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U.S. Treasury Rules Against Cities Using Pandemic Aid to Pay Debt.

The U.S. Treasury Department stuck by its rule that states and cities can't use pandemic relief aid to pay down debt.

On Thursday, the Treasury released its final rule detailing how municipalities can use some $350 billion of aid from the Biden administration's American Rescue Plan. The rule bars governments from using the funds to pay debt service, one of several restrictions that the Treasury has put on the money.

A bevy of governments like Illinois had asked the Treasury to relax that restriction, arguing that they needed to take on debt when the pandemic upended their finances in 2020.

The Treasury has emphasized that the lifeline to states, cities, counties and other governments is intended to help them rebuild their workforces, maintain government services and aid in the U.S. economic recovery.

The final rule also bars governments from using the aid to replenish rainy day funds and to pay off legal settlements.

"First, debt service and reserve replenishment costs do not constitute the provision of services to constituents," the Treasury's final rule says. "As noted in the interim final rule, financing expenses – such as issuance of debt or payment of debt service – do not provide services or aid to citizens."

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