



MEMORANDUM

TO: Mayor and City Council

FROM: Diane Siler, Interim Budget Officer, Financial Services Department
Veronica Briseño, Chief Economic Recovery Officer, Economic Development Department

DATE: March 12, 2021

SUBJECT: Update on the City's Finances Related to the COVID-19 Recovery Efforts and 2021 COVID-19 Spending Framework

The purpose of this memorandum is to provide an update on the spending associated with the City's COVID-19 response through September 30, 2021 and to begin the discussion on the spending plan for the Federal stimulus funding to be awarded to the City of Austin through the recently-enacted American Rescue Plan.

Spending through December 2020

On May 28, 2020, Council approved an initial spending framework totaling \$271.6 million which was later revised to \$449.9 million through an October 30, 2020 memorandum. The framework covered the period from the beginning of the emergency through the end of the calendar year. The City spent \$367.3 million as of December 31, 2020, which includes all of the \$170.8 million in Coronavirus Relief Funds received via the CARES Act. While invoices continue to be processed for FEMA reimbursement, it is expected the City will receive \$21.5 million for this time period. Of the remaining COVID-19-related grants, \$28.6 million has been expended and the remaining \$60.4 million will carry forward into 2021 to be expended in compliance with the grant agreements. Expenditure detail is available at www.austintexas.gov/covid19-fiscal-dashboard.

COVID-19 Expenditures by Funding Source March through December 2020 *(in millions)*

Funding Source	Amount
City of Austin	\$139.1
FEMA	\$21.5
CARES Act: Coronavirus Relief Funds	\$170.8
CARES Act: Airport Improvement Program	\$25.3
CARES Act: Travis County (CRF)	\$7.4
CARES Act: Other Grants	\$3.3
Total Expenditures through December 2020	\$367.3
Grant Funds to be Spent in FY21	\$60.4

Status of General Fund Reserves

The General Fund reserves are anticipated to remain in a healthy position throughout FY21 due to a number of positive factors. First, at the start of the COVID-19 emergency, the General Fund had reserves of \$147.8 million—\$25.7 million above

policy level of 12%—as a result of a strong economy, conservative budgeting practices, and sound financial policies. Second, the loss in sales tax revenue, while significant, was lower than originally projected. Third, management took quick and decisive action at the onset of the crisis to curb spending. Finally, passage of the CARES Act provided the City with funding to offset public safety salaries and allowed Travis County to reimburse the City for shared expenses. As a result, the City is has \$40.6 million available within the General Fund reserves to use toward COVID-19 recovery efforts.

General Fund Combined Reserves- FY21 Estimate as of March 2021 (in millions)

FY21 Approved Ending Balance	\$ 133.6
FY20 Year-End Adjustments (Unaudited)	
Revenue in Excess of Estimate	\$ 8.4
Savings from Hiring Freeze and Extended Closures	\$ 10.0
CARES Funding Reserve	\$ 24.9
Travis County Reimbursement for Shared Costs	\$ 7.4
FY21 Budget Amendments	
RISE (Net of \$6.5M transfer from CIP)	\$ (8.5)
Food Access Relief	\$ (1.5)
Business Preservation Fund (Net of \$2.3M ATD transfer)	\$ -
COVID-19 Recovery Costs	\$ (40.6)
FY21 Estimated Ending Balance	\$ 133.7
Reserve Ratio	12%

It is important to note that the City still has not received a final determination from FEMA on the eligibility of the costs for the non-congregate shelters or the cost recovery percentage. The estimate above assumes all non-congregate shelter costs will be reimbursed at 75%. If the City receives an unfavorable decision, reserves will drop by \$12 million, which will reduce the reserve ratio to approximately 11%. Alternatively, if cost are eligible for full reimbursement, reserves will increase by \$4 million. Staff will continue to closely monitor all activity at the Federal and State level.

Second note, the status provided here does not yet have the benefit of a completed General Fund assessment for FY21. Work is currently on-going to develop revenue and spending estimates for this year and will be incorporated into the FY22 budget. However, if any significant changes surface prior to the delivery of the proposed budget, Council will be informed immediately.

