



MEMORANDUM

TO: CITY COUNCIL

BY: WHITNEY MCDONALD, CITY MANAGER

SUBJECT: CONSIDERATION OF APPROVAL OF A COVID-19 RELIEF PROGRAM, INCLUDING ALLOCATION OF SB 1090 FUNDS AND/OR OTHER GENERAL FUNDS TO THE PROGRAM

DATE: FEBRUARY 23, 2021

SUMMARY OF ACTION:

Consideration of approval of a COVID-19 Relief Program, including allocation of a portion of the City's SB 1090 funds to support business assistance programs and consideration of allocating other General Funds to the Program.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

Pursuant to a December 2016 Settlement Agreement between Pacific Gas & Electric (PG&E) and the local San Luis Obispo County governmental entities and, later, SB 1090, the City has received one-time Economic Development Funds (EDF) of \$747,422 to support the City's economic development needs in light of the planned closure of the Diablo Canyon Power Plant. In addition, the City will receive a total of \$271,826 in Essential Services Mitigation Funds (ESMF), disbursed in eight annual payments of \$33,978.26 beginning in 2018. To date, the City has received \$67,956.52 in ESMF payments. These funds are kept in a separate trust account and have not yet been allocated by the City to any specific activities or programs. A portion of these funds may be allocated to the COVID-19 Relief Program.

As stated in the Year-End Financial Status Report for Fiscal Year 2019-2020, the City ended Fiscal Year 2019-2020 with a fund balance reserve of 24.6%, exceeding the City's adopted reserve goal of 20%. This beginning fund balance reserve will enable the City to realize a fund balance reserve of 23.8% in Fiscal Year 2020-2021, if expenditures remain on target. This equates to an anticipated total fund balance reserve of \$4.3 million in Fiscal Year 2020-2021, \$580,000 more than the 20% target.

The City's water, sewer and sanitation customers have incurred approximately \$105,000 in overdue charges and late penalties since April 2, 2020, when the Governor issued an executive order suspending the discontinuation of service for nonpayment during the COVID-19 crisis, resulting in a revenue shortfall to the water, sewer and sanitation funds of \$53,800, \$7,600 and \$19,100 respectively. Overdue late penalties equated to \$24,500. Funds may need to be transferred from the General Fund to the water and/or sewer funds in the event that these funds experience a deficit during the fiscal year, including any

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deficit that may result from any waivers of penalties granted through a COVID-19 Relief Program.

RECOMMENDATION:

It is recommended the City Council consider approving a COVID-19 Relief Program, allocating funding to the Program, including a portion of the City's SB 1090 funds, establishing funding amounts for each program, establishing limits on the amount of each grant in each program, and providing direction on program components.

BACKGROUND:

Business Assistance Grant Program

The COVID-19 pandemic has caused significant impacts to local businesses since the first shelter at home orders were issued by the State Governor and Public Health Officer in the spring of 2020. The federal Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") provided funding through the Coronavirus Relief Fund (CRF) for state and local governments to pay costs incurred in responding to the COVID-19 pandemic. The City received a total of \$218,384 through the CARES Act. Of this total, \$60,000 was used to create a City of Arroyo Grande Business Assistance Grant Program. An additional \$25,000 was allocated to the City's Community Service Grant Program and \$8,000 was granted to the South County Chamber of Commerce (Chamber) to support efforts to install holiday lights in the Village due to funding shortages resulting from fundraising event cancellations. The Business Assistance Grant Program enabled the City to provide \$1,000-\$5,000 grants to eighteen separate Arroyo Grande businesses. Those businesses received their grants in December and have documented their expenditure of those funds as of January 31, 2021.

