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## FISCAL ISSUE BRIEF



### Legislative Allocation of State Fiscal Recovery Federal Funds

*Senate Counsel, Research, and Fiscal Analysis*

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In 2020 and 2021, Congress passed several pieces of legislation that provided states with significant federal funds to respond to and recover from the COVID-19 pandemic. Of these funds, the Coronavirus Relief Fund (CRF) and State Fiscal Recovery Fund (SFRF) gave states the most flexibility in spending the money according to their own identified needs. The CRF was enacted in 2020 as part of the Coronavirus Aid, Relief, and Economic Security Act, ([P.L. 116-136](#)) and provided Minnesota a total of \$2.2 billion. These funds were mostly allocated throughout the summer and autumn of 2020. Subsequent reimbursements of original CRF allocations created balances in the fund. The SFRF was enacted in 2021 as part of the American Rescue Plan Act, ([P.L. 117-2](#)) and provided Minnesota \$2.8 billion. SFRF funds may be allocated through December 2024.

In Minnesota, CRF and SFRF funds originally went through the ordinary process set up by state statute to approve the spending of federal funds, which involves an automatic statutory appropriation of the funds, subject to review by the Legislative Advisory Commission (LAC). Under the review process, the LAC could temporarily pause but not ultimately prevent the spending of federal dollars submitted to it, and indeed the governor did allocate \$75 million for summer learning from the SFRF using his existing authority shortly after the legislature adjourned the 2021 regular session. The legislature departed from the LAC process by enacting article 5 of the State Government Finance Omnibus Act ([Laws 2021, First Special Session, Chapter 12](#)), which contains a series of provisions that circumvent the LAC process for the remaining CRF and SFRF dollars and instead provide a direct allocation for them.

#### **Coronavirus Relief Fund**

First, to maximize the use of remaining CRF dollars before their expiration on December 31, 2021, section 1 authorizes the commissioner of management and budget to redirect the source of certain General Fund appropriations that are eligible uses of CRF money. The language provides appropriations for these eligible uses from the CRF and makes corresponding reductions to the original General Fund appropriations, saving the General Fund \$58.4 million. The Health and Human Services Finance Omnibus Act ([Laws 2021, First Special Session, Chapter 7](#)) contains a corresponding provision in article 16, section 19, that redirects an additional \$59.5 million worth of eligible General Fund appropriations in that budget jurisdiction to the CRF. Taken together, the redirection of these appropriations will allow the state to spend down the remaining balance of the CRF while freeing up approximately \$117.9 million in General Fund resources.

## State Fiscal Recovery Fund

Section 2 sets aside \$425 million from the SFRF for the COVID-19 Flexible Response Account. As its name suggests, the account is designed for flexibility, with the legislation directly appropriating the entire \$425 million to the commissioner of management and budget for any purposes eligible under SFRF guidance and granting the commissioner authority to transfer money among agencies as necessary. The Legislative COVID-19 Response Commission (LCRC)<sup>1</sup> will review proposed expenditures from the account exceeding \$2.5 million within three days. The amount remaining unallocated on July 1, 2022, will cancel back to the SFRF; allocated amounts will remain available through June 30, 2023.

Guidance from the U.S. Department of the Treasury permits SFRF dollars to be used generally for the provision of government services to the extent the state experienced lost revenue due to the COVID-19 pandemic. Section 3 recognizes \$633.1 million in the FY 2022-23 fiscal biennium and \$550 million in the FY 2024-25 biennium for this purpose by making onetime transfers of these amounts from the SFRF to the General Fund. If future guidance prohibits such direct transfers into the General Fund, the enacted language provides an alternative procedure for the commissioner of management and budget to implement the revenue replacement. Similar to the CRF maximization in section 1, the commissioner may identify \$633.1 million in FY 2022 General Fund appropriations that are eligible uses of the SFRF and redirect the source of those appropriations to the SFRF. The corresponding General Fund amounts are cancelled. The commissioner must then apply the same process to \$550 million in FY 2024 General Fund appropriations. All proposed changes to General Fund appropriations and planning estimates must be submitted to the LAC for review and recommendation. Additional language provides for the reinstatement of the General Fund base amounts for any appropriations affected by this process.

### State Fiscal Recovery Fund (dollars in thousands)

	FY 2022-23	FY 2024-25	Total - All Years
Summer Learning (Governor LAC Allocation)	75,000		75,000
COVID-19 Flexible Response Account	425,000		425,000
Revenue Replacement	633,100	550,000	1,183,100
<b>Subtotal - SFRF Allocations</b>	<b>1,133,100</b>	<b>550,000</b>	<b>1,683,100</b>
Temporarily Unallocated			1,150,000
<b>Total</b>			<b>2,833,100</b>

Finally, section 5 suspends the statutory appropriation of federal funds and LAC process for the remaining \$1.2 billion in the SFRF (not including the \$75 million already allocated under that process for summer

<sup>1</sup> The LCRC was originally created in the 2020 regular session to oversee spending from the COVID-19 Minnesota Fund. More information about the LCRC can be found on page 10 of the [2020 Fiscal Review](#).

learning) and requires instead a direct appropriation of those funds by law. This section is retroactive to May 17, 2021, which precedes the May 18 date on which the governor could allocate all SFRF money without legislative approval. The section expires on June 15, 2022. This effectively pauses further action with respect to the SFRF until the governor and the legislature can consider possible uses for the remaining balance during the 2022 legislative session. If any portion of the \$1.2 billion remains unallocated after the expiration date, that amount is appropriated to the commissioner of management and budget, who may further allocate the funds to agencies, subject to LAC recommendation under the urgent federal funds request procedure.

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