

United States Senate
WASHINGTON, DC 20510

July 10, 2020

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

The Honorable Steven T. Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Ave NW
Washington, D.C. 20220

Dear Chairman Powell and Secretary Mnuchin:

We write concerning the need for greater financial assistance to state and local governments and the impact that failing to deliver such aid would have on racial disparities in economic outcomes. While Congress has the responsibility to immediately provide relief to these entities through direct fiscal support, there are actions that the Department of Treasury (Treasury) and Board of Governors of the Federal Reserve (Fed) can take to keep states and localities solvent. In recent weeks, Treasury and the Fed have taken actions using the \$454 billion fund provided by the Coronavirus Aid, Relief, and Economic Security (CARES) to provide economic assistance.¹ While these actions stabilized financial markets and helped large corporations, they did not provide the same economic security for state and local governments.² Our nation's recovery efforts must start with supporting local communities, and we are concerned that, without additional efforts from the Fed and Treasury, giant corporations will reap all the benefits of this recovery while cities and states are left behind and suffer needless economic devastation.

The need for this assistance is particularly vital, given the devastating public health and economic impacts of this crisis on communities of color and the disproportionate impact that state and local workforce cuts would have on racial minorities. The most recent data indicate that Black Americans make up a roughly 25 percent greater share of the state and local workforce compared to their share of the private sector workforce.³ The most recent jobs report, which showed the gap between white and black employment increase to 5.3 percent, highlights how this crisis has already had an outsized impact

¹ The New York Times, "How the Fed's Magic Money Machine Will Turn \$454 Billion Into \$4 Trillion," Jeanna Smailek, March 26, 2020, <https://www.nytimes.com/2020/03/26/business/economy/fed-coronavirus-stimulus.html>.

² The Wall Street Journal, "Credit Markets Show Signs of Stabilizing After Historic Fed Intervention," Sam Goldfarb and Anna Hirtenstein, April 6, 2020, <https://www.wsj.com/articles/credit-markets-show-signs-of-stabilizing-after-historic-fed-intervention-11586165402>.

³ Center for Economic and Policy Research, "Republican Attacks on State and Local Government Are Yet Another Assault on Black People," June 01, 2020, <https://cepr.net/republican-attacks-on-state-and-local-government-are-yet-another-assault-on-black-people/>.

on minority communities.⁴ Beyond these recent data points, it is well-established that adequate funding for state and local services “can help reduce barriers to opportunity that keep major parts of our society, from jobs to education to housing largely segregated along racial lines.”⁵ We therefore urge you to use all available tools at your disposal to prevent the irreversible damage that could occur if state and local governments are required to cut spending and services, fire furloughed employees, and permanently eliminate public sector jobs- all outcomes that would permanently worsen existing economic inequality.

State and local governments have been uniquely affected by the COVID-19 pandemic and the associated economic downturn, with recent state budget shortfall projections alone totaling a cumulative \$555 billion through fiscal year 2022.⁶ At the same time revenues are declining,⁷ states and localities are spending more on essential services to support their communities during this crisis. The United States Conference of Mayors and National League of Cities estimates that the economic impact will hit public services in cities of all sizes: 50% of municipalities with 50,000 or fewer residents and 76% of municipalities with 500,000 or more residents anticipate having to cut public services.⁸ The National Association of Counties estimates the pandemic “has the potential to impact county budgets by over \$144 billion through fiscal year 2021,” and while large counties will experience the “largest increase in expenditures and the largest decrease in revenue,” small counties would be impacted the most, with “a nearly one quarter (24 percent) reduction in their budgets.”⁹ As a result, state and local government officials “responded to the COVID-19 pandemic by furloughing workers at shuttered facilities and trimming payrolls in the face of substantial projected budget shortfalls.”¹⁰ Many of these furloughs and temporary layoffs have the potential to become permanent if further financial aid is not provided

Failing to provide necessary aid to state and local governments not only threatens the stability of communities across the country, it would also have a disproportionate impact on women, Black, and Hispanic workers, who are overrepresented in public sector jobs, which have generally “provided more equitable opportunities for women and people of color.”¹¹ The persistent loss of state and local jobs during the Great Recession provides a stark warning for our current economic crisis—public sector jobs continued to disappear even while the private sector began recovering from the Great Recession.¹² These losses hit Black Americans the hardest – black workers held 20% of the 765,000 state and local jobs that

⁴ Reuters, “Gap in U.S. Black and white unemployment rates is widest in five years,” July 2, 2020, <https://www.reuters.com/article/us-usa-economy-unemployment-race/gap-in-us-black-and-white-unemployment-rates-is-widest-in-five-years-idUSKBN2431X7>.

⁵ Center on Budget and Policy Priorities, “Additional Well Targeted Federal Fiscal Aid Key to Advancing Racial Equality,” Nicholas Johnson, July 1, 2020, <https://www.cbpp.org/blog/additional-well-targeted-federal-fiscal-aid-key-to-advancing-racial-equity>.

⁶ Center on Budget and Policy Priorities, “States Continue to Face Large Shortfalls Due to COVID-19 Effects,” Elizabeth McNichol and Michael Leachman, June 15, 2020, <https://www.cbpp.org/research/state-budget-and-tax/states-continue-to-face-large-shortfalls-due-to-covid-19-effects>.

⁷ Center on Budget and Policy Priorities, “States Grappling with Hit to Tax Collections,” June 15, 2020, <https://www.cbpp.org/research/state-budget-and-tax/states-grappling-with-hit-to-tax-collections>.

