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Activists to U.S. Treasury: Use Federal Aid for Pandemic Relief, Not Debt

Grassroots groups are imploring federal officials to make sure local governments get relief to those most in need, rather than banks.

Dozens of community organizations from across the U.S. want Treasury Secretary Janet Yellen to issue rules that direct the latest round of relief funds into communities hardest hit by the pandemic and away from state and local debt repayments and police budgets.

Fifty-seven national and local groups are sending Yellen and President Joe Biden a letter Tuesday to maintain the current ban on states and cities using American Rescue Plan Act funds to repay debt. They also are asking that the aid not boost police budgets. Paying back loans and increasing funding for cops would come at the expense of community needs such as rental assistance, mental health programs, child care, homeless services and violence prevention, according to interviews with the organizations and local elected officials.

The groups are making a public push in response to efforts and comments submitted by state and local officials to the Treasury since May that seek to change or ease interim rules on the use of the funds. The rescue plan enacted in March is sending \$350 billion in aid to state and local governments, which are now debating how to appropriate the unprecedented amounts.

"Congress passed the federal relief to go directly into communities," Bahar Tolou, a campaign director in Los Angeles for the Action Center on Race and the Economy, said in an interview. "The relief money is in real danger of being diverted."

ACRE, one of the lead organizations sending the letter to Yellen, is among groups from New York, Philadelphia, Detroit, Milwaukee, Chicago and Sacramento that advocate for workers, minority communities and lower income neighborhoods. They are trying to shine a light on the needs of communities after the pandemic exacerbated long-standing income gaps. Now is not the time to send money to Wall Street banks, expand police budgets or give corporations tax cuts, according to the letter.

"Every year, public dollars are already siphoned off by banks through high cost municipal debt and for corporate tax benefits, draining hundreds of billions from neighborhood services, enabling the conditions for over-policing, and exacerbating racial and economic inequality in communities," according to the letter. "These are the very conditions that made Black and brown communities so vulnerable in the pandemic."

Ongoing Argument

The debate over how to best use the unprecedented infusion of federal aid is playing out across the country. Philadelphia is among the cities that have asked the Treasury to reconsider and allow debt service to be paid with the money.

The city wants to “generate the highest impact for our residents,” Ashley Del Bianco, Philadelphia’s chief grants officer, said in an emailed statement. “Using a portion of our ARP allocation for debt service would allow us to provide services that are key to the economic recovery of our region.” Debt service funds projects that “directly benefit residents,” she said.

Philadelphia Councilwoman Kendra Brooks is among those who want the city to instead use the aid to address the “root causes of poverty.” For example, officials should use the funds to boost support for a mobile crisis program run by social workers rather than police, she said.

“ARPA is so unprecedented. It can have long lasting impacts,” Amanda Kass, associate director of the Government Finance Research Center at the University of Illinois in Chicago, said in an interview. “It’s great to see this kind of debate taking place.”

In Chicago, where the budget process is just getting started, officials are planning to use the funds to provide fiscal relief and still abide by the rules. Before the Treasury’s interim guidance banned using the funds for debt repayment, Chicago Mayor Lori Lightfoot’s administration had floated the idea of using ARP funds to repay a \$465 million loan the city took in 2020 from JPMorgan Chase & Co. Since then, the city has said that eligible reimbursements under the Treasury’s interim rules will open up money in its main operating fund to pay back the debt and cancel another refinancing it had planned for this year.

Alderman Daniel La Spata argues that using \$782 million of ARP funds to pay for expenses in Chicago’s corporate fund, which pays for services including policing, as the Lightfoot administration has proposed, and then using the money that’s freed up to pay the loan immediately, ignores the dire situation facing some residents.

“It’s within the letter of what Treasury guidance says but not the spirit,” said La Spata who wants to divvy up the city’s \$1.9 billion in ARP funds for needs including mental health, child care and homeless services. “There are so many urgent needs.”

The department is “carefully reviewing” all input as it finalizes the rule, a Treasury official said Tuesday. In Sacramento, community organizer Christina Livingston said she’s worried the Treasury will relax the rules, as the city asked last month. Livingston is executive director of the Alliance of Californians For Community Empowerment, which advocates for low-income workers and people of color.

“Debt service should be included as an eligible expenditure, especially as a ‘negative economic impact’ of Covid-19,” Leyne Milstein, Sacramento’s assistant city manager, wrote in a comment on the Treasury’s website in July. “Debt secured prior to the pandemic, whose primary source of repayment is a specific source impacted by the pandemic, is especially challenged as many of these revenue sources declined precipitously and have yet to fully recover.”

Aug. 31 is the deadline for when states and larger municipalities must report to Treasury how much of the ARP allocation they’ve spent so far. In the meantime, the collective of grassroots groups is trying to sway the Biden administration’s stance on the rules.

“We don’t want this money spent on banks nor on police,” said Emma Tai, executive director of United Working Families in Chicago, among the community groups that signed the letter. “At this time, it’s so evident human need is so great.”

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