

What Does the CARES Act Mean for Local Governments in Michigan?

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Key Points

- The CARES Act “Coronavirus Relief Fund” provides \$150 billion worth of monetary aid to state, local, and tribal governments to fight COVID-19
- The State of Michigan will receive ~\$4 billion, with a 20% share going directly to the 5 local governments with populations over 500,000—City of Detroit and Counties of Macomb, Kent, Wayne, and Oakland
- 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, without including more local and state government funding. For more information regarding federal relief aid as well as updates on if and when more is coming, try contacting your local representatives and senators. Other good resources include the Michigan Department of Treasury and the Michigan State Budget Office.

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 Funds” and provides monetary relief for states, 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 will receive an equal share of the \$150 billion. The funds will be allocated based on population proportions. Every state will get a minimum amount of \$1.25 billion, even if that state has a small population. Further, local governments with populations over 500,000 are also eligible for aid allocated by population. That said, this aid is not in addition to whatever other CARES relief funds their state, as a whole, receives; instead, any relief funds directly granted to local governments with populations over 500,000 is subtracted from the amount that state was going to receive.

Funding for Michigan and its Local Governments

Michigan will receive \$3.873 billion, with an estimated \$3.081 billion share going to the state and an estimated \$792 million share going to local governments with over 500,000 people. There are 5 local governments in Michigan (the City of Detroit and Counties of Macomb, Kent, Wayne, and Oakland) that qualify to directly receive

relief funds; the \$792 million going to those local governments makes up about 20% of the total Coronavirus Relief Funds allocated to Michigan.

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. For the current fiscal year, the Michigan Department of Treasury anticipate the state will lose between \$1 and \$3 billion in revenue; for fiscal year 2021, the State stands to lose a similar amount. The State will need to decide how it wishes to allocate the estimated \$3.081 billion to Michigan local governments as well as how much it intends to keep for its own COVID-19 expenses.

Eligible Expenses

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 Michigan 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 used for eligible expenses only, when all three requirements are met.

A month after the CARES Act was signed into law, U.S. Treasury issued guidance for governments regarding the eligibility requirements of the Coronavirus Relief Fund and the permissible uses of Fund payments.² It also provides 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.” 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 on governments are permitted to use Coronavirus Relief Fund money. This document 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

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>

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

payroll costs for public safety and public health employees are allowable expenditures under the relief fund program as a matter of administrative convenience.⁴ Further, relief fund monies can 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 CARES Funds

While CARES funds may only be used for unbudgeted expenditures, relief funds can be used to indirectly help shore up revenue shortfalls in cases where expenditures paid for by the CARES relief fund would otherwise increase the gap between government expenditures and revenues. For example, let's say that as a result of COVID-19 City of XYZ's revenues are \$700 million lower than expected and XYZ has \$500 million in new COVID-19 related expenses, creating a \$1.2 billion fiscal gap. Then the City receives \$300 million in Coronavirus Relief Fund assistance. The \$300 million will reduce the fiscal gap (from \$1.2 billion to \$900 million). If the city does not have any COVID-19 related expenses, then this cannot happen, even if the government has decreased revenues. The municipality must have COVID-19 related expenses for the above example to occur. The purpose of these funds is not to offset revenue shortfalls. Instead the idea is to provide funding for these unexpected emergency and public health related expenses.

The more funds spent on COVID-19 expenses, the less there is to provide essential services and make statutorily required debt payments, such as pension liability payments. Governments will be able to utilize the relief funds for COVID-19 expenses, leaving other resources available to be put toward everyday expenses and services.

In Michigan, this is especially important. Due in large part to the passage of both the Headlee Amendment and Proposal A, local governments are severely hampered in their ability to generate revenue. Even in normal times, locals only have so many viable revenue-raising tools in their toolboxes. Now, during this pandemic, tax and other revenue sources will be down. The Coronavirus Relief Fund is another tool for these governments to utilize in their efforts to serve their communities during this time of crisis.

