

Congress of the United States
Washington, DC 20515

June 17, 2020

Jerome Powell
Chairman
Federal Reserve Board of Governors
20 Constitution Ave NW,
Washington, DC 20551

Dear Chairman Powell,

I write to urge the Federal Reserve Board of Governors to adjust the terms of the municipal liquidity facility to better assist states and local governments under pressure due to the COVID-19 pandemic. In the program's current construction, 97 percent of the 255 state and local governments named as eligible are functionally locked out from accessing the facility. By broadening the terms and relieving restrictions, local governments will be able to access the facility and help hasten the end of this pandemic.

According to the National Association of State Budget Officers, April tax collections fell sharply with many states experiencing year-over-year declines of at least 50 percent.¹ The same report highlights that state revenues are expected to exceed the 11.6 percent drop experienced in the great recession due to COVID-19 related spending demands and revenue shortfalls. According to the National Council of State legislatures, early estimates show states could face revenue losses upwards of 20% between the beginning of March and the end of December, which nearly double the average state year-end balance.² Personal income taxes and sales taxes combined represent 75 percent of all state general fund revenue collections,³ and the COVID-19 recession has constricted both streams of revenue for state and local governments. In the wake of this economic crunch, municipal bond volume has been considerably lower due to COVID-19 and despite stock market surges municipal bonds have only recouped only half their losses.

I understand that the Federal Reserve established the municipal liquidity facility to help U.S. states and local governments manage these cash flow pressures by providing credit secured through their short-term obligations. According to your most recent Monetary Policy Report, the utilization of this emergency program is .2 percent, \$1 billion of the \$500 billion program. This is consistent with recent reporting that the existing terms of the facility is cost prohibitive to 97 percent of state and municipal governments, due to restrictive terms. The bond rating, market

¹budgetblog.nasbo.org/blogs/brian-sigritz/2020/05/19/april-tax-collections-plummet-from-tax-deadline-sh?CommunityKey=eca4d2c7-296d-4ab5-aeab-2024a4e7b0b8&tab=

² <https://www.ncsl.org/research/fiscal-policy/fiscal-briefs.aspx#June>

³ <http://budgetblog.nasbo.org/budgetblogs/blogs/kathryn-white/2020/05/06/state-budget-basics-during-an-economic-downturn?CLK=f60caee-1613-4dbd-8446-383f25ab565a>

rate, and penalty rate requirements from the term sheet of the facility make the facility function as a tax for the overwhelming majority of the 255 eligible localities. As constructed, the program would cost states and localities with higher ratings a considerable premium. I understand that state and city executives, legislators, and public finance officials are circulating and signing a letter articulating this point.⁴ They are also calling for you to extend eligible note maturities and application deadlines, include U.S. Territories and Tribes among Eligible Issuers as prescribed by the CARES Act, and further lower the population thresholds for eligible issuers.

This program can only do the necessary good of reliving pressure on local governments so they may be able to provide the frontline pandemic response work, if it is set up in a way that allows local governments that need it to access it. As it stands, the Federal Reserve has created a program most local governments cannot use. I urge you to address these shortcomings to provide localities the support they need to fight this pandemic.

Thank you for your attention to this important matter.

Sincerely,

A handwritten signature in blue ink, reading "Emanuel Cleaver, II". The signature is fluid and cursive, with a large loop at the end.

Emanuel Cleaver, II
Member of Congress

⁴ <https://www.forbes.com/sites/rhockett/2020/06/14/optimize-community-gean-open-letter-to-fed-chairman-powell/#5f332ef124d2>