

August 12, 2020

The Honorable Steven T. Mnuchin
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Mnuchin,

The National League of Cities (NLC) is the voice of America's 19,000 cities, towns and villages - representing more than 200 million people - and is a resource and advocate for the nation's municipal governments and their leaders. At this time, our primary efforts are directed toward assisting the local government response to COVID-19. It is essential for all levels of government to be working together from the same factual and accurate assessment of needs related to preventing the worst health and economic consequences of COVID-19. To that end, we write to request a clarification or update to the Treasury's Office of the Inspector General (OIG) interim report of costs incurred by state and local recipients through June 30.

In our view, the OIG report presents data out of context in harmfully misleading ways, and has produced greater confusion, rather than greater certainty, over the amount of CARES CRF funds that remain available to cities, towns, and villages. This has taken on a new sense of urgency given President Donald Trump's Executive Memorandum on unemployment insurance and the cost sharing requirements imposed therein.

At the heart of our objection to the OIG report is a fundamental unidentified mismatch of information between "allocated" and "incurred." The OIG presents only incurred costs up to June 30 and excludes any measure of funds allocated. This analysis fails to convey an accurate picture.

Allocated funds are restricted and not available for other uses. If only incurred costs are reported, readers may conclude that the state has not committed the funds to specific purposes. For example, the State of Michigan received just under \$3.1 billion from the Coronavirus Relief Fund (CRF). And as of as June 29, all but \$94 million or approximately 3 percent had been allocated for use. The Treasury's OIG report says the "incurred costs" for the State of Michigan is 3 percent or \$92 million.¹ Both of these figures are factual, and yet by excluding the amount allocated, many in Congress have been provided an inaccurate picture of the funds remaining available for sub-allocation to local governments.

¹ https://www.michigan.gov/documents/whitmer/Budget_Agreement_695284_7.pdf

Other examples include Tucson, Arizona, which received \$95 million from the CRF. All but \$1 million or just more than 1 percent has been allocated by the city. The Treasury's OIG report, however, lists Tucson as having incurred costs of \$35 million or 37.6 percent. Similarly, Mesa, Arizona received \$90.4 million from the CRF and has allocated \$87.8 million, leaving \$2.6 million or around 3 percent unallocated. The OIG's report said that 47 percent of Mesa's funds had been incurred.

We request a clarification or update of the OIG report that addresses the following:

First, the report should state that monies from the CRF were disbursed in mid- to late-April, providing a narrow window, somewhere between 8-10 weeks, for the funds to be distributed and for costs to be incurred.

Second, the report should acknowledge that the rolling guidance of Frequently Asked Questions (FAQs) and guidance put out by the Treasury slowed the spending of funds. In order to ensure compliance, many recipients sought guidance from Treasury before incurring costs.

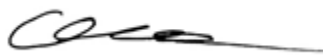
Third, the report should disclose that prime recipients are able to spend their allocated funds through the end of the calendar year 2020. Most are budgeting the funds to last until the end of the year, so a snapshot in time that captures only 8-10 weeks of when states, counties, and cities had the funds and incurred costs creates a distorted picture of the true nature of what is available.

We anticipate actual obligated costs will greatly exceed the allocated amounts in the CRF, which is why NLC is asking for direct fiscal relief.

The National League of Cities would be happy to have a conversation with you about this issue to inform you about the mismatched information and how the Treasury's OIG report does not accurately show what is available.

Thank you for considering our request, and we look forward to your response. If you have any questions regarding our concerns, I encourage you to reach out to Irma Esparza Diggs, Senior Executive and Director, Federal Advocacy, at diggs@nlc.org.

Sincerely,



Clarence Anthony
CEO and Executive Director
National League of Cities

CC: Daniel Kowalski
Counselor to the Secretary
U.S. Department of the Treasury

Appendix A

Guardrails can Ensure Federal Assistance is Appropriately Allocated and Spent to Address Losses and Recovery Related to COVID-19

- Congress should enact guardrails to ensure additional federal intervention does not exceed reasonable levels of assistance to any municipal government; and that the public can be confident that taxpayer funds are appropriately spent.
- To safeguard against funding levels greater than appropriate to meet the responsibilities delineated to municipal governments, allocations for non-entitlement municipalities ought to be capped at 75% of their total annual budget.
- To safeguard against incentives to use federal aid as an offset for unwarranted cuts in state or local aid, a maintenance of effort requirement should be included to prevent any level of government from imposing eligibility standards, methodologies, procedures, or other constraints on any other unit of government that are more restrictive than those that were in place upon enactment of the bill, in order to receive aid under this title.
- To safeguard against expenditures for long-standing unfunded liabilities, pension funds should be designated an ineligible expenditure