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Using CARES Act Funding for Economic Development Purposes

Second-Order Effects that Cost Jobs and Closed Stores Can be Attacked with CARES Act Funding

Guidance released by the Treasury Department provides that CARES Act funding may be used to cover costs 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, for the state or local government entity receiving the funding, and (3) were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020. These expenditures can include **expenditures incurred to respond to “second-order effects”** of the emergency.

The [Treasury guidance](#) does not define “second-order effects,” but does list “providing economic support to those suffering from employment or business interruptions due to COVID-19-related business closures” as an example of one permitted use. The guidance also provides several “nonexclusive” examples of eligible expenditures, including the following:

- Expenditures related to the provision of small business grants to reimburse the costs of business interruption caused by required closures.
- Expenditures related to a state, territorial, local, or tribal government payroll support program.
- Unemployment insurance costs related to the COVID-19 public health emergency if such costs will not be reimbursed by the federal government pursuant to the CARES Act or otherwise.

While there is limited information on what qualifies as a “second-order effect,” state and local entities awarded CARES Act funding are given leeway to determine what constitutes “reasonably necessary” expenditures. If a use is deemed by the government entity receiving the funds to be a necessary expense incurred due to the COVID-19 public health emergency, and it is not on the list of

ineligible expenditures, or otherwise disqualified under the Act or the guidance, we have concluded it is permissible.

Additional examples of eligible expenditures can be found here, under the Treasury Department's ["Coronavirus Relief Fund Frequently Asked Questions"](#) published in August as a supplement to its earlier guidance. The FAQs cover grant programs to prevent eviction and assist in preventing homelessness, employment and job training programs, grants to non-profit organizations, grants to cover interest and principal amounts of loans provided to small businesses by private lending institutions, and short-term small business loans. However, any amounts not repaid by the borrower until after December 30, 2020, must be returned to the Treasury upon receipt.

The Treasury FAQ also outlines that CARES Act funding may be used for expenditures related to the administration of grant programs established to disburse funding, and notes that governments "have discretion to tailor assistance programs they establish in response to the COVID-19 public health emergency."

Careful attention should be given to how funds would be distributed to assure it is eligible. For example, damages covered by insurance (i.e. business interruption insurance) would not be covered. If the business received federal assistance through PPP or any other CARES Act assistance, the amount of that funding should be factored into how much the business receives.

CARES Act Funding and the Main Street Regenerator Funding

CARES funding could be used on efforts to underpin existing businesses districts like the concepts rooted in the new Main Street Regenerator Project (MSRP) for communities of all sizes to accelerate rebirth. The MSRP envisions local creation or support of a robust community development organization or a similar governmental affiliated entity. That new entity could support small businesses who are located in the area and mutually dependent or connected commercially. It could manage shared or common services needed for reopening, purchasing and ownership of needed business assets, and encourage local procurement programs.

Contact [Frances Kern Mennone](#), Director of Strategic Partnerships at Cross Street Partners, for more information about the MSRP.

Case Study – CARES Act Funding in Ohio. Ohio was awarded \$4.5 billion in total funding from the CARES Act, and \$2 billion of that was allocated for use by local governments. Of the \$2 billion, \$778 million went directly from the federal government to counties and municipalities with more than half a million people. The remaining \$1.2 billion was sent to the state to be distributed to other local governments. In June, Governor Mike DeWine signed [HB 481](#), which allocated \$350 million of the \$1.2 billion to government entities that did not qualify for direct federal funding. The state Controlling Board released a further \$175 million in late August, and a proposal to release the remaining funds was approved by the Ohio Senate on September 2.

How each governmental entity plans to use their CARES Act funding varies. Some examples are below:

- Small Business Rent Relief Program and other small business assistance, including small business stabilization grants.
- Funding for COVID-19 public health response.
- First responder payroll expenses.
- Creating a program to provide meals for the elderly while reimbursing participating businesses.
- Pandemic childcare support.
- Funding for telework technology.

Administrative Costs. Finally, CARES Act funding may be used for administrative expenses of programs designed to address the “second-order effects” of COVID-19. Thus, we have concluded that functionally related soft costs incurred for appropriate purposes, such as legal, accounting, design and planning costs, can be paid for or reimbursed with CARES funding.

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