

Congress of the United States
Washington, DC 20515

August 5, 2020

Mr. Jerome Powell
Chairman
The Federal Reserve
20 Constitution Ave NW
Washington, D.C. 20551

Dear Chairman Powell:

Over the past four months, the unprecedented dual economic and health crises facing our country have placed a significant strain on our state and local governments and the critical services they provide to our constituents and communities. While Congress continues to work on additional fiscal stimulus for these entities, we believe that it is critical that all parts of our government use the legal authorities available to them to mitigate the harm to our communities. As such, we write to urge you to improve the terms of the local government aid program authorized by Congress in the CARES Act – the Municipal Liquidity Facility (MLF) – to ensure that the program is fulfilling Congress’ goal to help states and cities avoid financial hardship and support a broad-based economic recovery. Specifically, we ask that the Federal Reserve moves to set bond rates at the Fed Funds Rate and extends the maturity period to at least five years. The Federal Reserve should also extend eligibility to smaller cities, counties, and territories as directed in both the Heroes Act and the Uplifting Our Local Communities Act.

As you have acknowledged on multiple occasions, our states and cities are already anticipating unprecedented and catastrophic budget shortfalls. A recent report from the Center for Budget and Policy Priorities predicted that state budget shortfalls from FY2020 to FY2022 will total an estimated \$615 billion dollars.¹ As we know from the 2009 recession, severe austerity-driven program cuts and layoffs at the local level can extend and exacerbate an economic crisis and disproportionately harm women and workers of color.^[1] You noted as much in a House Financial Services Committee hearing last month, when you stated, “It will hold back the economic recovery if [states and municipalities] continue to lay people off and if they continue to cut essential services.” When Congress passed the CARES Act, we sought to prevent the layoffs and long-term economic damage for states and cities by authorizing the Fed’s creation of a MLF, thereby ensuring that states and localities had the low-interest lending they needed to meet emergency costs and avoid lasting damage from the pandemic.

At the time that the CARES Act passed, municipal bond markets were facing unprecedented disruption, reportedly worse than after the 2008 financial crisis and September 11th attacks combined.^[2] Although the MLF has eased these conditions somewhat, the facility has not improved the long-term prospects for state and local recovery by the Fed's own admission. As analysts at the New York Federal Reserve Bank recently acknowledged, "improvements in muni debt markets are not necessarily sufficient to induce willingness to spend at the local level."^[3] If the Fed wants to support broader recovery and put our economy back on a pathway towards its maximum employment objective, inducing willingness to spend at the local level must be the fundamental purpose of the MLF. An example of the divide between the mission of the MLF and its practical ramifications can be seen in the experience of the Port Authority of New York and New Jersey. Even though the Fed revised the terms of the MLF to allow multi-state agencies like the Port Authority as eligible issuers, the penalty rates and terms of the MLF are so harsh that the Port Authority is not expected to actually participate.^[4]

At present, the harsh terms and penalty rates for the MLF make it functionally unusable for the vast majority of the state and local governments that are technically eligible, which severely undermines the program's intent to help states and cities struggling from unprecedented financial hardship. The unusually harsh penalty rate on users of the MLF, coupled with an arbitrarily set and short three-year time limit on the lending, makes it unusable to a majority of potential local government participants. As a result, very little of the facility's \$500 billion capacity is being used now; or is likely to ever be used, unless the Federal Reserve makes dramatic changes to the lending terms.

The Federal Reserve should be commended for its swift and extraordinary actions to mitigate the significant economic and damage caused by the COVID-19 emergency. There have been 1.5 million public sector layoffs since March, and unless the Fed aligns its assistance to states and cities with its emergency lending to the private sector, mass unemployment and emergency conditions will persist for years. To that end, it must be noted that many of the Federal Reserve's corporate lending programs contain terms that are far more favorable than those included in the MLF. This includes, for example, far cheaper pricing, far longer terms, and even payment deferrals for corporations borrowing from the Main Street Lending Program, the Secondary Corporate Credit Facility, and the Term Asset-Backed Securities Loan Facility. Given the severity of the need and the Federal Reserve's exceptional creativity and flexibility in its corporate lending programs, which have moved the institution's support of the private sector far beyond what anyone thought was possible, we cannot accept that the MLF remain an outlier when it comes to providing the meaningful fiscal support intended by Congress.

In the months ahead, the Federal Reserve will lay the groundwork for recovery from COVID-19. Congress intended the MLF to be useful to state and local government by encouraging inexpensive and flexible borrowing, and unless the Fed acts to align the MLF with congressional

intent, the Fed's mission of achieving its maximum employment objective will be made considerably more difficult. The Federal Reserve should make these fixes to the MLF before the damage to our economy and our communities becomes irreparable.

Thank you for your timely attention to this matter and we look forward to your prompt response.

