council in January 2021 with a semi-permanent parklet incentive program. For the Council's reference, krail rental remains an ongoing cost at the rate of \$10,000 per month.

- On January 19, 2021, the Town Council approved: continued rent forgiveness for Town owned properties; business license forgiveness for specific commercial sectors during Q1; \$10,000 grants toward construction of semi-permanent parklets built in public right-of-way; the purchase a set of "pre-approved" parklet architecture plans and subsidy of the engineering costs for the parklets; the absorption of Town parklet application fees; the expenditure of \$2,500 for mask signage; an additional \$35,000 to complete the Chamber of Commerce's Holiday Light display; and extended the Economic Recovery Resolution through December 2021 including the absorption of 50% of Conditional Use Permit fees. The 50% of the fees absorbed by the Town are being paid for out of the Economic Recovery Fund.

Staff recommends that the Council increase the semi-permanent parklet subsidy to \$20,000 and clarify that each subsidy is per business. The original calculation by staff was a maximum of 30 businesses building parklets at \$10,000 per business, for a total of \$300,000, allocated from the Economic Recovery Fund on January 19, 2021.

After meeting with the businesses and understanding their intentions a bit more, staff estimates that approximately 15 businesses have serious interest in building approximately 12 parklets at this time. The interest may increase as parklets are built and recovery for the businesses gain momentum; however, staff does not believe the request will go beyond 20 total parklets for all of downtown. As noted above, some of these may be multi-business parklets thus the total business interest and grant allocation may reach 25 businesses.

During meetings with the businesses, it is understood that the parklet cost are about \$20,000 for design and engineering, and \$40,000 for buildout, for a basic two-parking stall parklet. With the Council direction in January, Town staff has secured architecture plans for a basic two stall pre-approved parklet and bought down the engineering fees so that the cost per business for design and engineering is now \$3,900, instead of approximately \$20,000. If the interest in the semi-permanent parklet program extends beyond ten parklets, staff will need additional funds to subsidize the engineering fees for the remaining parklets. Assuming 20 parklets maximum, an additional \$250,000 would be necessary to support a \$20,000 grant for 25 businesses, and the additional consultant costs for the pre-approved plans and reduced engineering fees.

DISCUSSION (continued):

In addition to the aforementioned parklet costs, if Council were to consider providing 50% rent relief for all Town tenants for FY 2021/22, and offer one-time \$15,000 additional grants to the Town’s four annual grant recipients these items would total \$180,000 and \$60,000 respectively.

(C) for the provision of government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or

The impacts to economically sensitive Town revenues associated with public health measures to mitigate the spread of COVID-19 have been well documented.

On January 21, 2020, the Town Council received the following initial Five-Year Forecast which became the basis of Strategic Priority planning and budgetary considerations. The development of that original forecast did not anticipate the unforeseen economic impacts associated with the local, national, and global effects of COVID-19.

Original 5 Year Forecast “Base Case”	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)
Original Surplus/Deficit	\$0.5	\$1.7	\$1.6	\$2.3	\$3.1

On May 19, 2020, staff presented an updated Five-Year Forecast and the Proposed Operating Budget which included significant revisions to growth projections for the Town’s primary revenues of property tax, sales tax, and transient occupancy tax (TOT). The net result of these revenue changes alone accounted for a \$1.8 million swing from the original FY 2020/21 base case revenue projections and an additional \$2.6 million revenue reduction in FY 2021/22 relative to the base case projection.

Net Changes in Revenues to Base Case	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)
Sales Tax	(\$0.98)	(\$1.02)
MuniServices COVID-19 Scenario		
TOT	(\$0.4)	(\$0.1)
Shock Scenario		
Property Tax	(\$0.4)	(\$1.5)
Slow/No Growth Scenario		
Totals	(\$1.78)	(\$2.62)

DISCUSSION (continued):

The combined effects of changing these budget assumptions in conjunction with others is illustrated in the following updated Five-year Forecast.

