April 15, 2020

VIA Electronic Mail

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington DC 20551

RE: Municipal Liquidity Facility

The Government Finance Officers Association (GFOA) is pleased to provide comments on the Federal Reserve’s (Fed) April 9, 2020 formation of the Municipal Liquidity Facility (MLF) on behalf of our over 21,000 members representing governments and political subdivisions that issue municipal securities. We applaud the Federal Reserve’s careful interpretation of the legislative intent of the CARES Act and support the Fed’s efforts to provide emergency liquidity to states and localities facing severe uncertainties as a result of the crisis. The April 9th announcement indicated that certain terms and features of the MLF are still being resolved. The GFOA has considered the program details that have thus far been released and provides comments on those matters, and well as other issues that we ask the Fed to address related to the MLF.

**Eligible Entities** The Fed’s announcement specifies that only states, counties with populations of at least 2 million, and cities with populations of at least one million are eligible to access the MLF directly. As many have noted, this approach serves two potential policy purposes. On one hand, it provides a pool of 75 potential credits – states and the largest of local governments - access to short-term capital. On the other hand, it fails to allow the other 75,000 governmental issuers’ direct access to the facility. GFOA recommends that the Fed provide facility access to a larger and more diverse pool of issuers.

In the Term Sheet1, the Fed provides that “States may request that the Special Purpose Vehicle (SPV) purchase eligible notes in excess of the applicable limit in order to assist political

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subdivisions and instrumentalities that are not eligible for the facility.” In so doing, States that participate will act as intermediary and will assume the risk of the credits of all borrowers. While all governments should have access to this relief, current stresses experienced by local governments, instrumentalities and political subdivisions are an additional burden to state governments experiencing similar burdens themselves. GFOA recommends that the Fed explicitly provide assurances to States against losses associated with defaults and other credit-events experienced by borrowers accessing the facility through their state governments.

Additional guidance is needed to address concerns with the parameters of the MLF program. These concerns are especially present as only one issuer per State, City, or County is eligible to use the facility. Each State has unique constitutional issues that may impair their ability to meet this requirement; in other words, the credit for a bond bank type entity that addresses the needs of subdivisions and instrumentalities within the State’s border may need to be different and separate from the State’s credit. Also, creating a bond bank type entity could restrict the State’s own ability to access the Facility. Finally, the GFOA requests that the Fed provide assurances that eligible issuers are able to draw down funds through the facility as needed. There will be better use of the facility if issuers do not have to incur negative carry on a lump sum draw.

**Extend Termination Date** For two key reasons, the Fed should extend the termination date until at least December 31, 2020. First, as the Fed’s announcement suggests, States are intended to be the conduit body for local government units below the population thresholds access the program. Few states have such statutorily created facilities. In many states, standing up such a facility would require state legislative action and administrative and legal hurdles. Second, the current health pandemic has just started and due to the time related to process tax collections, there will be delays with States and other units of government determining the extent of their liquidity needs. This timeline will vary State-to-State, but in general States and local governments may not have fully assessed their needs by the current termination date of September 30, 2020.

**Allowable Use of Proceeds** The Fed should also clearly discuss in its upcoming FAQs or other documentation allowable use of proceeds. Without such clarity, governments may discover several years in the future that the Fed’s interpretation of use of proceeds differs from their own issuance. In particular, governments may borrow for “expenses related to losses incurred as a result of the coronavirus.” That may mean different expenses and revenue losses for different types of governments. Therefore, GFOA recommends that the Fed allow for a broad definition for the use of proceeds that correlate to the varied economic crises of communities.

**Pricing and Term Sheet Considerations** The Fed’s MLF announcement provided few details on how notes will be priced. Provided the policy objective of the MLF is to provide opportunity for liquidity in the public sector, we would encourage the Fed to develop pricing structures that would not penalize an issuer from other sources of capital. Said simply, notes offered by the facility should be priced as close as possible to market norms utilizing commonly used benchmarks. Without such structures, issuer participation is likely to be dampened.

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2 P.L. 116-136, Section 4003(a)
3 For example - MMD, MMA, Bloomberg BVAL, MBIS, ICE, the Treasury curve, or others.
Pricing for the MLF will likely also be based on credit quality, perhaps the index flat for triple-A borrowers, the index plus 10 basis points for double-A borrowers, plus 20 basis points for single-A borrowers, for example. GFOA recommends that the credit reference is based on the issuer’s underlying long-term credit rating/grade as of March 1, 2020, thus being more representative of the true credit quality of the issuer.

**Disclosure Considerations** GFOA authors and maintains a suite of best practices in issuer disclosure. In addition, GFOA’s Debt Committee recently published considerations for issuer disclosures during COVID-19. In order to streamline participation in the program to a significant degree, we urge the Fed to utilize the disclosure regime currently in place. We ask that disclosures not extend beyond what issuers are required to provide pursuant to their Continuing Disclosure Agreements. As others have suggested, we urge the Fed to allow issuers to satisfy compliance with program terms with representations rather than the submission of financial or other documents. Disclosure considerations will also depend on other details of this facility: Will DTC be involved with issuance? Will secondary market trading possibilities exist?

**Cost and Administration of Issuance** GFOA understands the substantial efforts and costs of issuing debt in the public markets. Additionally, issuers will likely assume similar costs when accessing the MLF. We would ask the Fed to consider guidance that additional costs of issuance can be paid from the proceeds of borrowing.

GFOA recognizes the considerable efforts of the Federal Reserve to launch and maintain the Municipal Liquidity Facility and we believe it will provide much-needed immediate assistance in critical areas. This facility goes a long way to accomplish the policy objective of ensuring sufficient liquidity in the public sector. We provide these comments in order to ensure effective implementation. Thank you for considering our comments and we look forward to working with you on this and other matters as this crisis and recovery evolves.

Sincerely,

Emily Swenson Brock
Federal Policy Director

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