Additional Public Health and Emergency Management Requirements

Staff estimates an additional \$81.0 million will be needed to continue to respond to the public health emergency. Of that, it is expected FEMA will provide a reimbursement of \$36.7 million. The funding will be used to continue the operations of non-congregate shelters, isolation facilities, the alternate care site, infusion center, and the Emergency Operations Center and assumes services will begin transitioning to pre-emergency levels in the spring. Also included in the budget are all testing services; the purchase of PPE and other necessary supplies; the Eating Apart Together (EAT) program for unsheltered homeless and the AISD Caregiver Meals program; and contact tracing, epidemiology, and general public safety. Staff recommends the City's portion of the additional public health recovery costs be funded from available balance in the General Fund reserves, the status of which is discussed below.

Additional Public Health Response & Recovery Costs
January through September 2021 *(in millions)*

Category	Amount
COVID-19 Emergency Management	\$ 7.6
Protection of Vulnerable Populations	\$ 1.8
Testing	\$ 21.7
Shelters & Quarantine Facilities	
Non-congregate Shelters	\$ 5.8
Isolation Facilities	\$ 9.6
Alternate Care Site	\$ 6.8
Public Health & Safety Measures	\$ 13.9
Miscellaneous Items	\$ 7.4
Food Assistance	
Eating Apart Together (EAT) Program	\$ 2.5
AISD Caregiver Meals Program	\$ 3.9
Additional Public Health Recovery Costs	\$ 81.0

Please note that the cost for the vaccination program is not included in the above estimate. COVID-19 vaccines will be procured and distributed by the Federal government at no cost to enrolled COVID-19 vaccine providers. In addition, the work and associated costs to support the distribution and administration of COVID-19 vaccines are eligible for 100% public assistance through FEMA. The City estimates it will cost \$45.8 million of which FEMA has already appropriated \$22.8 million.

Additional Federal Funding

The Consolidated Appropriations Act, passed December 21, 2020, provided the City with an additional \$29.6 million to aid households that are unable to pay rent or utilities due to impacts of COVID-19. The Emergency Rental Assistance Program requires that not less than 90 percent of awarded funds must be used for direct financial assistance, including rent, rental arrears, utilities and home energy costs, and other expenses related to housing. Remaining funds are available for housing stability services, which includes case management and administrative costs. Council is scheduled to accept and appropriate this grant on March 25, 2021.

On March 11, 2021, the American Rescue Plan (ARP)—designed to assist in the ongoing economic and public health efforts—was signed into law by President Biden. Included in this bill is \$45.6 billion dollars to be allocated to CDBG-entitlement cities. At this time, we estimate that the City of Austin will receive \$195.8 million which must be spent by December 31, 2024. The fund, will be allocated over two years—50% in calendar year 2021 and the remaining 50% in 2022—can be used:

- To respond to the public health emergency with respect to 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;
- To respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the local government that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
- For the provision of government services to the extent of the reduction in revenue of such local government due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year of the local government prior to the emergency (fiscal year 2019 for the City of Austin);
- To make necessary investment in water, sewer, or broadband infrastructure; or
- To transfer funds to a private nonprofit organization, a public benefit corporation involved in the transportation of passengers or cargo, or a special purpose unit of state or local government.

The ARP also has provisions for additional funding to assist the City. The bill provides for another round of Emergency Rental Assistance Program that will generally be distributed in the same manner as the first round of this program enacted in December and discussed above. There is funding for homeless assistance that will be allocated using the formula for the HOME Investment Partnership Program. In addition to the standard HOME program requirements, funds can be used for homeless prevention services and the acquisition of non-congregate shelters that can be converted to permanent affordable housing, be used as emergency shelter, be converted to permanent housing, or remain as non-congregate shelter. Additional funding will also be available through FY24 for the Airport Improvement Program which includes relief to airport concessions. As these funds are awarded, the grants will be brought to Council for appropriation.

COVID-19 Spending Framework--2021

In anticipation of the bill's approval, City staff created the following spending plan recommendation. The spending framework aligns with the Economic Recovery and Resiliency Framework that staff will present to Council on March 23, which is informed by more than 125 stakeholder engagements with Austinites throughout 2020 and 2021. The spending plan recommendation commits additional resources to individuals and communities impacted by the COVID-19 pandemic; continues economic support efforts for small businesses, creatives, childcare facilities, and non-profits begun last March; and addresses the drastic revenue loss in Hotel Occupancy Tax, including expected cuts to cultural arts contracts. Because housing and homelessness assistance is being provided through separate grants (discussed above), the spending framework below does not include these costs.