Updated COVID-19 Effects Scenario	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)
Surplus/Deficit	\$0.0	\$0.0	(\$0.6)	(\$0.1)	(\$0.7)

The total Five-Year Forecast revisions resulted in an initial estimate of \$9.2 million in total surpluses through FY 2024/25 ultimately becoming \$1.4 million in deficits through FY 2024/25, for a total Forecast period reduction of \$10.6 million

On February 16, 2021, staff provided the following Mid-Year Budget and Five-Year Financial Forecast which illustrate the continued degradation in the Town’s primary revenue sources due to impacts from COVID-19.

	Revenues	Expenses	Variance FY 2020/21 Budget vs. FY 2020/21 Estimate
Total General Fund	(\$2,603,789)	\$1,565,612	(\$1,232,566)

Scenario Surplus/Deficit	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Base Case Modest Growth	(\$2.0)	(\$0.4)	\$0.0	\$0.2	\$0.3

The Mid-Year Budget currently estimates a \$1,232,566 deficit of revenues over expenditures at year end and the current Five-Year Forecast is projecting a \$2.0 million dollar deficit in FY 2021/22.

Staff recommends that \$1.2 million be put toward closing the FY 2020/21 budget gap of \$1.2 million and \$2.0 million towards closing the anticipated FY 2021/22 budget gap, for a total of \$3.2 million. These estimates were based upon mid-year budget projections and as such are highly subject to change based upon final close of FY 20/21 actuals and the final approval of the FY 2021/22 proposed operating and capital budget.

DISCUSSION (continued):

(D) to make necessary investments in water, sewer, or broadband infrastructure.

The Town recently completed an analysis of stormwater system deficiencies which identifies between \$10M and \$18M in specific project needs across multiple projects ranging in individual estimated costs of between \$100,000 and \$5,000,000. Should the Council wish to allocate funds for capital work in this area, staff would include a recommendation for a project sized to the available funds in the annual Capital Improvement Program Budget. Small projects would correct issues of repetitive localized ponding, for example at the corner of Shannon Road and Short Road, by modifying the storm inlet and road contour. Larger projects would address areas where a storm drain is not present or insufficient for the flow, for example along Los Gatos Almaden Road where stormwater releases overland onto adjacent properties.

CONCLUSION:

The American Rescue Plan Act has been established to help local governments sustain during the unprecedented impacts of COVID-19 and continue to provide opportunities to support businesses and nonprofits. Staff recommends that Council provide direction on the following eligible ARPA funding allocations and that any unprogrammed funds should be allocated to the Economic Recovery Fund account:

1. Utilize approximately \$3.2 million to replace lost revenue sufficient to balance the FY 2020/21 and FY 2021/22 budgets.
2. Utilize \$60,000 to provide additional \$15,000 grants to West Valley Community Services, Counseling and Support Services for Youth (CASSY), Next Door Solutions, and Live Oak Senior Nutrition.
3. Utilize \$250,000 to provide additional support to the Parklet grant program.
4. Utilize \$180,000 to provide a 50% waiver of rent and utilities for the Town of Los Gatos lessees New Museum of Los Gatos (NUMU), Friends of the Library, Billy Jones Railroad, Soccer and Little Leagues, and Los Gatos-Saratoga Community Education and Recreation (LGS Rec) for FY 2021/22.
5. Utilize \$50,000 for continued CUP 50% subsidies.
6. Other Council considerations consistent with eligible uses.

COORDINATION:

This report was prepared in coordination with Economic Vitality, Finance, and Parks and Public Works.

PUBLIC COMMENT:

Attachment 1 contains public comments.

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SUBJECT: American Rescue Plan Act Funding Direction

DATE: March 29, 2021

FISCAL IMPACT:

None. Funding will be provided through \$5.7 million in onetime ARPA funds.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachment:

1. Public Comments