THE BOND BUYER

Bipartisan group of lawmakers urges expansion of Fed muni program

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A bipartisan group of lawmakers is urging the Federal Reserve and Treasury to further expand a municipal note purchase program to be open to more local governments.

A group of 12 representatives signed a letter Monday asking for the Fed and Treasury to further expand the Fed's Municipal Liquidity Facility by lowering population thresholds so more local governments can have direct access to it. The letter comes only a week after the Fed signficantly expanded the MLF.

“We write to encourage the Treasury and the Federal Reserve to take further action to stabilize the municipal bond market by ensuring that as many local governments and communities as possible have access to this necessary liquidity,” the lawmakers wrote.

Last week, the Fed expanded the number and types of local governments that could participate in its $500 billion short-term note program. The Fed said it would allow all U.S. states to be able to have at least two cities or counties eligible to issue notes to its MLF program regardless of population.

Cities and counties with populations of 250,000 and 500,000 respectively can directly access the program under current rules, but the changes announced last week allowed governors in states without qualifying localities to designate cities and counties to participate.

The 250,000 and 500,000 thresholds are themselves products of an April change to the program, down from original requirements of 2 million people for counties and one million for cities.

Terri Sewell, D-Ala., signed a letter sent to the Federal Reserve and Treasury on Monday, encouraging more access to the Fed's municipal short-note program. Bloomberg News

“While expanding eligibility by lowering the population thresholds to counties with at least 500,000 residents and cities with at least 250,000 residents was a commendable step, the vast majority of local municipalities will still be unable to access this necessary source of assistance,” lawmakers wrote.

The bipartisan group did not specify where they would want to see the population parameters set.

Rep. Tom Reed, R-N.Y. signed the letter and was one of six Republicans to do so.

A staffer from Reed’s office noted that the lawmakers did not have a set number for where they would like to see the population parameters set, but encouraged more eligibility.

The changes made by the Fed last week impacted states that did not have access to the program originally, the staffer said. The changes gave smaller populations access, but for large, populous states like New York were not as helpful since generally, they cannot designate additional issuers.

“The recent changes gave them access, but what it didn’t do is in a state like New York, where we have a lot of communities in upstate New York fall below the population threshold, they still don’t have access,” they said.

“We want to see more done for our small communities in places like upstate New York,” the staffer added.

Lawmakers want to see small communities eligible for the facility, wrote Rep. Roger Marshall, R-Kan., in a statement to The Bond Buyer.

“We’ve heard from a number of smaller counties and local governments that additional assistance is needed as they, too, have been economically impacted by the pandemic,” Marshall wrote. “It’s important that rural counties aren’t left behind as we continue to stand up programs meant to assist both with ongoing coronavirus response as well as economic recovery and reopening efforts.”

In a report released by Pew Research on Tuesday, researchers said borrowing from the MLF could help states, but is only one way out of many to help with budget adjustments.

Neither short nor long term borrowing can solve the issue of drastic revenue declines caused by COVID-19 and an economic downturn, and states will need to turn to spending cuts, tax increases, drawing on rainy day funds or federal aid, Pew said.

At a Volcker Alliance and Penn Institute for Urban Research webinar in May, former state officials warned against municipalities taking on more debt, warning that doing so could "waste" an oppourtuity to deal with their underlying fiscal problems.