

CITY AND BOROUGH OF SITKA CARES ACT FUNDING

**Assembly Work Session, May 19, 2020
To Discuss**

Ideas for Expenditure to Respond to the COVID-19 Pandemic and Achieve Economic Stabilization and Recovery

1. Overview

The City and Borough of Sitka (CBS) is poised to potentially receive in excess of \$14 million dollars in Federal CARES Act funding in the form of a grant from the State of Alaska (State). The CBS must enter into a grant agreement with the State of Alaska (attached) and will be bound by its terms and other applicable provisions of State law.

All funding must be expended (payments made) by December 31, 2020; any unexpended funds must be returned to the State of Alaska. Funding will be received in 3 tranches, and each tranche must be expended before the next tranche is received.

The purpose of the Assembly work session on May 19, 2020 is to discuss the potential uses for the funding; restrictions and prohibitions on such uses; and, administrative resource requirements necessary for adhering to State grant requirements.

2. CBS White Paper on 2020 CARES Act Funding Guidelines/Restrictions on Expenditure and Possible Allowable Expenditure Uses

CBS staff previously published a White Paper entitled "2020 CARES Act Funding Guidelines/Restrictions on Expenditure and Possible Allowable Expenditure Uses" (attached), which was previously distributed to the Assembly. The White Paper sets forth the basic Federal guidelines regarding expenditure of CARES Act funding, restrictions on such expenditures, and prohibited uses.

3. Important Restrictions on Use of CARES Act Grant Funds

The attached grant agreement sets forth several key restrictions on the use of CARES Act grant funds that must be considered during any discussion of how to use the funds. Key restrictions are as follows:

- A. All expenditures of grant funds are subject to a State of Alaska Single Audit (SSA). The SSA will be accomplished in conjunction with the CBS's annual external CPA audit for both FY2020 and FY 2021. A compliance guide for SSAs is attached which discusses the major compliance areas auditors will review

- B. The grant agreement contains significant insurance requirements that must be adhered to which are applicable to any sub-recipients.
- C. The grant agreement contains provisions for Americans with Disability Act (ADA), Equal Employment Opportunity (EEO), use of Alaska timber products, and use of Alaska seafood products. These provisions must also be adhered to by sub-recipients.
- D. Any construction projects utilizing grant funds must pay prevailing wages in accordance with Title 36 of the Alaska Statutes. Again, this requirement must be adhered to by any sub-contractors of sub-recipient of grant funding to be used for construction.
- E. If the CBS decides to expend funds by sub-granting them to other entities (such as not-for-profits), the CBS must enter into sub-recipient agreements which specifically bind the sub-recipient to the same grant requirements as the CBS. The CBS is required to conduct risk assessment on all such potential sub-grantees prior to entering into a sub-grant agreement, and, to conduct ongoing assessment of sub-grantees compliance with grant requirements. Insurance requirements may be a significant hurdle for some potential sub-recipients to achieve.

4. Unknown Requirements That May Significantly Impact CARES Act Funding Expenditures

There are several key unknowns that could potentially impact the expenditure of CARES Act funding. It is important to take these into account, understanding that subsequent pronouncements or releases of guidelines by the Federal government or State could impact decisions on expenditures. Unknown requirements include:

- A. Federal Single Audit Act applicability. The applicability of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards has not been determined. The Federal agency that makes audit applicability determination, the Office of Management and Budget (OMB) is different from the Federal agency which has issued guidance on permissible uses, the Treasury Department. OMB has yet to opine on whether 2 CFR Part 200 applies to CARES Act funding.
- B. If 2 CFR Part 200 is found to apply to CARES Act funding, it will place significant additional procurement requirements on the CBS, especially regarding competitive bidding for service contracts. A service contract issued without competitive bidding could potentially be disallowed under a single audit, requiring the CBS to potentially repay the funding to the State.
- C. If CARES Act funds are granted directly to businesses or other non-governmental entities, it is not yet known if such grants will be considered taxable income for Federal or State income tax purposes.
- D. If CARES Act funds are granted directly to individual citizens, it is not yet known if such grants will be considered taxable income for Federal income tax purposes, or, will potentially impact eligibility for other Federal or State aid programs such as unemployment, food assistance, etc.

5. Major Areas for Consideration for Possible CARES Act Fund Use

The following are major areas staff has identified as possible candidates for use of CARES Act funding. The areas have both been identified internally, and, ideas have also been gleaned from discussions with, or documents written by, other Alaska municipalities.

