

# CDFA // BNY MELLON DEVELOPMENT FINANCE WEBCAST SERIES

## Understanding The Municipal Liquidity Facility

The Broadcast will Begin at 1:00pm Eastern

- ▶ Submit your questions in advance using the GoToWebinar control panel
- ▶ View previous webcast recordings online at [www.cdfa.net](http://www.cdfa.net)

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON

Hello! Welcome to the webcast.



## Malcolm Guy

Coordinator, Government and External Affairs  
Council of Development Finance Agencies  
Columbus, OH

### Are you a CDFA Member?

Members receive exclusive access to thousands of resources in the CDFA Online Resource Database.

Create your unique login today at [www.cdfa.net](http://www.cdfa.net)

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON

# Legal Disclaimer

CDFA is not herein engaged in rendering legal, accounting, financial or other advisory services, nor does CDFA intend that the material included herein be relied upon to the exclusion of outside counsel or a municipal advisor. This publication, report or presentation is intended to provide accurate and authoritative general information and does not constitute advising on any municipal security or municipal financial product. CDFA is not a registered municipal advisor and does not provide advice, guidance or recommendations on the issuance of municipal securities or municipal financial products. Those seeking to conduct complex financial transactions using the best practices mentioned in this publication, report or presentation are encouraged to seek the advice of a skilled legal, financial and/or registered municipal advisor. Questions concerning this publication, report or presentation should be directed to [info@cdfa.net](mailto:info@cdfa.net).

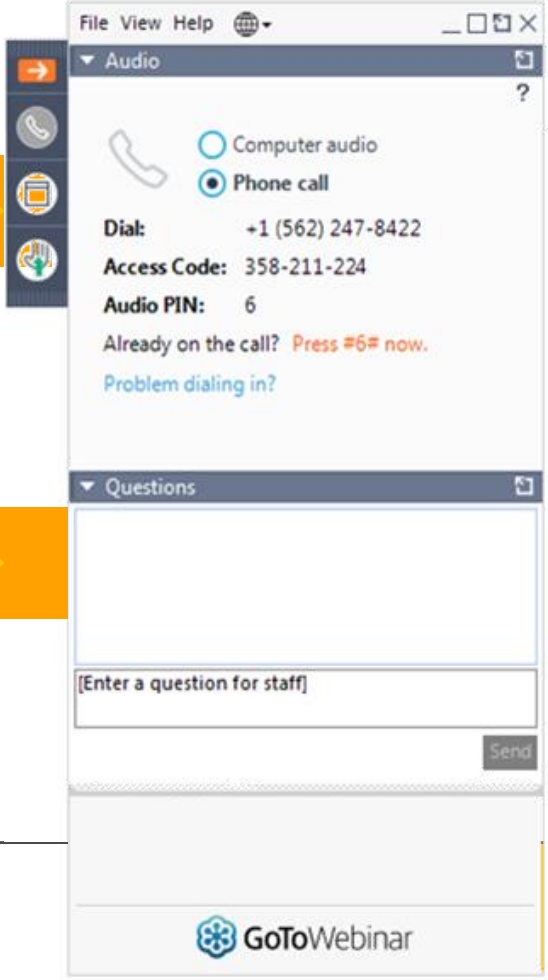
CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON

Listen through the telephone for best audio quality.

Submit your questions to the panelists here.



CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



## Panelists

**Jonathan Glover, *Moderator***

Vice President  
The Bank of New York Mellon

**Michael Decker**

Senior Vice President of Policy and Research  
Bond Dealers of America

**Brian Battle**

Director  
Performance Trust Companies

**CDFA Training Institute**

16 courses in development finance  
designed for all skill levels. Learn  
more and register today at  
[www.cdfa.net](http://www.cdfa.net)

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



## Jonathan Glover

Vice President  
The Bank of New York Mellon  
Chicago, IL

### Are you a CDFA Member?

Members receive exclusive access to thousands of resources in the CDFA Online Resource Database.

Create your unique login today at [www.cdfa.net](http://www.cdfa.net)

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



## Michael Decker

Senior Vice President of Policy and Research  
Bond Dealers of America  
Washington, DC

### CDFA Training Institute

16 courses in development finance designed for all skill levels. Learn more and register today at [www.cdfa.net](http://www.cdfa.net)

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON

# Understanding the Municipal Liquidity Facility

Michael Decker

[mdecker@bdamerica.org](mailto:mdecker@bdamerica.org)

