



State Actions on Coronavirus Relief Fund and Sub-Allocation to Municipalities

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Key Points:

- **The CARES Act Title V “Coronavirus Relief Fund” provides \$150 billion worth of monetary aid to state, local, and tribal governments to fight COVID-19**
- **Funds can only be used for eligible expenses and use of funds for ineligible purposes turns into a debt owed to the federal government. By meticulously documenting expenditures, local governments will be better able to demonstrate why an expense is CARES Act relief fund eligible.**
- **Congress passed new COVID-19 relief funding legislation on April 24, 2020, without including more local and state government funding.**
- **The U.S. House of Representatives passed the HEROES Act on May 15, 2020, but it has not been taken up by the U.S. Senate. The bill would provide extensive direct federal aid to state and local governments, with eligibility requirements that are more flexible than CARES Act eligibility requirements.**

On March 27, 2020, the United State Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act to address the economic fallout caused by the pandemic that has swept across the nation and the world.

Title V of the CARES Act is called “Coronavirus Relief Fund” (CRF) and provides monetary relief for states, localities, territories, and tribal governments to help fight the COVID-19 pandemic. The Act provides \$150 billion to these government entities to use for monies spent in responding to the current public health

crisis dealing with COVID-19. These funds were made available in anticipation of the financial stress and decline this pandemic has caused and will continue to cause.

Not all states received an equal share of the \$150 billion. The funds were allocated based on population. Every state got a minimum amount of \$1.25 billion, even if the state has a small population. Further, local governments with populations over 500,000 were also eligible for direct aid allocated by population. That said, this aid is not in addition to whatever other CARES relief funds their state, as a whole, received; instead, any relief funds directly granted to local governments with populations over 500,000 was subtracted from the amount that state was going to receive.

Evolution of CARES Act Coronavirus Relief Fund Eligibility Guidance

The Act states that “[n]ot later than 30 days after the date of enactment of this section, the Secretary shall pay each State and Tribal government, and each local government [with population of 500,000 and over]... the amount determined for the state, tribal government, or unit of local government, for fiscal year 2020 under subsection c.” While Title V provides detailed instructions on how the federal government must allocate the relief funds to States, the CARES Act does not discuss how (or if, for that matter) States should allocate those funds to local governments. The lack of early federal guidance, along with the serious economic consequences of COVID-19 felt at all levels of government, delayed the sub-allocation of CRF funds to local governments.

Eligible Expenses—Early Guidance

Originally, the only guidance provided to states and local governments on how to use CRF money were the eligibility requirements within the Act itself. Per the Act, these relief funds cannot be used indiscriminately; they can only be used for certain, “eligible,” expenses. These expenses:

- 1) Must be necessary expenditures incurred during the coronavirus pandemic;
- 2) Must not be accounted for in state or local government’s most recent approved budget; and
- 3) Must have been incurred between March 1, 2020 and December 30, 2020.

The U.S. Department of Treasury’s Inspector General is responsible for determining whether relief funds are used for eligible expenses.¹ Governments should keep this important caveat in mind—“fund payments that are deemed for ineligible purposes are treated as a debt owed by the implementing government to Treasury.” If the funds are spent for ineligible expenses, a government could find itself in an even worse fiscal situation than the one it started in. It is critical that governments remain vigilant and ensure relief funds are allocated toward eligible expenses only, when all three requirements are met.

Additional U.S. Treasury Guidance

On April 22nd, U.S. Treasury issued a document providing guidance for governments regarding the eligibility requirements of the CRF and the permissible uses of Fund payments.² It also provided a non-exhaustive list of eligible and ineligible expense examples. Examples of eligible expenses include COVID-

19 testing, expenses to facilitate distance learning³, as well as “payroll expenses for public safety, public health, health care, human services, and similar employees whose services are substantially dedicated to mitigating or responding to the COVID-19 public health emergency.” It is up to each jurisdiction to define its own thresholds of “substantially dedicated.” Some ineligible expenses include the State share of Medicaid, damages covered by insurance, and workforce bonuses other than hazard pay or overtime.

On June 24th, U.S. Treasury released additional guidance regarding how CRF money can be used. Building off previous guidance documents, this FAQ goes into more detail regarding the process to secure the relief funds as well as detailing how the funds may be used. Importantly, Treasury clarifies that governments may presume that any payroll costs for public safety and public health employees are allowable expenditures under the CRF program as a matter of administrative convenience.⁴ Further, CRF monies may be used as non-federal match for the Federal Emergency Management Agency’s (FEMA) Public Assistance program cost-sharing requirements. Otherwise, this FEMA program requires local governments to provide a 25% cost-share to support eligible COVID-19 related activities.