SB 1090 Funds

In December 2016, a Settlement Agreement was reached between PG&E and the local San Luis Obispo County governmental entities, including the City of Arroyo Grande, relating to the closure of the Diablo Canyon Power Plant. The agreement was then submitted to the California Public Utilities Commission (PUC) for approval (Application 16-08-006). Initially, issues arose at the PUC related to funding the Settlement Agreement and its "Community Impact Mitigation Program" through ratepayers. Those issues were resolved by the State Legislature through its adoption of SB 1090 in 2018, which amended Public Utilities Code Section 712.7 to require the PUC approve "[t]he full funding for the community impact mitigation settlement proposed in Application 16-08-006."

The Settlement Agreement includes provisions for a \$10,000,000 Economic Development Fund and provides that \$747,422 is to be allocated to the City of Arroyo Grande. In addition, the City will receive a total of eight \$33,978.26 Emergency Services Mitigation Fund (ESMF) payments from PG&E over the course of eight years, beginning in 2018. These funds may be used for any purpose and will equate to a total of \$271,826

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of additional payments to the City resulting from the Diablo Canyon Power Plant closure. To date, the City has received \$67,956.52 in ESMF payments and \$747,422 as a result of the Settlement Agreement and SB 1090. These funds are kept in a separate trust account and have not yet been allocated to any activities or programs.

In September 2020, Council approved a list of Top 10 Priorities for Fiscal Year 2020-2021. One of those goals addresses the use of the City's SB 1090 funds:

3. Develop short- and long-term economic development goals of the City in light of the adopted Economic Development Element, and evaluate and allocate SB 1090 funds for programs consistent with these economic development goals
 - Discuss and identify short- and long-term economic development goals by the Winter of 2020/2021
 - Evaluate and allocate SB 1090 funds for programs consistent with the identified economic goals by the Spring of 2021

General Fund Reserves

On October 13, 2020, Council received a Year-End Financial Status Report for Fiscal Year 2019-2020 (Year-End Report). The Year-End Report indicated that, through a number of cost-saving measures implemented in the third and fourth quarters of the Fiscal Year 2019-2020 combined with better-than-expected revenue receipts, the City ended Fiscal Year 2019-2020 with a fund balance reserve of 24.6%, exceeding the City's adopted reserve goal of 20%. The Year-End Report further explained that this beginning fund balance reserve will enable the City to realize a fund balance reserve of 23.8% in Fiscal Year 2020-2021, up from the budgeted reserve of 18.4%, if expenditures remain on target. This equates to an anticipated total fund balance reserve of \$4.3 million in Fiscal Year 2020-2021, \$580,000 more than the 20% target. In the past, the City has used excess reserve funds to pay down the City's unfunded PERS liability, which results in significant future savings to the City.

Water and Sewer Payment Penalties

In response to the COVID-19 pandemic, Governor Newsom issued Executive Order N-42-20 on April 2, 2020, which suspends the authority of water systems to discontinue service for nonpayment to residential and critical infrastructure sector small business customers. On April 14, 2020, Council adopted Resolution 4981 extending the protections offered by this Order to all businesses until the Order is terminated. In addition, Resolution 4981 authorized the Administrative Services Director to waive late penalties for water and sewer customers for the months of March and April 2020.

The City has not discontinued service to any water or sewer customer since enactment of Executive Order N-42-20 and City Council Resolution 4981. However, since April 2020, Arroyo Grande water, sewer and sanitation customers have incurred a total of approximately \$24,500 in unpaid late penalties and \$80,500 in past due water, sewer and

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sanitation charges. These penalties will continue accruing until they are paid in full by customers.

The City offers payment plan, amortization, and payment deferral options to water customers consistent with SB 998, known as the Water Shutoff Protection Act. These options allow customers to pay outstanding balances over the course of 12 months. As of February 1, 2021, there are no City water customers participating in payment plans.