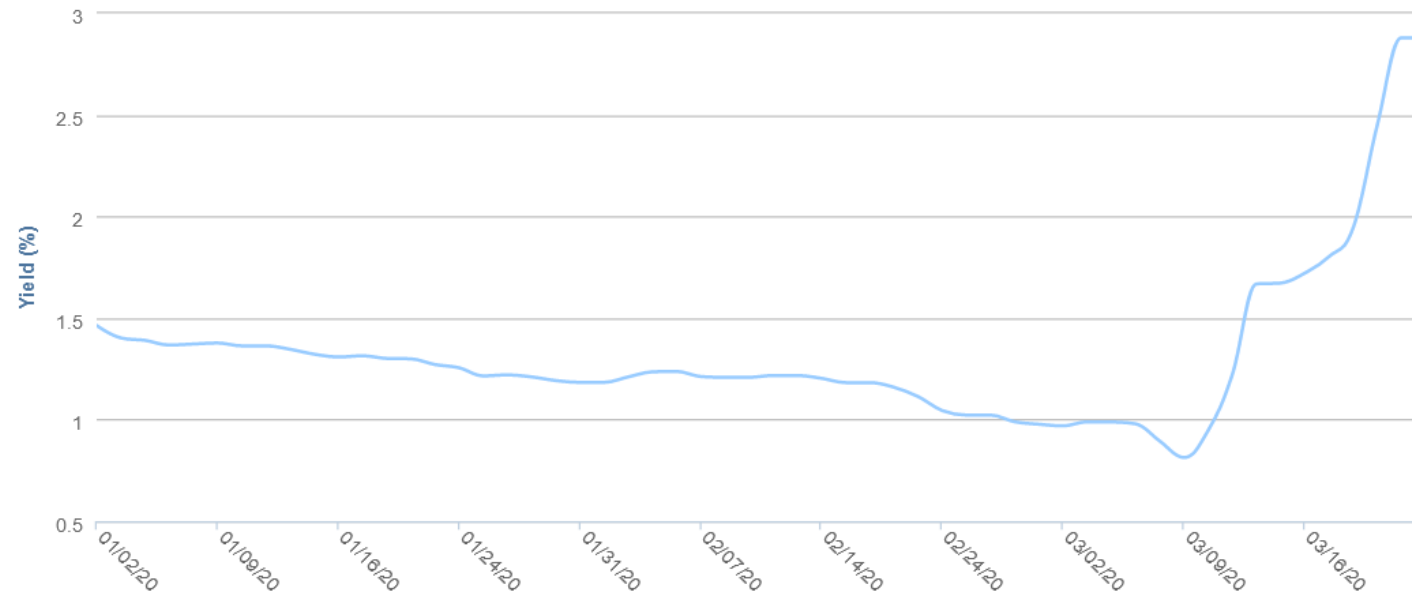
202 603 5663 (mobile)



# The Municipal Market in March

## Historical Yield Data

Date Range: 01/01/2020 to 03/23/2020 Yield Curves: 1 selected Years to Maturity: 10



Bloomberg BVAL 10-year yield

# Municipal Liquidity Facility

- Announced April 9, 2020 after the enactment of the CARES Act.
- Treasury funding specified in CARES Act: \$35 billion.
- SPV borrows directly from the Fed.
- Up to \$500 billion in financing available.
- Originally specified for states as well as cities with populations of at least 1 million and counties with populations of at least 2 million.
- The MLF is one of a suite of emergency Fed programs designed to support the capital markets.

# MLF – Updates and Features

- Currently the MLF is available to states as well as cities with populations of at least 250,000 and counties with populations of at least 500,000. States that do not have jurisdictions that big can designate other issuer(s). The Fed will consider additional issuers as well.
- 50 states and 86 local governments are eligible based on population.
- States are encouraged to provide access to the program for local issuers who do not have direct access
- Eligible issuers each have a MLF borrowing cap based on “general revenue from own sources and utility revenue.”

# MLF pricing

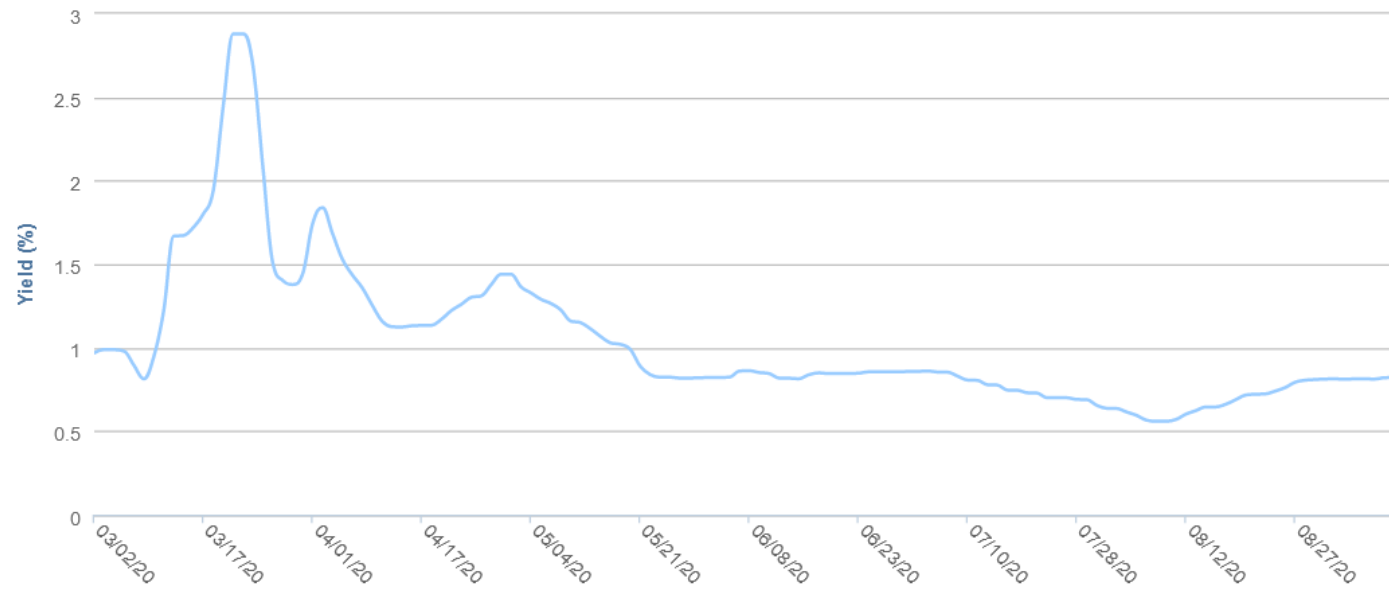
Loans from the MLF are priced at “penalty rates.” The facility is designed for “last resort” financing.

