



# Putting American Rescue Plan dollars to work for Minnesota: Major funding sources to state and local governments

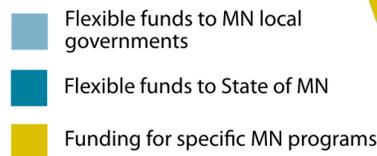
Thanks to the federal American Rescue Plan (ARP) signed in March 2021, Minnesota state and local governments will receive about \$8.5 billion in temporary additional resources to support workers, families, and communities.<sup>1</sup> This funding is critical to the state's ongoing fight against COVID-19 and to help Minnesotans recover from perhaps the most unequal recession in modern history, which has disproportionately harmed low-wage workers and exacerbated racial disparities in opportunity.<sup>2</sup>

The need for these dollars is clear. While signs of economic recovery can be found, a substantial number of Minnesotans are still struggling. Labor force participation is down, and many workers are worried about COVID-19 infection when they return to work. After more than a year and a half of economic disruption, 1 in 10 Minnesota adults with children said they couldn't afford for the children in their homes to get enough to eat, 115,000 Minnesotans are behind on rent, and 651,000 are having trouble covering basic household expenses.<sup>3</sup>

Policymakers at multiple levels of government and at multiple decision points are determining how these dollars will be used. Going "back to normal" is simply not enough. Policymakers have an opportunity and an obligation to use ARP resources to bring equitable and transformative change to Minnesota by addressing the ongoing harms of the pandemic, listening to the

communities most impacted, and investing public dollars to address areas of disparities and disinvestment in order to build a stronger, more equitable recovery.

## ARP funds going to Minnesota state and local governments



### How ARP funds are reaching Minnesota state and local governments

It's helpful to think of the federal funding coming into Minnesota state and local governments in a few buckets:

- \$2.8 billion in flexible aid to the state (the State Fiscal Recovery Fund);
- \$2.1 billion in flexible aid to local governments (Local Fiscal Recovery Fund); and
- \$3.5 billion in program-specific funding, which must be used on more specific purposes.

While this issue brief focuses on the ARP funding available to state and local governments, the ARP also took additional bold actions to support Americans' health and economic well-being and jumpstart the recovery. These include measures to get resources directly to jobless workers, families, and businesses, such as

expanded Unemployment Insurance, economic stimulus payments, temporary expansions of the Child Tax Credit and Earned Income Tax Credit, food assistance, provisions to lower the cost of health insurance, housing assistance, and Paycheck Protection Program loans and other supports to businesses.<sup>4</sup>

### **State of Minnesota flexible funds**

A large piece of the ARP funding coming to the Minnesota state government is in the form of the State Fiscal Recovery Fund, which can be used for fairly broad uses. Minnesota will receive \$2.8 billion in total in two waves: half of these funds came in spring 2021; the second half comes in 2022. These funds can be used to respond to the pandemic and its related negative economic impacts; provide premium pay for essential workers; compensate for state revenue losses as a result of the economic downturn (“revenue replacement”); and make investments in water, sewer, and broadband infrastructure. ARP legislation set two restrictions on the use of these funds: the money cannot be used for public pension funds or to offset net tax cuts. These restrictions are intended to encourage states to put these dollars to immediate use to support families, workers, and communities, and build a more equitable future.

During their deliberations in the 2021 Legislative Session, policymakers agreed to the following process for allocating the state’s flexible funds:

- \$1.2 billion – about 40 percent of the flexible funding – will be used for “revenue replacement.” This means that \$633 million of services in the state budget in the FY 2022-23 budget cycle and \$550 million in FY 2024-25 are funded by flexible ARP dollars.
- Governor Tim Walz has discretion over \$500 million in “Immediate COVID response” funds.
- \$1.2 billion will be allocated in the 2022 Legislative Session. Of this amount, \$250 million was set aside for payments to frontline workers, with a legislative working group established to determine more detailed recommendations.

The revenue replacement dollars in the state budget are not allocated to any specific purpose, but rather are part of the total resources that were used to enact a budget that makes some important investments in education and economic well-being, but falls short of the bold and transformative changes needed for all Minnesotans to be safe, healthy, and economically secure in this moment and beyond.<sup>5</sup>

It is clearer how the Immediate COVID Response funding is being used. So far, about \$350 million of the total has been allocated to purposes ranging from supporting summer learning to incentivizing Minnesotans to get vaccinated, from business supports to preventing COVID-19 outbreaks in shelter facilities, and addressing the impact of the pandemic on state agencies.