Residential Rent Relief

The COVID-19 pandemic has led to job losses and an unemployment rate of 6.7% as of December 2020, according to the California Employment Development Department. These job losses impact households' ability to meet their rent obligations, leading to a likelihood of high eviction rates throughout the County and the State. During the current public health crisis, the State government has enacted a number of eviction moratoriums to ensure that tenants are not evicted for failure to make complete rent payments if the tenants submit a declaration of financial distress created by COVID-19. The most recent eviction moratorium (SB 91) was enacted on January 29, 2021, extending the moratorium through June 30, 2021. In total, the State's orders and legislation have provided eviction moratoria covering the period between March 1, 2020, through June 30, 2021.

Although tenants who provide the proper declaration to their landlords cannot be evicted for failure to pay their full rental obligations, overdue rent payments continue to accrue and remain owed by the tenant. Landlords may sue tenants for delinquent rental payments in small claims court, even if the amount sought is over \$5,000. In addition, under recent legislation, the eviction moratorium applies only if the tenant submits a declaration of financial distress AND pays 25% of each rental payment that was due or will be due between September 1, 2020, and June 30, 2021.

SB 91 also established the State Emergency Rental Assistance Program (ERAP) to allocate the \$2.61 billion in federal aid earmarked for rental assistance in California. ERAP funds will be used for back rent, prospective rent payments, and utility payments. San Luis Obispo County's estimated allocation of ERAP funds totals \$17,476,523.94, including \$8,417,381.71 in direct federal funds and \$9,059,142.23 in State funds. It is anticipated that the State will administer the ERAP program on behalf of the County, including the portion of funding received directly from the federal government. Additional information regarding ERAP is available at [HousingIsKey.com](https://www.housingiskey.com), including the portal for submission of applications.

The ERAP program will begin accepting applications by at least March 15 and will prioritize the payment of rental arrearages. Utility arrearages will also be eligible to be paid, subject to funding availability. The program is available for households with incomes at or below 80 percent of Area Median Income, with a priority on helping households at or below 50 percent of Area Median Income as well as households unemployed for the

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preceding 90 days at the time of application. Landlords may apply to receive direct payments on behalf of their tenants, so long as they choose to accept 80% of any unpaid rent owed from April 1, 2020, through March 31, 2021, and forgive the remaining 20% owed. If a landlord chooses not to participate, the tenant may apply for relief valued at 25% of unpaid back rent owed for the covered period. Qualified tenants will also be able to access funds to cover 25% of prospective rent for the months of April, May, and June of 2021, subject to funding availability.

At its regular meeting on January 26, 2021, Council directed staff to bring forward an item to consider components of a COVID-19 Relief Program that the City could implement to offer additional support to local businesses, including consideration of the use of SB 1090 funds and General Funds for this program. In addition, Council requested that this item include a discussion of options to enable waivers of late penalties for City water and sewer customers, and a discussion of rent relief for Arroyo Grande residents.

ANALYSIS OF ISSUES:

COVID-19 Relief Program Components

Several different types of business assistance programs may be created or continued to provide relief to local businesses in light of the continued impacts of the COVID-19 pandemic. Staff has prepared a list of potential programs for Council's consideration. Due to staffing constraints, it is recommended that the City contract with partner agencies, such as the Chamber, to administer some of these programs. These issues are discussed in more detail below.

Some relief program components for consideration include:

1. *Business Assistance Grant Program*

The City may wish to generate a new round of Business Assistance Grants using the model established using CARES Act funds in October 2020. That model utilized a grant review panel to review grant applications and select recipients. Allowed uses of the funds for this round could include: rent, payroll, personal protective equipment costs, and costs associated with implementing new cleaning or operational protocols. The grant recipient would be required to enter into a grant agreement with the City and to comply with all applicable COVID-19 related health orders. It is recommended that City staff administer this grant program, as the forms and administrative procedures have been developed and were successfully implemented by staff with the first round of Business Assistance Grants issued in November and December 2020.

