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MEMO

TO: Kori Land, Peter Mikhail, Bridget McCauley Nason
FROM: Amanda Johnson
DATE: July 7, 2020
RE: CARES ACT

Question: How can the CARES Act payments be spent?

Minnesota received \$841 million in federal funds from the CARES Act that will be distributed to cities, counties, and townships for coronavirus-related expenses. Local governments may transfer Fund monies to other local units of government. The CARES Act imposes three conditions on payments local governmental units receive from the Coronavirus Relief Fund (“Fund”), requiring payments be used to cover expenses that:

1. Are necessary expenditures incurred due to the COVID-19 public health emergency;
2. Were not accounted for in the budget most recently approved as of March 27, 2020; and
3. Are incurred between March and December of 2020.

Necessary Expenditures

Per the latest Treasury guidance on June 30, 2020, the word “necessary” will be construed broadly, “the expenditure must be reasonably necessary for its intended use in the reasonable judgment of the government officials responsible for spending Fund payments,” and payments must be used for actions taken to respond to the public health emergency.

This includes expenditures incurred to respond directly, as well as expenditures incurred to respond to second-order effects, such as providing economic support to the unemployed or business interruptions that were due to Covid-19 related closures. Funding cannot be used to close revenue gaps, however, the money may be expended on payroll expenses for public sector workers “whose services are substantially dedicated to mitigating or responding to” the COVID-19 crisis, including public safety, public health, health care, human services, and similar employees.

Unaccounted for Expense Incurred During Covered Period

An allowed expense is one that cannot be lawfully funded using a line item, allotment, or allocation within the government entity's most recently approved budget (as of March 27, 2020). Alternatively, an allowed expense is one that is for a substantially different use from any expected use of funds for a line item, allotment, or allocation.

The new guidance establishes that the "most recently approved" budget refers to the enacted budget for the relevant fiscal period, which would appear to mean that specific COVID-19 responses expressly budgeted for prior to March 27, 2020, in the event there were any, may not be eligible.

The expenses must have incurred during the covered period, meaning that performance or delivery must occur during covered period, but payment of funds does not (although it is generally expected to take place within 90 days of cost being incurred). Covered period for cities and towns is March 1, 2020 through December 30, 2020.

Examples of Eligible Uses Related to the Covid-19 Public Health Emergency

- **Medical expenses:** including cost of testing, treatment capacity, emergency medical response.
- **Public health expenses:** PPE, disinfection of public areas, public safety measures, including cost of communication and enforcement of public health orders.
- **Payroll expenses, for public health and public safety employees:** limited to those whose work duties are substantially dedicated to mitigating or responding to the Covid-19 public health emergency, for public employees who could have been furloughed/laid off, but were repurposed to perform unbudgeted functions substantially dedicated to mitigating or responding to the Covid-19 public health emergency, increased workers' compensation cost due to Covid-19 public health emergency.
- **Public health measures that were done to enable compliance with Covid-19 public health precautions:** food delivery to vulnerable populations, expenses to facilitate distance learning, expenses to improve telework capabilities for public employees, paid sick and family/medical leave, care for homeless populations.
- **Economic support:** grants to small businesses to reimburse the costs of business interruption caused by required closures, short-term loans for public or private business entities, payroll support program, consumer grant program to prevent eviction, employment and training programs for employees who have been furloughed due to Covid-19, mortgage assistance programs, funeral or other emergency costs.

The Treasury has put out a Frequently Asked Questions guide in relation to the Coronavirus Relief Fund. This is included below for additional assistance: