



Department of Administration
Budget and Management Division

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Revised June 20, 2023

MEMORANDUM

**To: Chair Milele Coggs
Members of the American Rescue Plan Act Funding Allocation Task Force**

**From: Budget Director Nik Kovac
ARPA Director Andrea Fowler**

Subject: Proposed Reallocation Plan

I. Background

Common Council Resolution number 211910 charges the Department of Administration with “recommending a process for identifying unspent ARPA funds and referring recommended reprogramming uses for these funds to the ARPA Task Force, which shall then be presented to the Finance and Personnel Committee for further review and approval.” This memorandum outlines the process that DOA is undertaking to make that recommendation. Recommendations for specific reallocations will follow after the process described in this memo has been completed.

In general, ARPA funds must be returned to the federal government unless they are (1) obligated (i.e. placed under contract) by the end of 2024, and (2) actually spent by the end of 2026. Merely budgeting the use of such funds does not “obligate” the funding; therefore, the payment of departmental salaries and many operating expenses in 2025 and 2026 represent a substantial audit risk. However, obligating funds to a subrecipient through a written agreement that is executed before the end of 2024 does satisfy the 2024 deadline, and thereafter, the only requirement is that those funds be spent by the subrecipient before the end of 2026.

The City of Milwaukee was awarded \$394,226,649 in direct ARPA State and Local Fiscal Recovery funds by the U.S. Department of the Treasury. The follow table shows our current balances as of May 30, 2023.

Original funding from Treasury	\$394,226,649
Remaining Unallocated	\$92,727,549
Allocated	\$301,499,100
Remaining Unencumbered and Unspent	\$213,190,511
Encumbered	\$54,679,741
Spent	\$126,356,397

II. Reallocation.

To prevent any funds from expiring, reallocation decisions must be made far enough in advance of the 2024 deadline that departments are able to place reallocated funds under contract or spend the funds down by the end of 2024.

Additionally, reallocation decisions must be made with consideration of whether the funds will be reallocated as revenue loss. When funds are classified as revenue loss, the City may spend the funds on regular City expenditures (with a few exceptions such as pension contributions and legal settlements), and without many of the heightened procurement and contracting requirements that attach to non-revenue loss funding. However, the amount of total revenue loss available is limited. The following chart summarizes the City's current revenue loss position:

Category of funding	Amount	Explanation
Estimated total revenue loss available from our tranche I and II ARPA grant.	\$314,875,866	This estimate assumes that (1) the City will realize at least \$89,885,758 of revenue loss in 2023 (based on an early <u>estimate</u> from the Comptroller's office which will certainly change) and (2) the City will also realize at least that much revenue loss again in 2024. <u>The actual amount of available revenue loss will not be known until mid-2025.</u>
Currently allocated revenue loss	\$150,491,118	
New reclassifications to revenue loss	\$36,689,026 ¹	DOA recommends reclassing this amount of funding to revenue loss to ensure compliance with federal grant rules and to minimize audit risk. CCFN 230226.
Unallocated ARPA funds	\$92,727,549	For the sake of these estimates, DOA has assumed that all of the remaining unallocated funds would be designated as revenue loss.
With the above assumptions, this is the total amount of currently allocated funding that may be <u>reallocated</u> to revenue loss.	\$34,968,173	DOA recommends against reallocating the entire remaining amount as revenue loss. Although this estimate is designed to be conservative, there is still a great deal of uncertainty in the estimate, and if we were to exceed our revenue loss threshold, we would likely need to return those funds to the Dept. of the Treasury.

¹Proposed reclassifications are the following: \$9 million for the Westlawn subaward, \$10 million for the Housing Trust Fund, \$2 million for the Compliance Loan Program, \$9,929,026 for the ambulance BLS subsidy program, \$4.7 million for the 2024 housing allocations, \$1.06 million for city employee retention incentives.

The Department of Administration recommends that reallocation decisions be made in the year 2023, as part of the 2024 budget process. This timeline will permit the greatest flexibility of use, and may allow the City to offset a portion of its projected 2024 budget gap. Projects are currently being reviewed according to the criteria below, and an initial set of recommended reallocations will be provided to the ARPA Task Force no later than July 31, 2023.

Criteria	Decision Point
Is the project complete?	Yes → <u>Reallocation N/A</u> No → Proceed
Does the department anticipate that it will have an excess of funds for the project? <i>Note that salaries of City employees may not be charged to ARPA after 2024.</i>	Yes → <u>Recommended for reallocation</u> No → Proceed
Have less than 80% of the funds been encumbered or is this a subaward?	Yes → Proceed No → <u>Not recommended for reallocation</u>
If this project is a subaward, may the City legally reallocate funds under the terms of the subaward agreement?	Yes → Proceed No → <u>Not recommended for reallocation</u> N/A → Proceed
Has the funding been budgeted for departmental operating expenses in the 2023 budget and if so, the department is on track to spend down by the end of 2023?	Yes → <u>Not recommended for reallocation</u> No → Proceed
Are the project's outputs proportional to the investment? (I.e. is the investment in the project effective?)	Yes → Proceed No → <u>Recommended for reallocation</u>
Is the project still a priority, in light of the City's current budget outlook?	Yes → Proceed No → <u>Recommended for reallocation</u>
Does the department have a written, realistic plan in place to both (1) accurately calculate all city employee salary expenses charged to ARPA through the end of 2024 (if applicable) <u>and</u> to place all remaining funding under a fixed price contract by mid-2024? <i>Note: funds must legally be placed under contract by the end of 2024, but a six-month buffer is recommended to allow for last-minute reallocations if contracting cannot be accomplished.</i> If Yes, provide a summary of the spending plan.	Yes → <u>Not recommended for reallocation</u> No → <u>Recommended for reallocation</u>

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