

## Relief Is on the Way: Part I—State and Local Funding from the American Rescue Plan

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### Key Takeaways

- The American Rescue Plan will send \$7.93 billion (*update: \$8.67 billion*) to Massachusetts state and local governments.
- This temporary relief can be a down payment on creating a racially and economically just recovery from the pandemic and recession.
- Policymakers will be responsible for ensuring the equitable distribution of these funds.

*Update: Since the initial publication of this brief, the U.S. Department of the Treasury has provided updated funding totals.*

The passage of the American Rescue Plan (ARP) and the availability of significant new federal revenue gives Massachusetts a once-in-a-generation opportunity. With thoughtful choices, these dollars can be the sturdy building blocks for an antiracist state budget committed to equity for every resident in every community in Massachusetts. Using this federal revenue as a foundation, Massachusetts policymakers can build supports so our communities emerge from the coronavirus pandemic and recession healthier, stronger, and thriving.

The \$1.9 trillion ARP package will bring as much as \$7.93 billion (*update: \$8.67 billion*) from the newly created Coronavirus State and Local Fiscal Recovery Funds to Massachusetts state and local governments. This money is available through December 31, 2024.<sup>1</sup>

These federal funds are “temporary”, meaning that they are available only this one time. That means these dollars are not designed to solve permanent problems. But they can provide an important down payment or kickstart for undoing the generational wrongs that have led to the deep racial and economic inequities that the pandemic has laid bare.

About \$3.41 billion (*update: \$3.39 billion*) of this total will go to local communities. The amount each municipality will receive is determined by a formula written into the legislation, based largely on estimated current population, poverty rates, estimates of housing overcrowding, and population growth.<sup>2</sup> Local communities may determine how to spend the money within the guidelines set by the bill and the U.S. Treasury.

Additionally, close to \$4.51 billion (*update: \$5.29 billion*) of the total will be available for discretionary spending by the state. The U.S. Treasury has until the second week in May to publish its specific guidance on how the state can use these dollars. Once Massachusetts “certifies” it will spend the money appropriately, the state will receive the first portion of funding. Then it will be up to the state Legislature and the Administration to make sure that these dollars go to the communities that need the money the most. As with all federal grant funds, the state will not be able to authorize expenditure of these funds without approval from the Legislature.<sup>3</sup>

According to the bill language, there are four permitted uses for these funds:

1. Respond to COVID-19 or its negative economic impacts. This may include providing direct assistance to households, nonprofits, or businesses;
2. Provide premium pay to eligible essential workers (up to \$13 per hour, up to \$25,000 per worker);
3. Make up for services cut, up to the amount of revenue lost due to the pandemic;
4. Invest in water, sewer, or broadband infrastructure.<sup>4</sup>

The money *cannot* be used to:

1. Pay for (offset) a net tax cut (for the state funds);
2. Deposit into a pension fund (for both the state and local funds).<sup>5</sup>

The restriction on using the funding to make up for tax cuts is particularly important. Massachusetts will forfeit a dollar of these federal funds for every net dollar in tax reduction. In other words, the state will lose the same amount of federal fiscal aid as the amount of any new tax cut, unless the state makes up for that tax cut by raising a new revenue source.

Even with the restrictions placed on these dollars, they are quite flexible and can be used in ways that can directly address issues of equity. For example, if the U.S. Treasury rules that a state might risk forfeiting funds if a state expands a targeted tax credit for low-income residents, the state instead could provide the same economic benefit to low-income residents through a direct payment. Or, if the municipal distribution [formula](#) unfortunately disadvantages communities historically [undercounted](#) by official population estimates, policymakers can use the state’s discretionary funding to supplement the local funds as needed.

The Commonwealth may now be emerging from its most difficult period of the pandemic as more and more residents receive vaccinations and as there is new hope that the rates of infection will soon be under control. This, then, is the time for the state to move forward with optimism and vision, to invest in ways that will make the state better than it was before.

Listening to voices from the community, policymakers can use this money to create a foundation for true economic and racial justice by directing the dollars to the communities that have been historically under-resourced. This new money provides a unique opportunity for the Commonwealth to step forward, be bold, and lay the groundwork for a better Massachusetts that we all know is possible.

<sup>1</sup> See American Rescue Plan, Section 9901: [Coronavirus State Fiscal Recovery Fund](#).

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<sup>2</sup> See columns U and X in [Mass. Dept. of Revenue Division of Local Services estimates](#) from April 14, 2021. See American Rescue Plan, Section 9901: [Coronavirus Local Fiscal Recovery Fund](#). For distribution formula, [42 USC 5306: Allocation and distribution of funds](#).

<sup>3</sup> [Mass. Gen. Laws, Chapter 29, Section 6B](#).

<sup>4</sup> See American Rescue Plan, Section 9901: Coronavirus State and Local Fiscal Recovery Funds; [Coronavirus State Fiscal Recovery Fund](#).

<sup>5</sup> See American Rescue Plan, Section 9901: Coronavirus State and Local Fiscal Recovery Funds; [Coronavirus State Fiscal Recovery Fund](#).