<b>Rating*</b>	<b>Spread (bps)</b>
AAA/Aaa	100
AA+/Aa1	120
AA/Aa2	125
AA-/Aa3	140
A+/A1	190
A/A2	200
A-/A3	215
BBB+/Baa1	275
BBB/Baa2	290
BBB-/Baa3	330
Below Investment Grade	540

# Effects of MLF

## Historical Yield Data

Date Range:  to  Yield Curves:  Years to Maturity:



Bloomberg BVAL 10-year yield



## Brian Battle

Director  
Performance Trust Companies  
Chicago, IL

### CDFA Training Institute

16 courses in development finance designed for all skill levels. Learn more and register today at [www.cdfa.net](http://www.cdfa.net)

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



***Brian Battle  
Principal  
Director***

***September 15<sup>th</sup>, 2020***

# Difficulties Facing Municipalities

---

- Short Term:
  - *States don't have cash to pay bills for the next 3-6 months*
- Long Term:
  - *Extended slow down in GDP -> decline in municipal revenue*





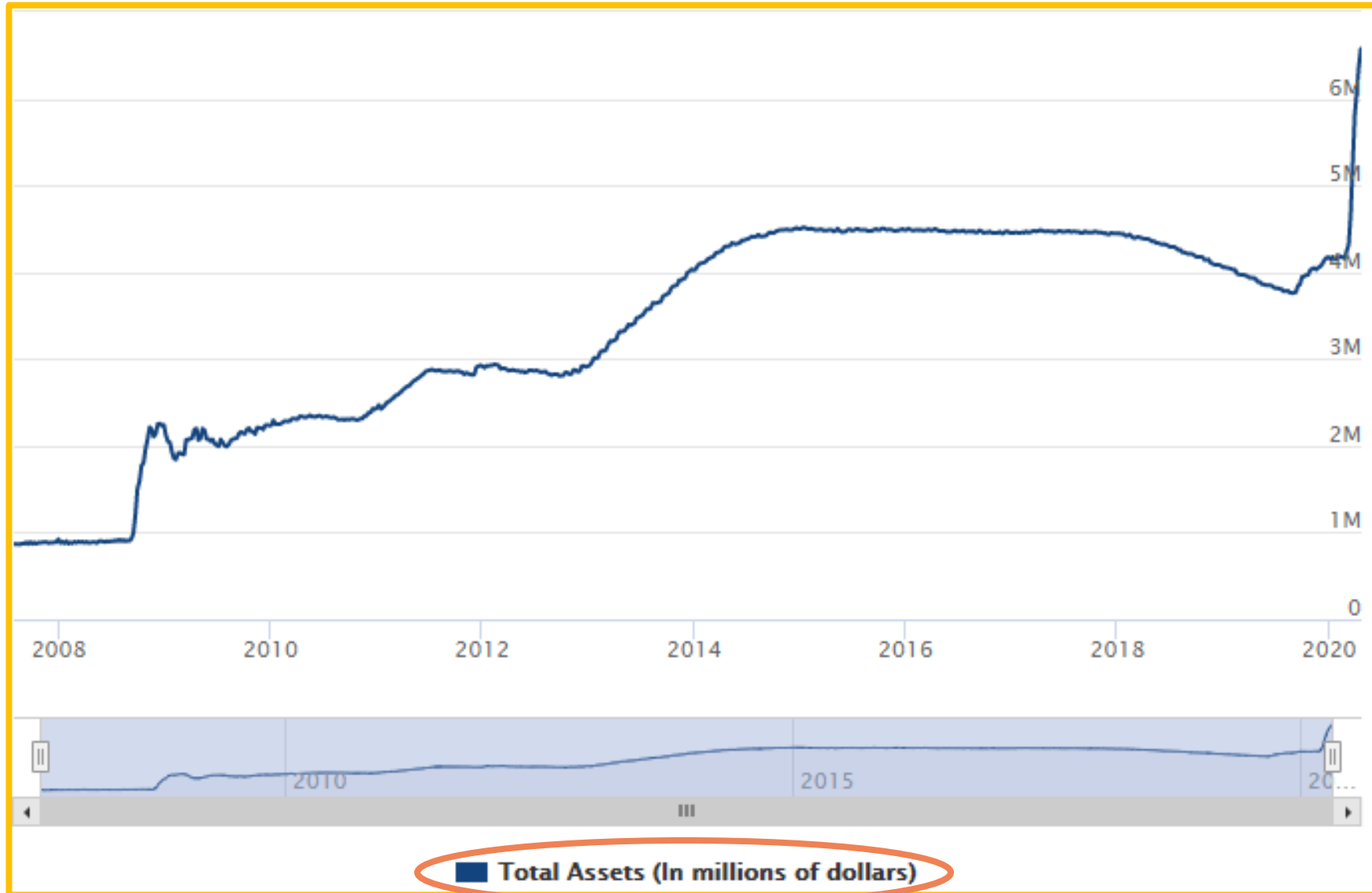
# Difficulties Facing Municipalities

---

- **Short Term:**
  - *States don't have cash to pay bills for the next 3-6 months*
- **Long Term:**
  - *Extended slow down in GDP -> decline in municipal revenue*