COVID-19 Spending Framework—2021 (*in millions*)

	2021		2022	Total
	Reserves	ARP	ARP	
Public Health Response	\$15.6	\$28.7		\$44.3
Economic Recovery Resources				
Individual Assistance (RISE 3.0)	\$20.0			\$20.0
Business Assistance Programs		\$24.0	\$10.9	\$34.9
Childcare Assistance Programs		\$3.0	\$1.5	\$4.5
Community Assistance Programs		\$3.5	\$4.1	\$7.6
Creative Assistance Programs		\$7.8	\$2.3	\$10.1
Employee Assistance Programs		\$7.0	\$1.5	\$8.5
Non-Profit Assistance Programs		\$5.0	\$3.0	\$8.0
Workforce Development Programs	\$5.0	\$2.5	\$3.5	\$11.0
Hotel Occupancy Tax-Funded Services				
Cultural Arts Fund		\$3.9	\$3.9	\$7.8
Historic Preservation Fund		\$5.0	\$5.0	\$10.0
Live Music Fund		\$1.1	\$1.1	\$2.2
Austin Convention Center		\$6.4	\$21.9	\$28.3
Contingency (20%)			\$39.2	\$39.2
Total Spending	\$40.6	\$97.9	\$97.9	\$236.4

Public Health Response & Recovery

Of the \$81.0 million in additional public health response and recovery costs detailed above, the non-FEMA reimbursed portion would be \$44.3 million, all of which is eligible for ARP reimbursement.

Economic Recovery Resources

Austin households, communities, businesses, non-profits, and creatives continue to experience financial challenges caused by the ongoing COVID-19 pandemic. The recommended spending framework for Economic Recovery Resources addresses multiple needs expressed by community members during more than 125 stakeholder engagement sessions held through 2020 and 2021. This spending plan ensures households, small businesses, non-profits, and creatives receive financial support to offset immediate needs, as well as workforce development or technical assistance to promote longer-term sustainability and resiliency. Below is a short synopsis of each funding category. City staff will elaborate on each of these funding categories as part of the Economic Recovery and Resiliency Framework presentation during the March 23rd City Council Work Session.

Individual Assistance (RISE 3.0)—Funding in this category would support a third round of the Relief in a State of Emergency (RISE) program. The recommended allocation doubles the \$10 million that Council allocated in RISE 2.0. These additional funds will enable the City to serve more households in need of financial assistance. RISE funds can be used for rent, utilities and other financial assistance required for persons effected by COVID-19.

Business Assistance Programs—Funding in this category would support several initiatives intended to support and sustain local businesses impacted by the COVID-19 pandemic. This includes offering another round of grants via the Austin Small Business Relief Grant, implementing programs created via the Save Austin’s Vital Economic Sectors (SAVES) Chapter 380 programs, supporting local restaurants and farms, providing virtual technical assistance and one-on-one coaching to local businesses, and facilitating the creation of business cooperatives.

Childcare Assistance Programs—Funding in this category would continue the City’s support for childcare providers in Austin. A portion of the funds would be used to incentivize the reopening or creation of high-quality home-based and center-based childcare providers serving households that reside in low-income zip codes.

Community Assistance Programs—Funding in this category would support a range of initiatives intended to help communities recover from COVID-19 and become more resilient to withstand the impacts of future emergencies. The types of programs that could be supported with these funds include investments in technology to close the digital divide, facilitating the creation of financial services for unbanked individuals, enhancing tool lending services that allow individuals to borrow equipment, and providing households with resources to grow their own food.

Creative Assistance Programs—Funding in this category would allow the City to continue supporting and sustaining local creatives, creative industry support staff, live music venues, and arts and cultural organizations impacted by the COVID-19 pandemic. This includes offering another round of grants via the Austin Creative Worker Relief Grant, allocating additional funds to the Austin Live Music Venue Preservation Fund, and supporting efforts to create a local artists registry and to assist local creatives with streaming performances and other content.

Employee Assistance Programs—Funding in this category would support several initiatives for essential workers affected by the COVID-19 pandemic. This includes grants for restaurant and food service workers and funding for mental health and wellness services.