### **Local government flexible funds**

Local governments in Minnesota will receive \$2.1 billion total in flexible aid. This includes \$1.1 billion in direct federal payments to counties, \$644 million to 21 larger cities,<sup>6</sup> and \$377 million to the remaining cities and towns (for which they need to apply to the state government).

Like the state flexible funds, these local flexible dollars can be used for public health measures that respond to COVID-19, provide premium pay for essential workers, and revenue replacement. Also similar to the state funds, local flexible funds are being distributed from the federal government in two payments, with the second half being distributed in 2022.

Local governments have already begun using these funds. For example, Minneapolis approved the use of \$101 million in ARP funds in their 2021 budget,<sup>7</sup> and Hennepin County is allocating a portion of its ARP funding so far to support people experiencing homelessness and for behavioral health.<sup>8</sup>

Additionally, the American Rescue Plan set aside \$20 billion to be distributed to tribal nations across the country.

These funds are going to cities, counties, and tribal governments so that they can address needs specific to their communities. As with the state flexible funds, local policymakers must decide before the end of 2024 how these funds will be used, and spend the dollars by the end of 2026.

### **Program-specific funding**

The ARP also includes funding dedicated to specific public services. In acting to provide these resources, federal policymakers recognize that families, businesses, and our public institutions are still feeling the impact from the necessary actions taken to stem the transmission of COVID-19 and from its continued circulation in our communities. As just one example, Minnesota teachers, students, and their families need resources to recover from the disruption to learning caused by the pandemic and to limit its persisting effects.

Program-specific ARP funds coming to Minnesota include:

- \$1.2 billion for families, including for specific areas such as child care, family nutrition (WIC), energy assistance, emergency assistance, child abuse prevention, services for older adults, and homeowner and renter assistance.
- \$1.6 billion for education, primarily coming to local school districts; including school emergency relief to public and nonpublic schools, library services and technology, special education, services for homeless children and youth, nutrition services to school children and their families, and school COVID-19 testing.
- \$604 million for rebuilding the economy, including aid for small businesses and statewide transit. This total includes \$179 million for capital (infrastructure) projects, of which \$70 million has been appropriated for broadband development.
- \$84 million for vaccinations, control of emerging diseases, and other public health measures.

### **Time to build a more equitable Minnesota**

The American Rescue Plan dollars have created an extraordinary opportunity to put a substantial down-payment on the investments that Minnesotans need and to start building a more equitable state and economy. Minnesota policymakers, from city councilors and mayors in the Iron Range to county commissioners in the Driftless region to state legislators working in the Twin Cities, have important work to do.

As they make these decisions, policymakers should prioritize those hit hardest by the pandemic and addressing the long-standing disparities and disinvestment that the pandemic has exacerbated. Failing to do so would mean this opportunity could be lost and after this influx of federal resources has ended, we could find ourselves largely back at a status quo that wasn't working for so many of us.

*By Clark Goldenrod and Nan Madden*

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<sup>1</sup> Unless otherwise noted, the information in this brief comes from [Minnesota Management and Budget](#).

<sup>2</sup> See also Minnesota Budget Project, [COVID-induced recession is most unequal on record](#), February 2021.

<sup>3</sup> Center on Budget and Policy Priorities, [Tracking the COVID-19 Economy's Effects on Food, Housing, and Employment Hardships](#), updated November 10, 2021.

<sup>4</sup> See also Minnesota Budget Project, [The American Rescue Plan – a buoy for workers, families, essential public services, and the economy](#), April 2021.

<sup>5</sup> See also Minnesota Budget Project, [Minnesota's new FY 2022-23 budget takes important steps toward the recovery, falls short of transformational change](#), August 2021.

<sup>6</sup> These cities are: Apple Valley, Blaine, Bloomington, Brooklyn Park, Burnsville, Coon Rapids, Duluth, Eagan, Eden Prairie, Edina, Lakeville, Mankato, Maple Grove, Minneapolis, Minnetonka, Moorhead, Plymouth, Rochester, St. Cloud, St. Paul, and Woodbury.

<sup>7</sup> City of Minneapolis, [American Rescue Plan Act Phase 1](#), July 2021.

<sup>8</sup> Hennepin County, [American Rescue Plan Act](#).