## Monetary response – The Fed



# Fed MLF Program

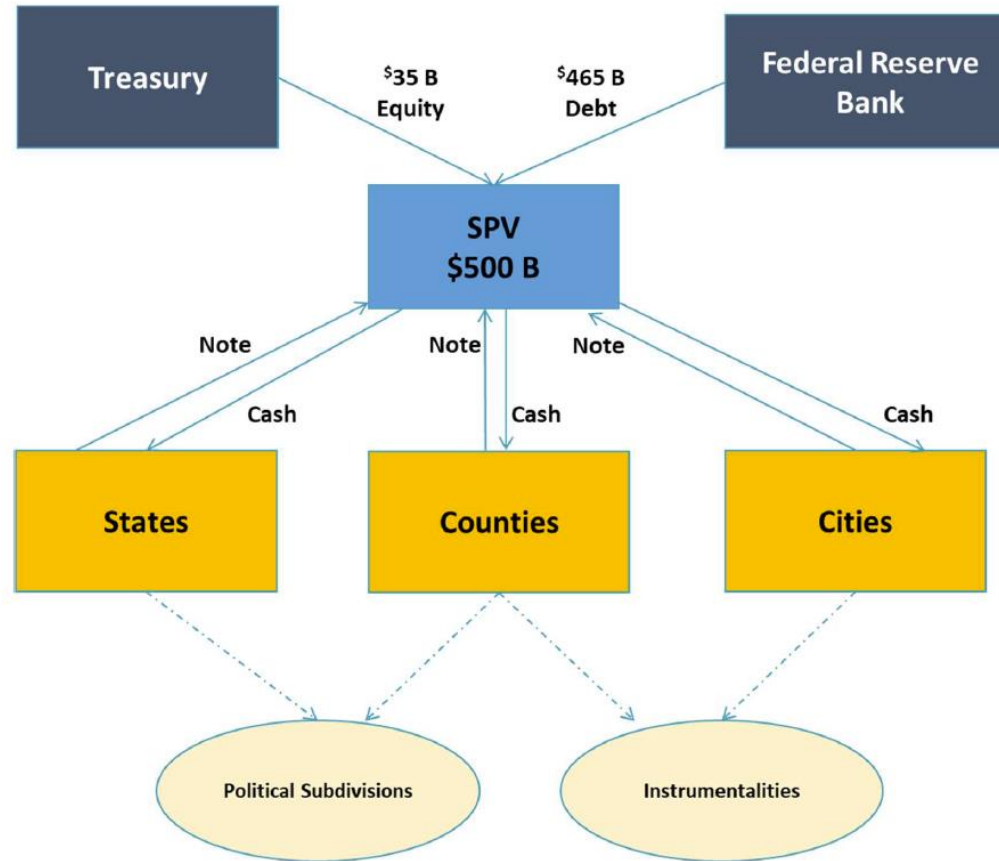
## Short Term Revenue Disruption Relief



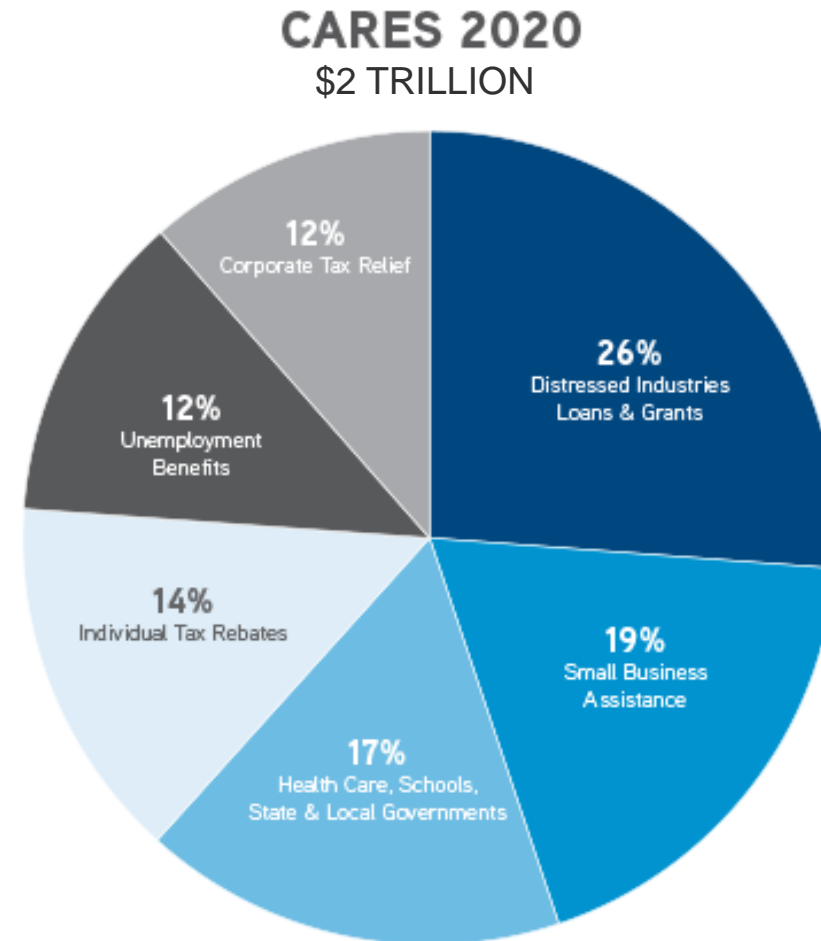
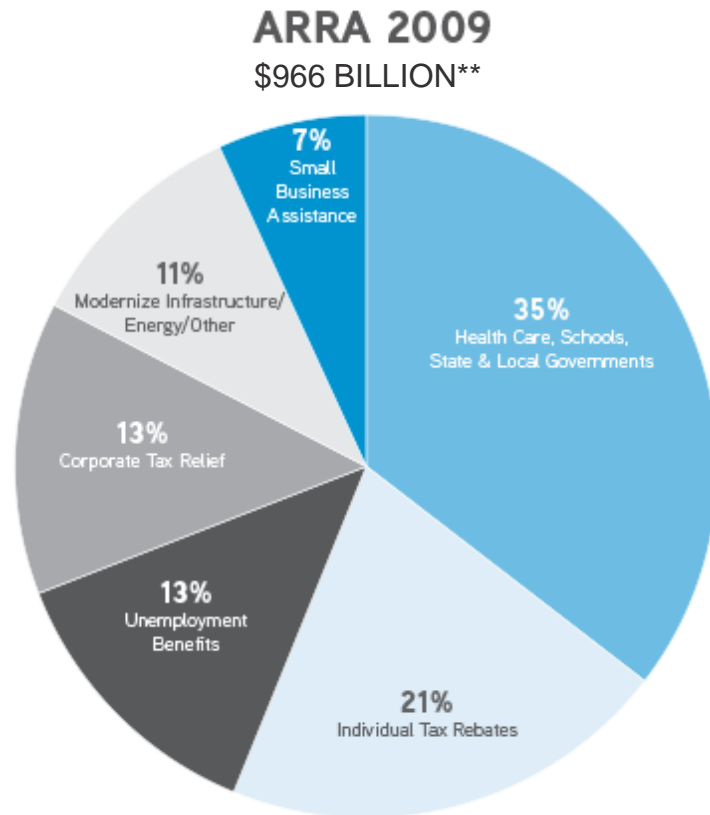
- Provides Funding to U.S. States
  - 87 Cities with a population >250K
  - 140 Counties with a population >500K
- Short-term maturities < 36 months
  - Can be rolled over
  - Notes created by Municipality sold directly to SPV
- This is an **EXCELLENT SOLUTION** to a **NEW** problem