One additional item for consideration with this round of grants is whether to enable non-profit organizations to receive awards. Three non-profits submitted applications for Business Assistance Grants during the last round and were directed to seek Community Service Grant awards instead. It is anticipated that

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the City's Community Service Grant Program grants will be awarded in March. This year, the City has allocated \$50,000 to the program, including \$25,000 in revenue from the CARES Act. The City received 16 applications that seek a total of more than \$127,000 in funding. Council may wish to enable nonprofit organizations to seek relief associated with COVID-19 impacts through the Business Assistance Grant Program as well.

2. *Shop Local Gift Card Reward Program*

The City may wish to create of a gift card program wherein the City would purchase gift cards from participating businesses located in Arroyo Grande and then offer those gift cards to anyone who provides proof of purchase of at least \$100 from an Arroyo Grande business. Such a program would both incentivize shopping at local businesses and provide direct financial benefits to the businesses from which gift cards are purchased. Participating businesses would be screened for compliance with COVID-19 protocols and orders, as well as business license requirements. It is recommended that the City partner with the Chamber to administer this program, including gathering a list of participating businesses, reviewing receipts from customers, and handing out gift cards, and that the City provide the Chamber with funds to purchase no more than ten gift cards in \$25 increments from each participating business.

3. *COVID Resiliency Grant Program*

An additional grant program may be created to support the efforts of Arroyo Grande businesses to shift their business practices to better adapt to the COVID-19 environment. These types of operational changes are likely to benefit businesses and build resiliency beyond the COVID-19 pandemic, supporting overall economic development within the City. For instance, the Chamber has indicated that a number of local businesses are in need of assistance to help grow their online presence through website design and maintenance and new or increased inventory tracking and packaging systems. Similarly, employees of local businesses may require retraining to support these new systems or to be able to conduct business remotely. Grants may be provided to local businesses in need of support to achieve these shifts and changes in their operations.

As with the Business Assistance Grant Program, recipients of the COVID Resiliency Grant would be required to enter into a grant agreement and to comply with all applicable COVID-19 related health orders. Proposals for how the funds would be used to help the businesses modify their operations would be required with the application, and documentation that the funds were used to support the purpose of the grant would also be required. Priority could be given to businesses that have not received Business Assistance Grants from the City and that propose to utilize local service providers for their website design and maintenance needs. It is recommended that the City engage the Chamber to administer this program.

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4. *Business Beautification Grant Program*

The COVID-19 pandemic has provided an opportune time for some businesses to look at refreshing their storefronts, building exteriors, and interior spaces while folks are working from home and in-person interactions with customers are limited. These types of improvements benefit the entire community by beautifying and modernizing the City's stock of commercial and office space which increases overall economic development and incentivizes long-term investment in our local businesses. The City may wish to establish a grant program to help offset the costs associated with these efforts. The grant funds could apply to proposed improvement plans and improvements that were started and completed during the pandemic. Priority could be given to projects proposing to use contractors and design professionals who are also located in Arroyo Grande or nearby areas, increasing the economic benefits to our community from each grant.

It is recommended that City staff administer this program, if it is chosen for implementation, because of the overlap between the activities covered by this program and the services provided by the City's Community Development Department. A maximum grant amount per recipient should be established and applications would be made available to businesses that inquire with the Community Development Department regarding their beautification projects. Grants would be awarded to projects on a first-come first-served basis until the total funds allocated to the program are depleted. Projects utilizing local contractors and design professionals would be eligible for larger awards.

5. *Retraining Scholarship Program*

Both the COVID-19 pandemic and the future closure of the Diablo Canyon Power Plant have generated an increased need for retraining opportunities for the local workforce. The City may wish to create a scholarship program to provide assistance to Arroyo Grande residents or employees who are seeking occupational retraining opportunities. Qualifying retraining programs may include those administered by nearby community colleges or universities, or online or in-person certification or degree programs. Priority would be given to individuals whose existing occupations have been directly impacted by COVID-19 and/or the planned closure of the Diablo Canyon Power Plant.

