

CITIES ARE ESSENTIAL

Myths & Truths About Providing Federal Assistance to State and Local Governments

AMERICA'S CITIES, TOWNS AND VILLAGES ARE FACING STRAPPED BUDGETS AS THEY USED VITAL RESOURCES TO RESPOND TO COVID-19. THERE HAS BEEN NO DIRECT FEDERAL AID TO THE MAJORITY OF MUNICIPALITIES IN THE NATIONAL RESPONSE EFFORT. IN FACT, SOME FEDERAL PLANS HIGHLIGHT CITY BANKRUPTCY AS AN OPTION AND MISMANAGED LOCAL BUDGETS AS A JUSTIFICATION.

.....

Cities are the engine of the American economy, and if we want to recover and reopen as a nation, we need to get the engine running.

The Cities Are Essential campaign is calling for direct federal aid for local governments.

This campaign challenges common myths about local financial mismanagement and emphasizes the importance of direct federal support.

MYTH

American taxpayers should not pay to help cities and local governments.

TRUTH

The vast majority of Americans support helping localities.

FACTS

According to a survey of over 2,000 American adults conducted by NLC and Morning Consult, 86 percent of Americans support the federal government providing relief directly to cities, towns, and villages to address COVID-19 challenges, with only 5% opposing. This support is bipartisan - 90% of Republicans and 90% of Democrats support the federal government providing direct relief to municipalities.

MYTH

Bankruptcy saved some cities.

TRUTH

Bankruptcy would likely cripple municipalities for years.

FACTS

No city has declared bankruptcy since 2013, and it is a last resort option with severe consequences, including a credit ratings downgrade to junk status, cancelation of critical infrastructure projects, mass layoffs of public sector workers, and a damaged image for the local government and negative impacts on the local economy.

MYTH

Additional money sent to the states for “lost revenue” will be used to bail out unfunded pensions, reward decades of state mismanagement, and incentivize states to become more reliant on federal taxpayers.

TRUTH

Localities need support to maintain essential services, not to pay pension liabilities.

FACTS

The majority of pension plans are well funded and financially stable (in recent years, over 72 percent). Most local pension plans belong to the state retirement system and are required to make pension contributions to that system.

MYTH

All local governments have the option to declare bankruptcy and should use it instead of asking the federal government for more assistance.

TRUTH

Most states prohibit local declarations of bankruptcy.

FACTS

Only 12 states authorize Chapter IX bankruptcy filings, while 12 states conditionally authorize such filings, and 26 states have either no Chapter IX authorization or such filings are prohibited.

MYTH

There is no good reason why the options of bankruptcy is not available to states.

TRUTH

Bankruptcy is not a legal option for sovereign state entities.

FACTS

States have taxing authority and have constitutional or statutory requirements to balance their budgets.

MYTH

States and local governments are calling for billions in unrestricted aid — not just money for Coronavirus recovery, but for pre-existing state programs and debts. They are advocating to use future Coronavirus response measure as a piggybank for unrelated expenses that have nothing to do with responding to the Coronavirus. States and local governments should not get a blank check from American taxpayers to fund areas of their budget that have nothing to do with the Coronavirus.

TRUTH

No state and local government expects unrestricted aid from the federal government or is asking the federal government for a blank check.

FACTS

State and local governments are asking for flexibility to use federally allocated money for revenue shortfalls as a result of COVID-19, to prevent the layoff and furloughs of law enforcement officers, fire fighters, 911 dispatchers, teachers, and other government workers.

MYTH

Allowing states and cities to use the bankruptcy route instead of providing direct federal assistance is a better route for the U.S. economy.

TRUTH

Localities declaring bankruptcy or defaulting would be devastating for the U.S. economy, individual investors, and infrastructure.

FACTS

If municipal bankruptcies come to fruition, millions of individual investors in the municipal bond market could lose substantial amounts, impacting the financial stability and retirement of American families. As local economies are impacted, the ripple effects will reverberate throughout major sectors of the national economy.

MYTH

Cities led by Democrats are poorly run and proposals to send funds to bail out these states and cities are 'blue state bailouts.' Cities that are led by Republicans are not looking for bailouts.

TRUTH

The financial and fiscal impacts of the Coronavirus are hitting cities across the country equally, regardless of the political affiliation of the elected officials in that city.

FACTS

The vast majority of elected officials in cities, towns and villages across the country, including those in the largest 30 cities, are elected on a non-partisan basis. Political parties are irrelevant to providing services to residents and businesses. Survey data by NLC and the U.S. Conference of Mayors shows that regardless of whether a city, town or village is in a Congressional House district represented by a Republican or Democrat member of Congress, communities of all sizes across America are feeling the impacts of this pandemic.

MYTH

Cities can just raise taxes or other revenue streams to fund their budget shortfalls instead of seeking federal assistance.

TRUTH

Cities do not have complete authority over their revenue raising abilities, either legally or politically.

FACTS

States dictate whether and by how much cities can raise taxes, and over the past 30 years, this local authority has become increasingly restricted. In response to COVID-19, cities are turning to their last resort option, which is to severely cut services at a time when the community needs them most, layoff and furlough employees, and pull back on capital projects, further impacting local employment, business contracts and overall investment in the economy.