# Fed MLF Program

## Structure of the MLF Program



# FISCAL Responses | Great Recession vs. COVID



\*\* \$787B Inflation Adjusted

## The Intrinsic Strengths of Municipalities

---

- Municipalities run on **TAXES**:
  - *Sales Tax*
  - *Income Tax*
  - *Property Tax*



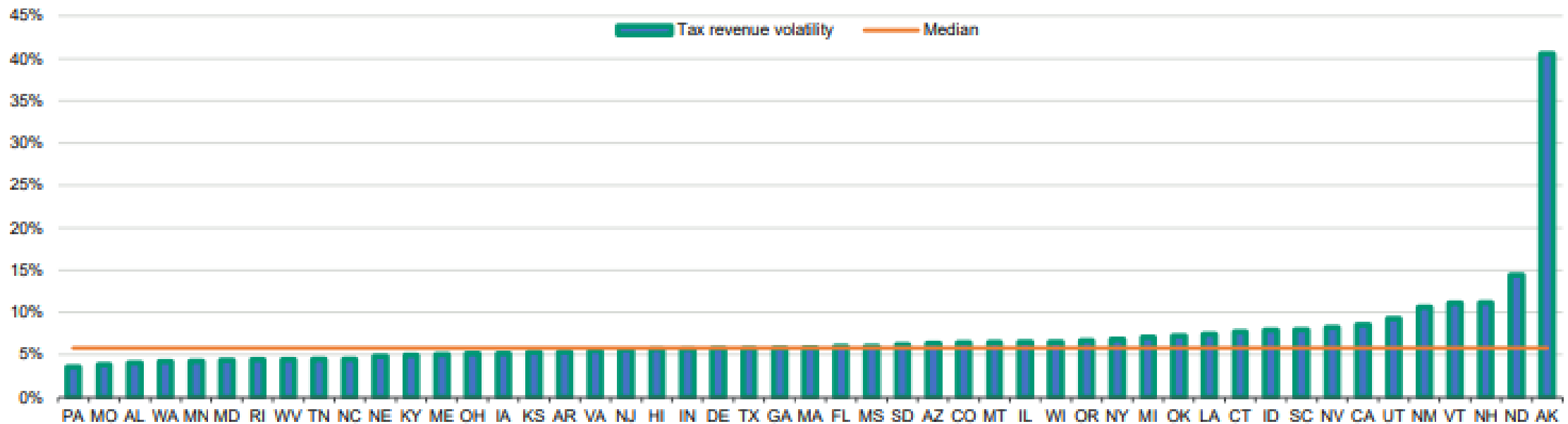
*YTD state tax receipts through July, for the 47 states who report the data, shows an avg decline of just 2.9% compared to 2019.*