It is recommended that staff partner with the Chamber and/or a nonprofit organization to administer this scholarship program. Opportunities exist with local organizations, such as SLO Partners, to provide workforce training programs that are tailored to our residents' and businesses' immediate needs. However, additional information is needed to determine the best fit for the desired outcomes of this scholarship program. If this program is chosen for implementation, the City

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Manager would investigate these options further and return to Council with a proposed agreement for administration of the scholarship program.

6. COVID Safety Superstar Program

The City may wish to consider participating in a program that celebrates businesses' adherence to COVID-19 protocols and restrictions. The Chamber has agreed to assist the City in these efforts by collecting nominations and choosing businesses to feature each month. The City would then issue a certificate or commendation to these businesses and spotlight them on the City's website and social media accounts. These efforts are not anticipated to require any funding by the City and only minimal staff time.

7. Water and Sewer Late Penalty Relief

As described in the Background section above, the City's water and sewer customers have accrued approximately \$24,500 in unpaid late penalties and \$80,500 in past due charges. Typically, the City would begin the process to discontinue service to these customers for nonpayment consistent with the City's adopted policies. This process usually results in customers paying their past due charges and penalties in order to avoid shutoffs. However, the COVID-19-related moratoria on discontinuation of utility services have precluded the City from engaging in this process, enabling customers to accrue substantial amounts of unpaid charges and penalties. The City may wish to develop a relief program that would help customers pay these penalties and past due charges. Most likely, this program would need to be funded using General Fund monies rather than SB 1090 funds, at least for residential customers as discussed in more detail below. Alternatively, the City may wish to delay implementation of any such program in light of the potential for customers to receive ERAP funding for utility payments.

In the event that a Water and Sewer Late Penalty Relief program is implemented by the City, Council may wish to limit eligibility to lower-income households that have qualified for income-dependent programs administered by PG&E or Southern California Gas Company, such as the California Alternate Rates for Energy Program (CARE) or the Family Electric Rate Assistance Program (FERA). Proof of qualification under the CARE or FERA programs would operate as the City's income level screening criteria, streamlining the process for applicants and City staff.

Any Water and Sewer Late Penalty Relief Program would need to be implemented by City staff within the Administrative Services Department, which administers the City's utility billing and collections system. The Administrative Services Department is experiencing significant staffing constraints due to a number of key employees who are currently on leave, partly related to COVID-19 impacts. As a result, City

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staff are not in a position to begin administering a relief program of this kind until April, at the earliest.

8. *Residential Rent Relief*

The County, State, and federal governments very recently created the ERAP to provide emergency rent relief to tenants and landlords. Implementation of this program will begin by mid-March 2021 and is anticipated to provide over \$17.4 million in assistance to residents in our County. The State will most likely administer this program on behalf of the County in order to maximize efficiency and ease of access for all of the funds allocated to County residents. Rent relief programs typically require extensive administrative oversight, sometimes up to 20 hours per application according to one local nonprofit provider, which City staff could not undertake at this time. It is, therefore, recommended that the City not pursue its own residential rent relief program in light of the availability of the ERAP.

Additional concepts that Council may wish to explore include grant programs targeted to specific industries, such as the arts, fitness centers and instructors, child care providers, personal care services, the events industry, or restaurants. However, each of these industries would be eligible to apply for the other types of grant programs outlined above.

Funding for the COVID-19 Relief Program

The City may choose to fund COVID-19 Relief Program components using a portion of the City's SB 1090 funds. The terms of the Settlement Agreement and SB 1090 provide that the cities may use the funds for implementation of regional economic development and job creation programs. Specifically, Section 2 of Appendix 2 to the Settlement Agreement states that "[t]he purpose of the Economic Development Fund is to provide immediate funding for actions to create new economic development opportunities and mitigate impacts associated with the pending closure of Diablo Canyon." Section 4 of Appendix 2 further provides that "[t]he County and Coalition of Cities commit to spending the Economic Development Fund solely for the purposes of economic development and impact mitigation purposes."

