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Why Some Small Towns Are Rejecting Federal COVID Relief Funds.

Bingham Township, Pennsylvania, is a quiet, rural place with few local businesses. "I always tell people that the cows outnumber the people over here," said Cheryl Young, the township's secretary. Most roads are dirt and gravel, she said, and many of the 600-some residents are Amish.

Congress in March authorized \$19.5 billion in aid for cities and towns with fewer than 50,000 residents, including very small jurisdictions such as Bingham. Lawmakers wanted to help every town cover the cost of fighting a pandemic and recovering from last year's recession.

But in some small, rural or conservative towns, local leaders are refusing the cash. They say they don't need it, and in some cases, don't feel comfortable accepting it.

Bingham's leaders recently turned down about \$69,000 in federal COVID-19 relief aid because they couldn't think of a way to spend it, Young said.

"That's the main reason why we opted not to do it," Young said. "There's no sense having [the money] sit here for two years, then turn around and send it back, because you can't spend it."

To be sure, such refusals are rare. Across 14 states where data is available, just 171 communities out of 7,975 that have fewer than 50,000 residents rejected the funds, according to the National League of Cities, a Washington, D.C.-based group that advocates for cities and towns.

The average community that rejected the money has 540 residents, according to the group.

Advocates for cities say towns that decline the funds are missing a big opportunity. "It's unfortunate that anyone would turn down this money, because I think any community could benefit from it," said Mike Gleeson, legislative manager for finance, administration and intergovernmental relations on the National League of Cities' federal advocacy team.

Small towns can team up with their neighbors or with county and state leaders to use the funds, such advocates say. That could mean a regional effort to expand broadband, upgrade water infrastructure or study an area's housing needs.

"I don't think there's any shortage of things to spend the money on, especially when we're able to think beyond city hall and beyond village hall," said Chris Hackbarth, director of state and federal affairs for the Michigan Municipal League.

Fourteen Michigan villages and townships declined the funds, out of 1,692 eligible jurisdictions with fewer than 50,000 residents, according to the Michigan Treasury's latest statistics.

Small towns that accept the funds may need help from states, municipal associations and local accountants to manage their grants. Places as small as Bingham don't typically have staff used to following federal grant requirements.

Young said that she, three elected supervisors and two road maintenance workers—one of whom also serves on the board of supervisors—are about the extent of the local government. “That’s it,” she said. “You’re looking at us.”

Money for All Municipalities

Last year’s major federal aid package, known as the CARES Act, sent money directly to large cities and counties but not to small ones. States were supposed to transfer a portion of the federal dollars they received to jurisdictions with fewer than 500,000 residents.

That system left many localities behind, however. Almost 30% of towns nationwide didn’t get CARES Act money, according to the National League of Cities.

Congress tried a new approach with this year’s federal relief package, the American Rescue Plan Act. The law sent money to most incorporated cities, towns, townships, boroughs and districts.

“They made sure to include all the small guys,” said Emily S. Brock, director of the Government Finance Officers Association’s Federal Liaison Center. The association represents public finance officials.

U.S. Treasury Department and state officials had to figure out which governments could handle the money, however. Some local governments exist in name only or have limited tax and spending functions.

Brock said her organization advised the U.S. Treasury to avoid allocating funds to such figurehead governments. “There’s no elected officials, there’s no governing body—you cannot give them \$100 million!” she said.

Eligible localities can use the latest round of federal COVID-19 relief for a broad range of things: to replace lost tax revenue; pay for pandemic response efforts; help households and businesses recover economically; give essential workers a raise; and invest in water, sewer and broadband infrastructure. The money can’t be used to shore up pension funds or pay for tax cuts.

Towns that accept the money get half of it this year and half next year. They have until 2026 to spend it and must regularly report their spending to the Treasury. Those that fail to spend the money according to the law and Treasury rules must return those dollars to the federal government.

States again have acted as a go-between. Local leaders have to apply to states to either accept or reject their federal allocation. When towns refuse the cash, or simply fail to apply for it, states must reallocate the money among other eligible localities with fewer than 50,000 people.