# Variable, state-by-state effects

Moody's Sector in Depth: State Government April 24, 2020

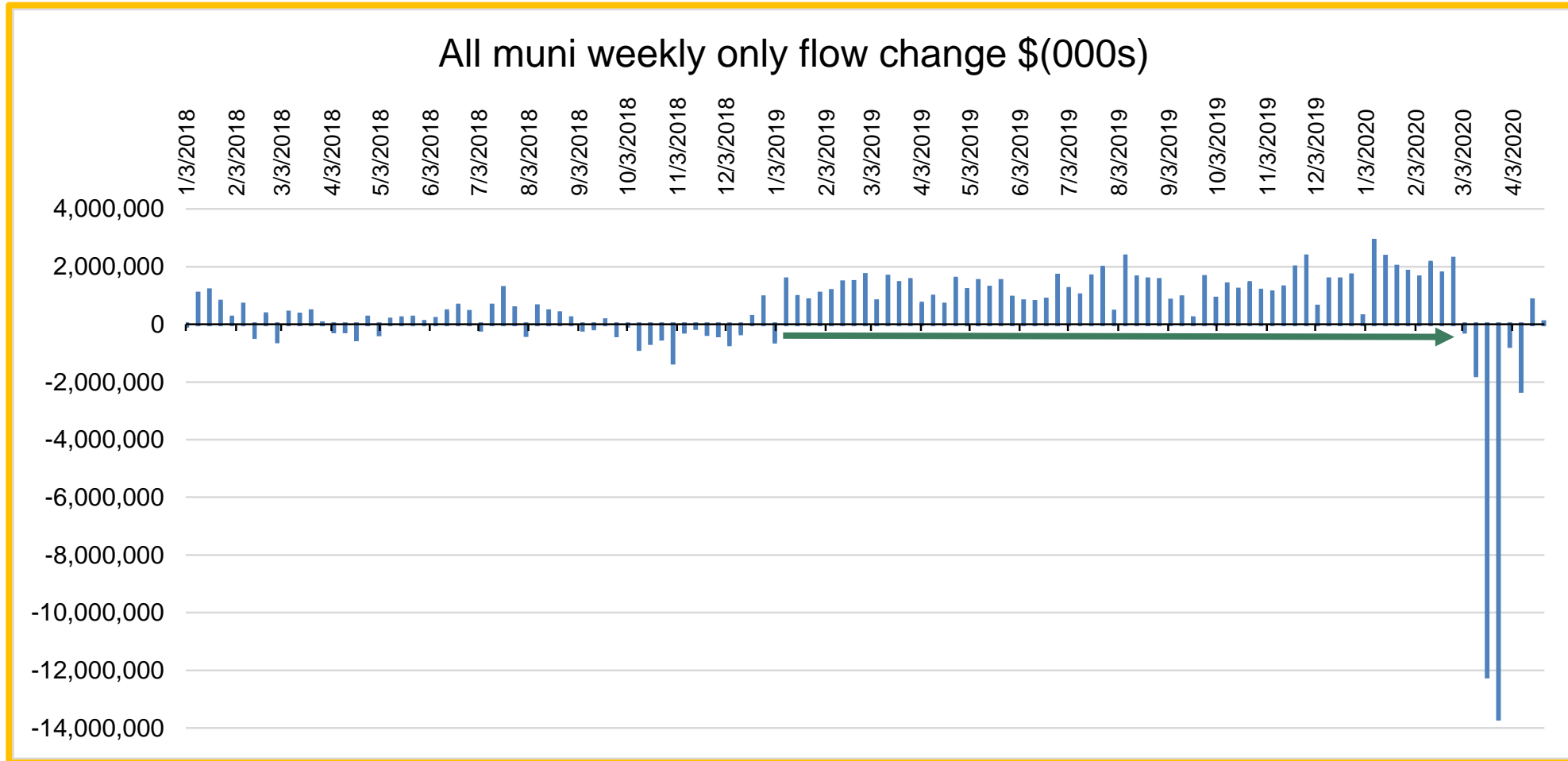
## Tax revenue volatility reflects economic and revenue structure as well as willingness to raise taxes

Standard deviation of tax collection growth rates, 1995-2019



Sources: Moody's Investors Service, US Census Bureau

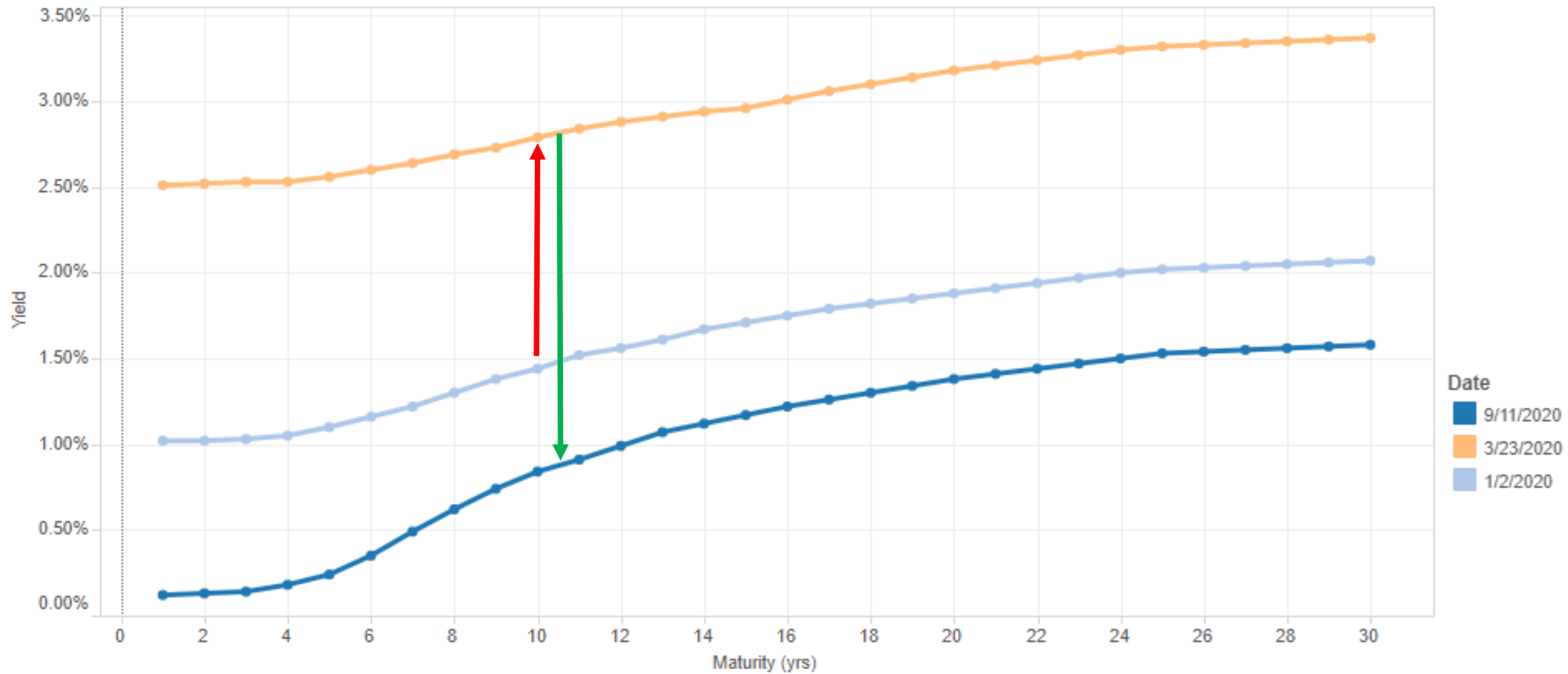
# Municipal Flows | January 2018 – April 2020