Retention of existing businesses and support for new businesses looking to open in the midst of the COVID-19 pandemic will promote economic development in the City. Additionally, a number of grant programs described above will encourage economic growth through investments in business operations that can serve customers, clients, and employees both within and beyond the COVID-19 environment. These programs will help to mitigate the impacts of both the Diablo Canyon Power Plant closure and the COVID-19 pandemic. It is, therefore, recommended that Council consider funding the COVID-19 Relief Program using a portion of the City's SB 1090 funds. This approach is consistent with grant programs administered in other jurisdictions in the County, which have also utilized a portion of their SB 1090 funds to provide COVID-19 relief to local businesses.

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It may be difficult, however, to utilize SB 1090 funds to reduce or waive late penalties for water and sewer customers, particularly if those customers are residential, because the connection to economic development is more tenuous. Reductions or waivers of late penalties or overdue charges will decrease revenues to the City’s water and sewer funds, which are enterprise funds restricted to providing the City’s water and sewer services. In the event that these funds experience a deficit, General Fund revenue may be required to fill those deficits. Therefore, any Water and Sewer Late Penalty Relief program would likely need to be funded using a portion of the General Fund reserves described in the Background section above.

It is recommended that Council select the programs it wishes staff to implement, allocate funding to each program from either SB 1090 or General Fund reserves, and identify the maximum grant amount allowed under each program. Additional direction may be desirable regarding certain program requirements. Table 1 below provides the information needed to implement the COVID-19 Relief Program.

Table 1

	Program	Imple- ment? (Y/N)	Total \$ allocated to program	Source of funding	\$ limit per grant
1.	<i>Business Assistance Grant Program</i>				
	* Additional Direction:				
2.	<i>Shop Local Gift Card Reward Program</i>				
	* Additional Direction:				
3.	<i>COVID Resiliency Grant Program</i>				
	* Additional Direction:				
4.	<i>Business Beautification Grant Program</i>				
	* Additional Direction:				
5.	<i>Retraining Scholarship Program</i>				
	* Additional Direction:				
6.	<i>COVID Safety Superstar Program</i>		None	NA	NA
	* Additional Direction:				

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	Program	Imple- ment? (Y/N)	Total \$ allocated to program	Source of funding	\$ limit per grant
7.	<i>Water and Sewer Late Penalty Relief Program</i>				
	* Additional Direction:				
8.	<i>Residential Rent Relief Program</i>				
	* Additional Direction:				
	Total:		SB 1090	\$	
			General Fund	\$	

ALTERNATIVES:

The following alternatives are provided for Council’s consideration:

1. Approve a COVID-19 Relief Program and its components, allocate funding to the Program, including a portion of the City’s SB 1090 funds, establish funding amounts for each program, establish limits on the amount of each grant in each program, and provide direction on program components.
2. Provide direction regarding chosen COVID-19 Relief Program components and funding recommendations and direct staff to return with additional information; or
3. Do not approve a COVID-19 Relief Program; or
4. Provide other direction to staff regarding a potential COVID-19 Relief Program.

ADVANTAGES:

Approving a COVID-19 Relief Program, its chosen components, and funding for each component will provide immediate and future relief to local businesses and support economic development within the City and the region. Allocation of SB 1090 funds for these purposes is consistent with the intent of the Settlement Agreement and legislation that authorized these funds.

DISADVANTAGES:

Allocation of SB 1090 funds to the COVID-19 Relief Program will reduce available funding for other economic development purposes. Similarly, allocation of General Fund reserves to the COVID-19 Relief Program will preclude the ability to use those funds to support other City services or address other longer-term goals of the City, such as reducing the City’s unfunded pension liability.

ENVIRONMENTAL REVIEW:

No environmental review is required for this item.

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PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.