Budget Strategies Using Coronavirus Relief Funds

The more funds spent on COVID-19 expenses, the less there is to provide essential services and make required debt payments, such as pension liability payments. Governments can

¹ A state receiving a payment from the federal government may transfer funds to its local governments provided that the transfer qualifies as a necessary expenditure incurred due to the public health emergency and meets the other eligibility requirements under the Act. “Such funds would be subject to recoupment by the Treasury Inspector General if they have not been used in a manner consistent with the Act.”

² Additional details on how U.S. Treasury interprets the eligibility requirements set forth in the CARES Act *available at* <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Guidance-for-State-Territorial-Local-and-Tribal-Governments.pdf>. This document was updated on June 30, 2020.

³ This includes technological improvements in connection with school closes to enable compliance with COVID-19 precautions.

⁴ The FAQ document can be found here: <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Frequently-Asked-Questions.pdf>. This document was updated on July 8, 2020.

utilize the relief funds for COVID-19 expenses, leaving other resources available to be put toward everyday expenses and services.

This is especially important in states like Michigan, where local governments may not have true fiscal home rule. Even in normal times, Michigan local governments only have so many viable revenue-raising tools in their toolboxes. Now, during this pandemic, tax and other revenue sources are down. The CRF is another tool for these governments to utilize in their efforts to serve their communities during this time of crisis.

State Actions on Coronavirus Relief Funds

Shortly after the CARES Act was passed, funds were distributed to the States in compliance with the Act. That said, states have only just started allocating funds to local governments and local programs. When the law was first passed, there was little federal guidance regarding how states could distribute the funds and how governments could use the funds. This may have resulted in states holding on to the funds because states could not advise local governments on how to use the funds. Also, states need federal relief and support just like local governments do. State governments needed time to determine how much of the federal aid to use at the state level and how much to allocate to the local level.

The following table lists the actions some states have taken to distribute CRF aid to local governments and programs.

State⁵ Actions to Allocate the CARES Act Title V Coronavirus Relief Fund (CRF) Aid to Local Governments

State	Total CRF Allocation to State and Eligible Local Governments⁶ (in billions)	CRF Payment to the State (in billions)⁷	CRF State Actions Related to Local Governments
California	\$15.321	\$9.526	<p>2020 Budget Act is a \$202.1 billion spending plan that strengthens emergency response, protects public health and safety, and promotes economic recovery while closing a \$54.3 billion budget shortfall caused by the pandemic.</p> <p>Of the \$9.5 billion in CRF received by the state, \$1.3 billion is allocated to counties, and \$500 million to cities.</p> <p>Includes \$750 million General Fund to provide support for counties experiencing revenue losses due to the pandemic. Funds are available for all counties in compliance with federal guidance and state health requirements on COVID-19 response. If sufficient federal funds are made available by October 15, 2020, the Budget provides an additional \$250 million in support to counties in protecting programs serving vulnerable populations.</p>
Colorado	\$2.233	\$1.674	<p>\$2.75 million for the next two fiscal years in CRF shall remain available for units of local government that did not receive a direct distribution of funds in the CARES Act for expenses to facilitate compliance with COVID-19- related public health measures.</p> <p>The distribution will be informed by the recommendations from the Local Government consortium hosted by Colorado Department of Local Affairs (DOLA).</p>

⁵ This table includes some of the States that participate in the Government Fiscal Sustainability Workgroup, organized by the Michigan State University Extension Center for Local Government Finance and Policy with support from Pew Charitable Trusts.

⁶ The total amount of direct federal aid allocated to the state including the direct federal aid allocated to eligible local governments (with populations of \$500,000).

⁷ This does not include the direct federal aid allocated to eligible local governments, only the payments to the states.

Connecticut	\$1.382	\$1.382	<p>Beginning in April, the administration sought information from the state's local governments regarding their actual and projected expenses expressly related to combatting COVID-19 and then established a reimbursement program to assist locals.</p> <p>Administration set aside \$75 million of the CRF to aid locals, with nearly \$40 million of direct costs already being reported in.</p>
Florida	\$8.328	\$5.856	\$75 million to local governments to assist Floridians in need of rental and mortgage assistance.
Illinois	\$4.914	\$3.519	Allocated \$250 million to local governments that did not receive relief funds directly from the federal government.
Indiana	\$2.610	\$2.442	\$300 million to local governments
Iowa	\$1.250	\$1.250	\$125 million toward relief for Iowa Communities. State is launching an online payment portal for cities and counties applying for reimbursement of COVID-19 related expenses.
Louisiana	\$1.803	\$1.803	\$511 for local government expenses.
Massachusetts	\$2.673	\$2.461	<p>Up to \$502 million from the CRF to cities and towns for eligible costs related to COVID-19 response.</p> <p>Providing guidance to local governments on this formal distribution process and establishing protocols to maximize the use of federal resources and promote compliance with federal restrictions.</p>
Michigan	\$3.873	\$3.081	\$200 million to local governments
Minnesota	\$2.187	\$1.870	\$841 million will be distributed to counties, cities, and towns to support local governments
Nevada	\$1.250	\$0.836	\$148.5 million will be distributed to the other 16 counties and cities outside of Clark County, to help local governments recuperate, as they can be used for expenses already incurred as well as pandemic-related costs moving forward.
New Jersey	\$3.444	\$2.394	<p>Governor Murphy announced that he will direct money from the CRF to support NJ food banks</p> <p>The total CARES Act funding amount will be \$20 million, with \$10 million distributed before August 2020 and an additional \$10 million available before December 2020</p>