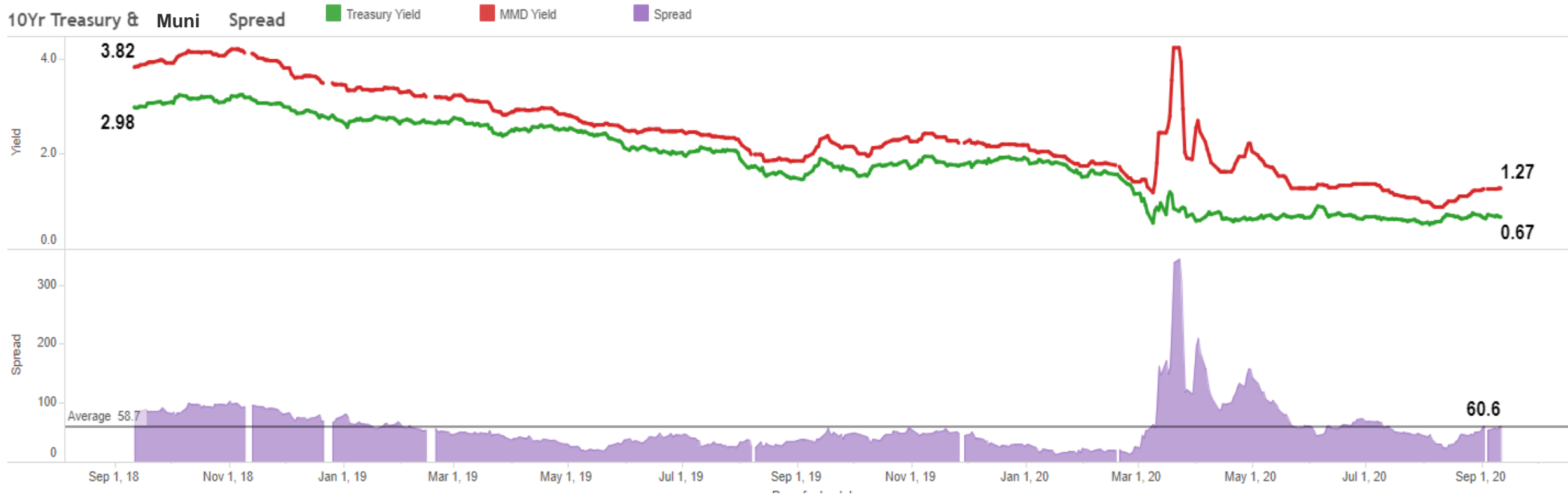
# Muni yields are back

AAA Curve | January 2020, April 2020, September 2020



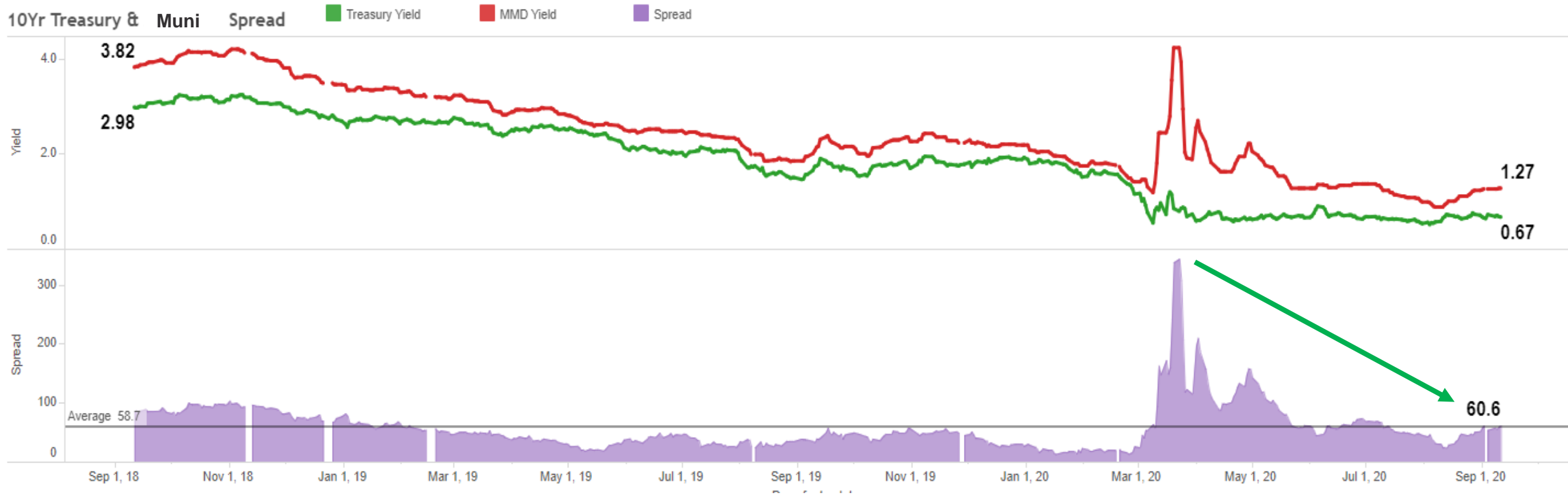
# Muni levels

10yr AAA TEY (34% Tax Rate) & 10yr UST | September 2018- Present



# Muni levels

10yr AAA TEY (34% Tax Rate) & 10yr UST | September 2018- Present



## MLF Access

---

- Illinois
- June 2020
- \$1.2B
  - +400 spread May market rate vs June 3.82% MLF rate
- MTA
- August 2020
- \$450MM
- 2.79% market rate vs 1.72% MLF rate = - 85bp

## Why is the MLF “underutilized? The Rate Sheet

<https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200811a1.pdf>

Tax-Exempt Eligible Notes: If interest on the Eligible Notes is excluded from gross income for federal income tax purposes, pricing will be at a fixed interest rate based on a comparable maturity overnight index swap (“OIS”) rate plus the applicable spread based on the long-term rating of the security for the Eligible Notes as follows:

<b>Rating*</b>	<b>Spread (bps)</b>
AAA/Aaa	100
AA+/Aa1	120
AA/Aa2	125
AA-/Aa3	140
A+/A1	190
A/A2	200
A-/A3	215
BBB+/Baa1	275
BBB/Baa2	290
BBB-/Baa3	330
<b>Below Investment Grade</b>	<b>540</b>



# PERFORMANCE TRUST

CAPITAL PARTNERS

---

500 West Madison, Suite 450  
Chicago, IL 60661

[www.performancetrust.com](http://www.performancetrust.com)

© 2020 Performance Trust Capital Partners, LLC (which, along with its affiliates, is referred to as “Performance Trust”). All Rights Reserved. This material is for your internal use only and may not be disclosed to third parties. The content is the proprietary and confidential material of Performance Trust and so designated pursuant to a confidentiality agreement between the intended recipient and Performance Trust. The research and other information provided herein has been prepared for informational purposes only and is not an offer or solicitation to purchase or sell securities. Performance Trust may make a market, or have a position in the securities discussed herein and may purchase or sell the same on a principal basis or as an agent. Investing involves risks, including the potential for principal loss. There is no guarantee that the strategies and services will be successful or outperform other strategies and services. Certain assumptions may have been made in connection with the analysis presented herein, and changes to the assumptions may have a material impact on the analysis or results. Past performance is no guarantee of future results. The investments discussed herein may be