⁸ United States Conference of Mayors, “The Economy and Cities: What America’s Leaders Are Seeing,” April 2020, <https://www.usmayors.org/2020/04/14/the-economy-and-cities-what-americas-leaders-are-seeing/>.

⁹ National Association of Counties, “Running on Fumes: Impact of COVID-19 on County Finances,” April 2020, <https://www.naco.org/sites/default/files/documents/Impact%20on%20County%20Finances-FINAL-v2.pdf>.

¹⁰ Pew Charitable Trusts, “How COVID-19 is Driving Big Job Losses in State and Local Government,” Barb Rosewicz and Mike Maciag, June 16, 2020, <https://www.pewtrusts.org/nb/research-and-analysis/articles/2020/06/16/how-covid-19-is-driving-big-job-losses-in-state-and-local-government>.

¹¹ Economic Policy Institute, “The public-sector jobs crisis,” David Cooper, Mary Gable and Algeron Austion, May 2, 2012, <https://www.epi.org/publication/bp339-public-sector-jobs-crisis/>.

¹² *Id.*

were lost from 2007-2011, despite making up 12.8% of the workforce overall.¹³ Communities of color are already bearing the economic burden of this pandemic, and if state and local governments are forced to let go of workers who have been temporarily laid off, that burden will be exacerbated unnecessarily, amplifying existing racial inequalities.

While Congress must take immediate steps to provide direct fiscal support to these entities, there are steps that Treasury and the Fed can take *now* to ensure that funds continue to flow to these governments. The CARES Act provided Treasury with a \$454 billion bailout fund to “make loans and loan guarantees to, and other investments in, programs or facilities established by the Board of Governors of the Federal Reserve System for the purpose of providing liquidity to the financial system that supports lending to eligible businesses, States, or municipalities.”¹⁴ Treasury and the Fed have so far announced how \$195 billion of this money will be used,¹⁵ including a \$35 billion investment to establish the Municipal Liquidity Facility (MLF) to “to help state and local governments better manage cash flow pressures in order to continue to serve households and businesses in their communities.”¹⁶¹⁷ This facility so far has only been utilized by only one state government and no local governments, suggesting that the current terms of the facility are insufficient. Expanding the MLF and making it a more accessible source of financing is one way that Treasury and the Fed can help ensure that we are not turning a blind eye to the need for a recovery that reaches all Americans.

You previously expanded the terms of the MLF to make more local governments eligible to borrow from the facility.¹⁸ This was the right decision. However, state and local governments are still in dire straits. We urge you to again reconsider the terms of these facilities to make them even more attractive to state and local borrowers. This includes extending the duration and interest rates of the loans to at least match the generosity you have provided through the facilities that lend to businesses that are of even poorer credit quality than the municipal borrowers. You should also reduce the minimum population thresholds required for municipal governments and counties even further to allow more local governments to participate. Additionally, you should examine whether it would be feasible to allow smaller municipalities that have existing relationships with lenders to participate in the Main Street Lending Program. To be clear, these solutions are not a substitute for Congress stepping up to provide the needed aid to these entities, but they can ensure that money keeps flowing to these governments during a time of extraordinary need to prevent a prolonged downturn and irreversible economic damage.

In recent weeks, Treasury and the Fed have successfully taken extraordinary measures to shore up financial markets, providing significant benefits to large corporations and shareholders. The millions of Americans who live paycheck-to-paycheck and rely on the services and employment provided by state and local governments need help too, and we cannot allow these communities to be left behind during our recovery. Making it easier for states and municipalities to borrow is not a substitute for Congress

¹³ *Id.*

¹⁴ CARES Act, Section 4003.

¹⁵ “The Second Report of the Congressional Oversight Commission,” June 18, 2020, [https://www.toomey.senate.gov/files/documents/Congressional%20Oversight%20Commission%20Report%20\(June%2018,%202020\).pdf](https://www.toomey.senate.gov/files/documents/Congressional%20Oversight%20Commission%20Report%20(June%2018,%202020).pdf).

¹⁶ *Id.*

¹⁷ Board of Governors of the Federal Reserve System, “Municipal Liquidity Facility,” <https://www.federalreserve.gov/monetarypolicy/muni.htm>.

¹⁸ “Warren, Colleagues Urge Fed to Reconsider Arbitrary Population Requirements That Lock Most Cities and Counties Out of CARES Act Budget Help,” April 18, 2020, <https://www.warren.senate.gov/newsroom/press-releases/04/18/2020/senators-demand-fed-revisit-municipal-program>.

providing the financial support to these governments that is needed to prevent “deeper cuts in services, likely resulting in thousands of teacher layoffs, reductions in health care services, and other cuts that would worsen the recession and disproportionately hurt people of color and low-income people already particularly harmed by the pandemic.”¹⁹ But Treasury and the Fed still have an obligation to do everything in their power to support state and local governments, the people who work for them, and the people who rely on the vital services they provide.

Sincerely,

/s/ Elizabeth Warren

Elizabeth Warren
United States Senator

/s/ Chris Van Hollen

Chris Van Hollen
United States Senator

/s/ Catherine Cortez Masto

Catherine Cortez Masto
United States Senator

¹⁹ Center on Budget and Policy Priorities, “State Borrowing No Substitute for Additional Direct Aid to Help States Weather COVID Downturn,” Michael Mazerov and Elizabeth McNichol, <https://www.cbpp.org/research/state-budget-and-tax/state-borrowing-no-substitute-for-additional-direct-aid-to-help-states>