A. Police and Fire / First Responder Salaries and Benefits

CARES Act funding will be used to reimburse the General Fund for salaries and benefits of eligible first responders.

B. Small Business and Nonprofit Grants

Small businesses and nonprofits impacted by COVID-19 will receive a grant to help with expenses including payroll, employee benefits, rent, utilities, taxes, and paying vendors. Businesses and nonprofits with two to seven employees are eligible to receive a grant of \$10,000. Sole proprietorships are eligible for a \$5,000 grant.

Eligible small businesses and nonprofits are those that:

- had less than \$1 million in gross revenue in 2019;
- had no more than seven full-time or part-time employees at any one time in 2019;
- have a location in Sitka; and
- have not received or have a pending application for federal COVID-19 relief funding.

C. Business Sustainability Grants

Business will be provided grants up to the equivalent of four months of long-term debt costs, and costs for physical retrofitting their businesses due to COVID-19.

Potential Program:

1. Business must have at least 50% local ownership as of 2/15/20.
2. Rent or loan measurement period is May 2020 through August 2020.
3. Minimum decrease in sales is 25% YoY in order to participate.
4. Percentage decrease in YoY sales is documented by the monthly or quarterly sales tax return results, or financial information acceptable to the Municipal Administrator.
5. Grant is equal to total of expected lease or loan payments during the measurement period for the business lease(s) or mortgage(s) associated with the sales tax filer.
6. Businesses will be reimbursed for any documented costs of physical retrofitting of their businesses due to Covid-19 safety measures.
7. Documentation provided is existing lease or bank statements combined with payment documentation at the conclusion of the measurement period.
8. Advances of two months of grants may be made up front. Business must be able to demonstrate financial harm due to financial sector, or currently available sales information.
9. Funding source is CARES Relief Fund.

D. Commercial Utility Relief Grants

Businesses are given a discount on their utility bills equal to the percentage decline in year-over-year (YoY) sales as reported on sales tax return

E. Residential Utility Relief Grants

Residents completing an affidavit of adverse economic impact by COVID-19 are given a grant in the form of a payment made to their utility accounts by the CBS.

F. Residential Rent/Mortgage Relief Grants

Residents completing an affidavit of adverse economic impact by COVID-19 are given a grant in the form of a direct payment to be used for rent or mortgage payments. Rent and mortgage payments will be made directly to landlord or bank.

G. Investment Costs for Rapid Testing

Sitka would purchase its own rapid testing equipment, with the resulting benefits to quickly test those that travel into Sitka as a hub of economic and government activity. This would enable more ease of travel into our city to reduce quarantine requirements, from outlying communities or via plane, cruise ship, ferry or other transportation sources. Businesses would be able to have workers onsite within 2-3 days, vs 14 or more, which would relieve economic and social hardship of costs of quarantine.

H. Commercial Tenant Rent Relief (if not covered in Business Sustainability grant)

Commercial property owner incentivized to give rent relief to tenant. Incentive is dollar for dollar reduction on commercial property owner's tax bill equal to rent reduction given.

I. New Programs

New programs could be developed to provide for direct aid to businesses and citizens adversely impacted by the COVID-19 pandemic. Examples are food distribution programs, job training programs.

6. Administrative Resource Requirements

Each potential use of CARES Act funding will have different administrative requirements. In addition, as SSA guidelines apply (and Federal Single Audit Act guidelines may still also apply), the CBS will have broad administrative and compliance requirements. Administrative resources in the form of contract funding and/or temporary employees will be required. For example, if grants are determined to be taxable for Federal income tax purposes, W9s will be required from all recipients, and, 1099s will need to be issued, all requiring administrative effort to track, manage, and report.

It is critical, therefore, that some CARES Act funding be set aside for the funding of the administrative requirements and effort necessary to properly administer this new program.

7. Appropriations

Supplemental appropriations will be needed for most CARES Act outlays. Any funding to be distributed in grants; any costs of new programs; and, any contract costs not already budgeted for will require supplemental appropriations.

If CARES Act funding is used to reimburse the CBS for outlays made under existing appropriations, for example wages and benefits for first responders, a supplemental appropriation is not required, as the reimbursement is a transfer of funds. It is critical, however, that the Assembly still approve all transfers of CARES Act funding for grant reporting and documentation purposes.