New Mexico	\$1.250	\$1.068	\$178 million of CRF funding for tribal and local governments— \$28 million for tribal government grants, \$150 million for city and county grants (\$50 million of the local government allocation is designated for the establishment of local grant programs to support small businesses that have been impacted by the COVID-19 pandemic emergency)
New York	\$7.543	\$5.136	\$4.3 million to county emergency management agencies and the City of NY to support COVID-19 planning and operational readiness, proving an additional level of direct support to counties. Eligible recipients will be able to utilize this funding to cover various past emergency management-related costs, as well as costs associated with local prevention and operational efforts moving forward.
North Carolina	\$4.067	\$3.585	Legislation appropriated \$150 million to county governments based on population, with each county receiving a minimum distribution of \$250,000.
Ohio	\$4.533	\$3.754	\$350 million to Ohio counties, cities, villages, and townships.
Pennsylvania	\$4.964	\$3.935	\$625 million was made available to counties that did not receive direct CRF funding in the form of block grants administered by Department of Community and Economic Development
Tennessee	\$2.648	\$2.363	\$115 million in CRF will be made available to local governments to offset costs incurred from responding to COVID-19 through a reimbursement program on a per capita basis.
Virginia	\$3.310	\$3.110	Plans to distribute \$1.3 billion to local jurisdictions. The first \$645 million was sent in June and the second half in July.
Washington	\$2.953	\$2.167	\$297 million to the Department of Commerce to help local governments for eligible expenses.

State Actions on CRF Cont.

Once U.S. Treasury released more in-depth guidance on how the funds could be used (the most comprehensive document came out in July), states were better equipped to inform locals of how to use the funds. Further, now that states have more information, state legislatures have started to write and pass legislation to allocate funds and to create programs and mechanisms to distribute funds in a way that works best for each state. As seen in the table, a common state action regarding CRF aid is to direct aid mainly, or exclusively, to counties. Another common action is to provide online guidance to help educate local officials on how these funds can be used. Further, states generally focus on local governments that did not receive direct federal aid from the CRF. States also tend to allocate aid based on population as opposed to the severity of the COVID-19 spread within a locality.

Since the CARES Act was signed into law, Governors, Mayors, and municipal organizations all over the country have said that, while the CARES Act provided a significant amount of relief aid, it will not be enough. One issue these stakeholders continue to emphasize is the need, not just for more direct federal aid, but also more *flexibility* in how that direct federal aid can be used. Enter the HEROES Act. While the U.S. House of Representatives has passed the Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES Act), the U.S. Senate has not taken the bill up. The HEROES Act provides direct state and local government assistance and the eligibility requirements are incredibly flexible. For instance, HEROES funds can be used to backfill lost revenue, which has been an important concern regarding the rigidity of CARES Act CRF eligibility requirements.

States and municipalities continue to apply pressure on federal representatives and

senators, but the federal government has not shown much interest in providing additional immediate federal relief. This is reflected in the HEALS Act, which Senators recently revealed in response to the HEROES Act.

The Senate has released its latest COVID-19 relief bill, called the Health, Economic Assistance, Liability Protection, and Schools (HEALS) Act; it provides \$1 trillion in federal aid. Like the HEROES Act, the HEALS Act makes some changes to the CARES Act Coronavirus Relief Fund (CRF). Importantly, the HEALS Act permits states and local governments to use relief funds to backfill revenue shortfalls. Per the HEALS Act, “to be able to use relief funds to cover revenue shortfalls, a government must certify that it has distributed at least 25% of the CRF funds it received to downstream governments. A government can use no more than 25% of relief funds to cover revenue shortfalls.”⁸ This is different from the HEROES Act, which amends the CARES Act to essentially make revenue backfill an eligible funding purpose for CRF aid and any new federal fiscal aid. Another important difference between the HEALS Act and the HEROES Act—the HEROES Act provides additional funding to state and local governments whereas the HEALS Act does not provide additional relief to state and local governments. State and local government leaders continue to urge the federal government to provide additional relief to help combat the COVID-19 public health emergency.

⁸ Also, the HEALS Act “extends the use of relief funds to pay for costs incurred by governments from December 30, 2020 to 90 days after the last day of a government’s fiscal year 2021.”

Sources and Additional Information

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