While the CARES Act provided a significant amount of relief to state and local governments, it will not be enough. The State of Michigan and the Governor are speaking and working with the federal government, in order to emphasize the need for additional and direct local government relief aid as well as increased flexibility in how the funds can be used. On April 24, 2020, President Trump signed legislation that sends much needed relief to small businesses and hospitals and provides additional funding for COVID-19 testing. This bill does not provide additional funding for local and state governments. Even so, various politicians, including Speaker Nancy Pelosi, have spoken about the next CARES Act (CARES 2) and the necessity of adding additional local and state relief funding to such an Act. Media reports have also indicated that CARES 2 is in the works as well as the idea that one of its focuses will be sorely needed additional state and local government relief.

Latest update from the Michigan Treasury

On July 8th, 2020, State Treasurer Rachael Eubanks announced two new grant programs funded through the CARES Act, called the First Responder Hazard Pay Premiums Program and the Public Safety and Public Health Payroll Reimbursement Program. Eligible local units of government can apply for a grant from these programs, which total

⁴ The U.S. Treasury document can be found here: <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Frequently-Asked-Questions.pdf>.

to \$300 million in funding for local governments, with \$100 million for the First Responder Hazard Pay Premiums Program and \$200 million for the Public Safety and Public Health Payroll Reimbursement Program.

The First Responder Hazard Pay Premiums Program is intended to be used to fund additional compensation for eligible first responders, who include those who “performed hazardous duty or work involving physical hardship related to COVID-19,” and a list of eligible employees can be found [on the First Responder Hazard Pay Premiums Program application webpage](#).

[The Public Safety and Public Health Payroll Reimbursement Program](#) is to be used for reimbursing cities, villages, townships and counties that did not receive a direct payout from the CARES Act. This grant program will be used for cities to reimburse eligible public safety and public health payroll expenditures incurred from April 2020 to July 2020.

The applications for both grants can be found at [the Michigan Treasure website](#) under “Treasury Cares Programs.”⁵ The First Responder Hazard Pay Premiums Program application is open until September 30th, and the Public Safety and Public Health Payroll Reimbursement Program application is open until July 17th, 2020.

Sources and Additional Information

- Center on Budget and Policy Priorities. 2020. “How Will States and Localities Divide the Fiscal Relief in the Coronavirus Relief Fund?” March 2020. <https://www.cbpp.org/research/how-much-each-state-will-receive-from-the-coronavirus-relief-fund-in-the-cares-act>.
- CARES Act § 5001(d).
- Driessen, Grant A., 2020. “The Coronavirus Relief Fund (CARES Act, Title V): Background and State and Local Allocations.” *Congressional Research Service*, April 1, 2020.
- United States Department of Treasury. 2020. “Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments.” April 22, 2020. <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Guidance-for-State-Territorial-Local-and-Tribal-Governments.pdf>
- Erica Werner and John Wagner, “House and Senate on collision course over coronavirus response as leaders map out conflicting agendas,” *The Washington Post*, April 27, 2020. <https://www.washingtonpost.com/us-policy/2020/04/27/democrats-coronavirus-guaranteed-income/>

⁵ The application and more information on the First Responder Hazard Pay Premiums Program can be found here: https://www.michigan.gov/treasury/0,4679,7-121-1751_2197-532758--,00.html. Also, the application and more information on the Public Safety and Public Health Payroll Reimbursement Program can be found here: https://www.michigan.gov/treasury/0,4679,7-121-1751_2197-532764--,00.html.

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This memo is part of a series of memos in the Local Government COVID-19 Fiscal Strategy and Resource Guide, available at closup.umich.edu/COVID-19. CLOSUP has partnered with public finance experts from universities, consulting firms, and research institutions from around the state to provide local governments up-to-date information as well as a set of ideas and tools that will help them strategically navigate the new fiscal landscape.

Have additional questions or issues you think we should address?

Email: localgov-COVID-19@umich.edu

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