

To: **Mayor and City Council**
From: **Ryan Schroeder, City Manager**
Date: **July 27, 2020**

Creation of a CARES ACT Small Business Grant Program

BACKGROUND INFORMATION:

Governor Walz announced on Thursday, June 25, that \$841.4 million from the State's share of Federal CARES Act funds would be distributed to local governments that have eligible costs related to the COVID-19 pandemic. In order to qualify for funding, local governments must submit a certification form by September 15, 2020. The City of West St. Paul submitted the required certification on June 30, 2020. We anticipate that the \$1,586,138 allocated toward West St. Paul will be received on or about July 31, 2020.

In summary, the City may allocate this revenue as follows:

1. Costs incurred due to the Public Health Emergency were not accounted for in the 2020 budget and were incurred between **March 1** and **November 15**.
2. Expenditures for actions taken to respond to the Public Health Emergency. This may include expenditures incurred directly, such as addressing medical or public health needs or to respond to second order effects such as providing economic support to those suffering from employment or business interruption due to COVID related ordered closures. Fund payments must be necessary in the judgement of government officials responsible for spending the funds.
3. The Act requires payments be used only to cover costs that were not accounted for in the budget. The cost must be for a substantially different use than expected.
4. Examples of eligible expense:
 - Emergency medical response related to COVID
 - Expenses for communication and enforcement of COVID orders
 - Expenses for PPE and sanitizing expense for Police Officers
 - Expenses for disinfection of public areas and facilities
 - Expenses for public safety measures in response to COVID
 - Quarantine expenses
 - Payroll expense for Public Safety employees whose services are substantially dedicated to mitigating or responding to the Public Health Emergency
 - Expenses to improve teleworking capabilities
 - Expenses of providing medical leaves due to COVID
 - Expenses related to provision of small business grants directly due to business closures
 - Any other reasonably necessary expenditure that meets the criterion 601(d) (expenditures are necessary, the cost is substantially different from expected use of funds or was not allocated

within the most current budget, and expenditures were incurred between March 1 and November 15)

5. Ineligible expenses include:

- Anything covered by insurance
- Payroll expense for those not substantially dedicated to mitigating or responding to COVID
- Anything reimbursed by any other federal program
- Workforce bonuses other than hazard pay or overtime
- Reimbursement to donors
- Severance pay

Any City that expends more than \$750,000 of federal funds in its fiscal year is required to have a single audit. Such being the case, we have conferred with both the City Attorney and our audit firm to confirm our understanding of eligible expenditures under the Act.

Any funds from the allocation not incurred by the City by November 15, 2020 must be returned to the County.

Council will note that among eligible CARES ACT expenditures are Small Business Grants. The guidance received regarding small business grants is as follows:

The Guidance provides that eligible expenditures may include expenditures related to the provision of grants to small businesses to reimburse the costs of business interruption caused by required closures. What is meant by a “small business,” and is the Guidance intended to refer only to expenditures to cover administrative expenses of such a grant program?

Governments have discretion to determine what payments are necessary. A program that is aimed at assisting small businesses with the costs of business interruption caused by required closures should be tailored to assist those businesses in need of such assistance. The amount of a grant to a small business to reimburse the costs of business interruption caused by required closures would also be an eligible expenditure under section 601(d) of the Social Security Act, as outlined in the Guidance.

The City Council has been proactive in addressing Pandemic response. On March 20, 2020, the City Council affirmed the March 17 Mayoral action of declaring a pandemic State of Emergency. This declaration has continued in effect since. On May 26, the City Council adopted a resolution granting temporary waivers from City Code to promote businesses activities in response to State mandated business closures. On June 22, the Council granted consensus direction to Staff to bring a business grant program for municipally licensed businesses suffering from pandemic related closures. Three days after this direction, the Governor allocated CARES funding toward local governments. Proposed is that Council adopt a Business Grant Program that qualifies for CARES ACT funding.

It should be noted that the program proposed herein is not the first such program from which West St. Paul businesses have or could receive funding, as there have been various Federal and State programs related, at least in part, to the pandemic. Recently, the Small Business Administration released data that includes a significant list of West St. Paul area businesses having received convertible loans from the Payroll Protection Program. Also, the Minnesota Department of Employment and Economic Development (DEED) had a \$60 million pool for business grants with applications which closed on July 2, with awards by late July and public notification of who received grant awards by the end of August. The Dakota County Community Development Authority (CDA) is also providing a countywide program with \$10 million in allocations. Both of these latter two programs are lottery style programs. It is

intended that the West St. Paul program essentially provides an improved level of certainty that impacted businesses would not fall through gaps created by such a lottery approach. Hence, this program is proposed to first fund bars and restaurants for out-of-pocket pandemic costs, after which all other eligible businesses would be funded only to the extent that funding was not received or was insufficiently received through other funding sources.

Enclosed is the proposed Small Business Grant Program. The primary components of the program are:

1. **Business Eligibility:** We have proposed a tiered eligibility such that restaurants and bars are most likely to qualify for funding. Beyond that, smaller businesses and non-profits would qualify ahead of larger operations. However, as noted above, we would evaluate unmet need in comparison to all other grant applicants. Unmet need considers both pandemic related expenditures and federal, state, and county grants received.
2. **Grant amounts:** We have proposed a grant maximum of \$10,000 which is consistent with the DEED and CDA programs. We are proposing a total allocation of \$150,000 which is approximately 10% of the CARES allocation. This is the same threshold the City of Lakeville (the only other Dakota County City proposing a CARES Business Grant outside of the CDA currently) has proceeded under.
3. **Expenditure Activity:** Only expenditures meeting the qualifications of the CARES ACT are eligible. In general, however, expenditures appear to be limited to those costs of business interruption caused by “required” closures. Under the DEED grant guidelines it is interpreted that if the business was restricted by executive orders to operating at 50% or less of normal capacity or if the business experienced 10% revenue loss year-over-year between March 1 and May 31, 2019 vs. 2020 the business is grant eligible. DEED excludes non-profits and home-based businesses but for in-home daycare businesses. The enclosed includes non-profits in all but the first tier and excludes all home-based businesses.
4. Given that the City is at risk of a subsequent audit determining grants were spent on ineligible expenditures, it is required that sub-grantees certify that, if West St. Paul is required to pay back a portion of grant funds, the sub-grantee is responsible to provide for that payment. The language within the guidance we have received is fairly broad but also is subject to differing interpretations.
5. The deadline for receipt of grant requests is September 4. Grant awards would be brought to the City Council for approval on September 14.

FISCAL IMPACT:

\$150,000 from CARES ACT

STAFF RECOMMENDATION:

Approval of the CARES ACT Business Grant.