Some quirky jurisdictions that made the cut have turned their federal grants down, according to state records published online or provided to Stateline.

In Pennsylvania, for instance, the borough S.N.P.J. declined a \$1,988 grant. S.N.P.J., or “Slovenska Narodna Podporna Jednota,” is a fraternal benefit association founded by Slovenian immigrants in 1904. The group runs a recreation center that’s incorporated as a borough. S.N.P.J. has just 18 residents, according to the U.S. Census Bureau.

‘It Was No Benefit to Us’

More established towns also have declined the funds. Town leaders who refused the latest federal grants say they lack infrastructure, struggling businesses, essential workers or public health efforts

to spend the money on.

“The things that they allowed us to use the money on in that plan did not fall with anything we had in our town,” said Richard Ouellette, chair of the Dummer, New Hampshire, select board. “So really, it was no benefit to us whatsoever.”

Dummer is a rural town with about 300 residents, and it was eligible for about \$29,000. “We really had no expenses for COVID,” Ouellette said. “We ended up buying maybe a case of masks for the town office, and that was pretty much it.”

There aren’t many businesses in town, Ouellette said, and residents get water from their wells rather than a municipal water system.

Iowa Park, Texas, received CARES Act money last year, said City Manager Jerry Flemming. That money—\$350,020, according to records published online by the federal Pandemic Response Accountability Committee—covered all the town’s pandemic-related needs, he said.

The latest round of aid wasn’t as useful, Flemming said. “We just didn’t have any projects that met the criteria for it, so we didn’t apply for it.” Iowa Park sits near the Oklahoma border, and has about 6,500 residents.

Some local leaders refused the funds partly for ideological reasons. “The main reason we said ‘no’ as a board is because our country is going \$29 trillion in debt, and we wanted to do our part to say: Hey, enough’s enough,” said Kevin Green, supervisor of Algoma Township in western Michigan. “We didn’t want to be part of that.”

Greene said the board had two other reasons for rejecting its \$1.3 million allocation: Members couldn’t think of a way to use the funds to benefit all 12,055 residents, and they felt rushed.

The U.S. Treasury hasn’t yet released its final rules for spending the money, Green noted. But the Michigan Treasury wanted towns to accept or reject the funds by the end of July. “I think if they had given us a few more months, and we could have thought through it, maybe we could have accepted part of it,” he said.

Algoma did receive CARES Act funds last year, he said. The township used the funds to pay public safety workers overtime. He said local leaders would have liked to use the latest relief money to upgrade the township’s roads and parks, but such general infrastructure projects aren’t allowed under the law.

Following Federal Rules

Many small towns won’t be able to track their spending and report it to the U.S. Treasury without help.

Many leaders of such towns aren’t familiar with federal reporting and audit requirements, said Brock of the Government Finance Officers Association.

“In some cases, they may have to hire an auditor, or a consultant, to make sure they’re doing that right—an added expense on top of the money that they’ve just received,” she said.

About half the counties and more than 100 municipalities in Pennsylvania have hired Zelenkofske Axelrod LLC, an accounting firm, to help them manage the money, said Cory Johnson, a partner at the firm who works with public sector clients.

“There are small townships that have, at best, part-time people, and they’re not accountants,” he said. Some local leaders don’t have strong computer skills, he added. “That’s a big hesitation, in certain parts of the state.”

Assistance is available, though. Town leaders can use their American Rescue Plan Act grants to hire outside help. And they can turn to municipal leagues, professional associations and even public university extension agents, who have been fielding questions about compliance.

Advocates for cities say that once small towns get used to handling federal money, they’ll be well-positioned for any future grant opportunities. “If they can do it this time, it could potentially open up future federal grants,” said Gleeson of the National League of Cities.

Not all local leaders may see things that way. Green of Algoma said that dealing with the CARES Act requirements wasn’t easy, and township leaders weren’t eager to go through the process again this year. “Accounting-wise, it was a little rough,” he said.

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