^[1] A recent analysis found that workers who lose their jobs as a result of layoffs in the public sector are 20 percent more likely to be African-American than workers who lose their jobs in the private sector. Center for Economic and Policy Research, "Republican Attacks on State and Local Government Are Yet Another Assault on Black People," <https://cepr.net/cutting-state-and-local-budgets-is-an-attack-on-the-countrys-black-workers/>

^[2] Aaron Weitzman, "Unprecedented conditions stagger municipal market," *The Bond Buyer* <https://www.bondbuyer.com/news/unprecedented-conditions-stagger-municipal-market>

^[3] Cipriani, Marco Andrew Haughwout, Ben Hyman, Anna Kovner, Gabriele La Spada, Matthew Lieber, and Shawn Nee, *Liberty Street Economics*, <https://libertystreeteconomics.newyorkfed.org/2020/06/municipal-debt-markets-and-the-covid-19-pandemic.html>

^[4] Cohen, Andrew, "Port Authority Eyes Fed Lending Program, but analysts doubt they'll use it," *The Bond Buyer*, <https://www.bondbuyer.com/news/port-authority-eyes-fed-lending-program-but-analysts-doubt-theyll-use-it>

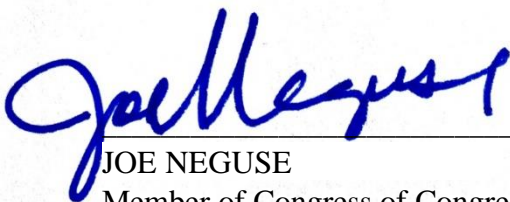
Sincerely,



PRAMILA JAYAPAL
Co-Chair
Congressional Progressive Caucus



MARK POCAN
Co-Chair
Congressional Progressive Caucus



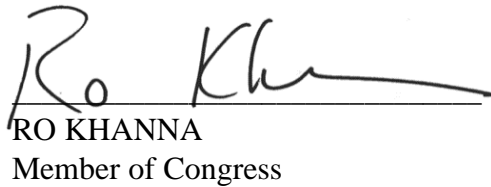
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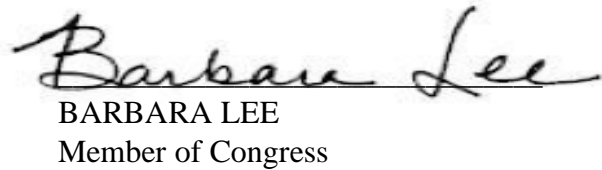


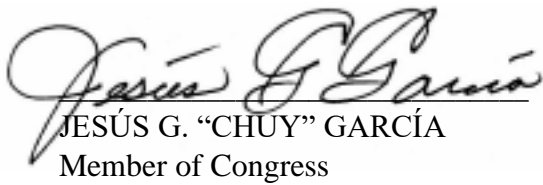
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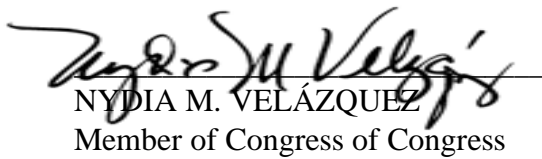

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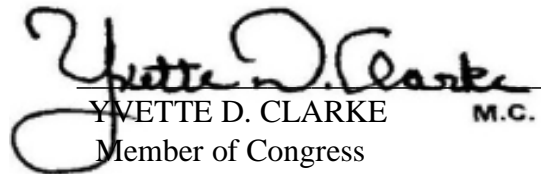

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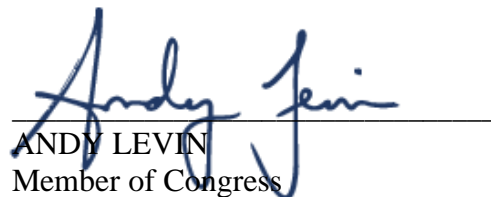

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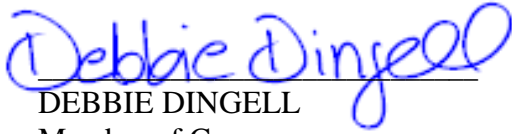

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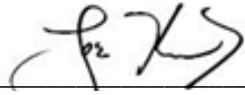

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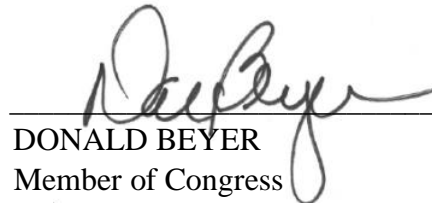
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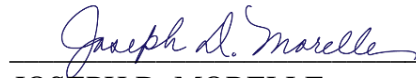
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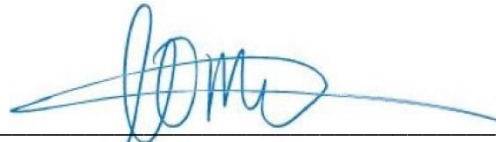
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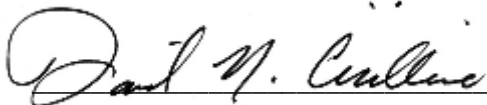
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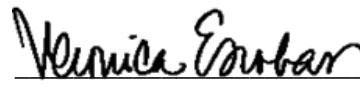
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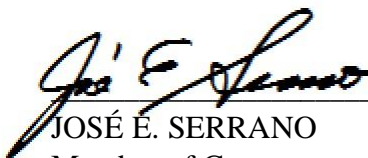


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