unsuitable for investors depending on their specific investment objectives and financial position. Investors should independently evaluate each investment discussed in the context of their own objectives, risk profile and circumstances. The information contained herein has been obtained from sources considered to be reliable, and is subject to change without notice. Performance Trust does not guarantee its accuracy, adequacy or completeness and is not responsible for any errors or omissions or for the results obtained from the use of such information. FOR INSTITUTIONAL USE ONLY.

Submit your questions to the panel now by using the GoToWebinar control panel.



# Intro Infrastructure Finance WebCourse

In Partnership with Frost Brown Todd  
and FBT Project Finance Advisors

REGISTER  
TODAY >>

September 23-24, 2020 12:00 - 5:00 PM Eastern

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON

Register Online at [www.cdfa.net](http://www.cdfa.net)

**CDFA-Bricker PACE Webinar Series: PACE Program Capitalization**

Tuesday, September 22, 2020

11:00 AM - 1:00 PM Eastern

**CDFA Food Systems Finance Webinar Series: Financing Food Systems Entrepreneurs**

Tuesday, September 29, 2020

2:00 PM Eastern

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



► CDFA // BNY MELLON DEVELOPMENT FINANCE WEBCAST SERIES

Manufacturing Bonds for Disaster Response

Tuesday, October 20, 2020 @ 1:00 PM Eastern

Celebrating over a decade of the CDFA // BNY Mellon  
Development Finance Webcast Series!

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



## BNY MELLON

**Jonathan Glover**

Vice President

312-827-1369

[jonathan.glover@bnymellon.com](mailto:jonathan.glover@bnymellon.com)



**Malcolm Guy**

Coordinator, Government and  
External Affairs

614-705-1306

[mguy@cdfa.net](mailto:mguy@cdfa.net)

The material contained herein is for informational purposes only. The content of this is not intended to provide authoritative financial, legal, regulatory or other professional advice. The Bank of New York Mellon Corporation and any of its subsidiaries makes no express or implied warranty regarding such material, and hereby expressly disclaims all legal liability and responsibility to persons or entities that use this report based on their reliance of the information in such report. The presentation of this material neither constitutes an offer to sell nor a solicitation of an offer to buy any securities described herein.

## CDFA // BNY MELLON DEVELOPMENT FINANCE WEBCAST SERIES



## BNY MELLON