Non-Profit Assistance Programs—Funding in this category would support a second round of the Austin Non-Profit Relief Grant. The recommended allocation is nearly \$2 million greater than the amount Council allocated in the first round of the program. These additional funds will enable the City to support Austin’s non-profit community, which continues to face hardship due to the economic impacts of the COVID-19 pandemic.

Workforce Development Programs—Funding in this category would support a range of initiatives intended to help Austinites receive skills and training for in-demand living-wage-paying jobs. The types of programs that could be supported with these funds include the Austin Civilian Conservation Corps, rapid re-training and job placement services, scholarships to unemployed and underemployed persons who commit to working locally in their trained field, and public infrastructure projects that employ Austinites who have been economically impacted by COVID-19.

Hotel Occupancy Tax- Funded Services

The tourism, hospitality and travel industry have been hit extremely hard by the pandemic in Austin. Recent estimates show the tourism and hospitality industry accounts for over 70% of the jobs lost in Austin due to the pandemic and that the impact of lost hotel and event bookings in Austin has resulted in a loss of nearly \$1 billion in economic impact (\$750 million from SXSW cancelling alone). The hotel industry in Austin has also experienced close to \$1 billion in revenue losses, and that the City of Austin has lost over \$75 million in Hotel Occupancy Tax collections since the start of the pandemic. Recipients of the Hotel Occupancy Tax revenue are: Convention Center, Visit Austin, Cultural Arts (including Live Music), and Historic Preservation.

Cultural Arts/Historic Preservation/Live Music Funds—Austin's cultural contractors contribute to the City's unique and home-grown character, drive tourism by offering distinctive experiences for visitors, and support thousands of workers, customers, and other industries. Arts and culture mean business in Austin! According to a study conducted in 2017, the City's creative industries generate \$4.3 billion in economic activity, \$71 million in City tax revenue, and 49,000 jobs. Additionally, Austin's creativity fuels the economy by attracting new businesses and residents to our city and remains an integral part of Austin's vitality, livability, and cultural identity. The COVID-19 pandemic has caused organizations and individuals contributing to Austin's arts and music sectors to experience a tremendous loss of revenue and job opportunities due to closure. The Hotel Occupancy Tax currently funds over 700 cultural contractors, including individual entrepreneurs, as well as small to large organizations/businesses. EDD is committed to honoring current (FY21) contracts for Cultural Arts and Heritage programs. However, by doing so, it is anticipated that the Cultural Arts Fund will end the year with a—\$4 million deficit and the Heritage Fund ending balance of negative \$6 million.

Austin Convention Center—The COVID-19 pandemic has resulted in a loss of revenue to the Austin Convention Center Department (ACCD) of over \$76 million. Losses have occurred across all levels of the Convention Center's revenue sources, including facility rental, contractor, parking, and Hotel Occupancy Tax. ACCD has implemented significant cost containment strategies to mitigate the catastrophic loss of revenue, including reducing the use of temporary employees and overtime for full-time employees, contractuels and commodities, and eliminating contributions from the Convention Center Operating Fund to the Capital Fund. While ACCD was successful in managing the revenue loss in FY20 via these severe cost containment measures, the projected revenue losses from all sources in FY21 due to the continued shuttering of the facility has resulted in a \$31.2 million budget deficit between FY21 and FY22. Replacing the revenue loss with federal funding allows the Convention Center to avoid further reductions in staffing and program cuts and ensures that we can meet debt service requirements, maintain existing operations, and positions us to emerge from this pandemic successfully in the short term, while also focusing on the long-term economic growth of the hospitality and tourism sector. The Convention Center has been proud to offer our facilities as emergency resources to serve the needs of our community throughout this pandemic and look forward to contributing to the economic recovery of the City in the very near future.

Contingency Funding

Staff is recommending that 20% of the American Recovery Plan award be reserved as contingency in the event that unanticipated needs arise. This same cautious approach was used with the Coronavirus Relief Funds which proved to be helpful. As the pandemic lengthened and costs increased beyond original estimates, we were easily able to respond to the changing needs while not impacting other equally essential services nor putting the City in a precarious financial position.

Next Steps

A budget amendment to accept and appropriate the \$195.8 in American Recovery Plan funds will be brought to Council once the City has received formal notice of the award. In preparation for the budget amendment, staff will provide a

presentation on March 23rd to review staff's recommendations. Additional details regarding planned expenditures will be available at that time.

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