

Fiscal Analysis Department

Minnesota House of Representatives



To: House Ways and Means Committee

From: Bill Marx, Chief Fiscal Analyst

Subject: Appropriation of Federal Funds

Date: April 8, 2020

Federal funds that are received by the state and deposited in the State Treasury must be appropriated before they can be spent. There are several methods by which federal funds are appropriated.

1. **Statutory appropriation under M.S 4.07.** Minnesota Statutes, Section 4.07, Subd. 3 authorizes the Governor to direct state agencies to apply for available funds, and appropriates those funds subject to legislative review under M.S. 3.3005. That review is by the Legislative Advisory Commission (LAC), a six member group, which is the Speaker of the House, House Ways and Means Committee Chair, Senate Majority Leader, Senate Finance Committee Chair and the chairs of the House and Senate budget committees that handle the affected agencies accounts. The LAC can make recommendations but is advisory. Recommendations for further review or negative recommendations can delay the ability of the executive branch to spend federal money.
2. **Appropriation under another statute.** Certain agencies have appropriations of federal funds in other statutes. Some of those specify that the legislative review in M.S. 3.3005 apply. (See appropriations for DEED in M.S. 116J.035, Subd. 1 or Higher Education Services Office in M.S. 136A.06.)
3. **Appropriation as part of larger program appropriations.** Federal highway funds are deposited in the Trunk Highway Fund and appropriated as part of Trunk Highway Fund appropriations. See M.S. 161.04, Subd. 1). Some other federal funds are handled in a similar manner.
4. **Direct appropriation.** Federal law establishing the Temporary Assistance for Needy Families (TANF) program specifies that TANF funds are subject to appropriation by the State Legislature. TANF funds are appropriated, similar to other appropriations of state funds, in the Health and Human Services bill.
5. **2009 Federal Budget Stabilization Funds** – In the 2009 Federal American Rehabilitation and Recovery Act (ARRA) included \$816 million in state budget stabilization funds. State law (2009 Laws, Chapter 96, Article 1, Section 22) required that those budget stabilization funds be deposited in a fiscal stabilization account in the Federal Fund and that those funds could only be spent with a direct appropriation by the Legislature. The ARRA was fairly specific in how the

stabilization money must be spent (for example, to maintain prior levels of spending in higher education and elementary and secondary education).

It is also important to note that not all federal funds received by entities in the state go through the State Treasury. As an example, Headstart funds go directly to community action councils from the U.S. Department of Health and Human Services. Also, various payments to individuals such as social security or farm payments go directly to those individuals.

Last month, the United States Congress passed multiple laws that collectively provide various forms of financial assistance to individuals, businesses, states, and local governments dealing with the COVID-19 outbreak. The process for appropriating many of the categories of federal funds provided to the State of Minnesota will likely fall into the first category listed above. State agencies will administer these funds consistent with the federal requirements. Agencies will request LAC review through the processes specified in M.S. 3.3005.

However, the Coronavirus Relief Fund established in the federal Coronavirus Aid, Relief, and Economic Security Act (CARES) Act (Public Law 116-136) provides aid for more general purposes. Minnesota is expected to receive about \$2.187 billion in this appropriation with up to 45 percent of it required to be distributed to local governments. The fund is to be used for necessary expenditures incurred due to COVID-19 between March 1, 2020 and December 30, 2020. These expenditures must not have been accounted for in the budget most recently approved as of the date of enactment of the CARES Act. Further federal guidance on expenditure of these funds is expected soon. The role of the Legislature in directing spending of this money is currently unclear.