United States Senate

April 17, 2020

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Chairman Powell,

We write to you today to express our concerns regarding the seemingly arbitrary city and county population thresholds used to determine eligibility for the Federal Reserve's recently announced Municipal Liquidity Facility program authorized in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136). Cities and counties across the country are in desperate financial straits and need assistance from Congress and the Federal Reserve, and the Federal Reserve's announcement last week that it would be purchasing up to $500 billion of debt from eligible cities and counties was welcome news.[1] But by limiting the direct purchase of short-term notes to cities with at least one million residents and to counties with at least two million residents, the Federal Reserve's program will benefit only 15 counties and 10 cities, leaving out much of the country, including some of the hardest-hit communities.[2]

With over 50,000 different issuers within the municipal bond market, we understand that the Federal Reserve had to take the difficult step in establishing parameters on what type of municipal bonds can be accepted into the facility.[3] However, the population limitation is arbitrary and unacceptable and will hurt hundreds of communities nationwide. We, therefore, strongly urge you to revise the terms of the Federal Reserve's Municipal Liquidity Facility program by considering more inclusive alternatives to reducing the complexity of the municipal liquidity facility.

As we look to weather our Nation's health and economic crisis, we have been in constant contact with state and local governmental entities affected by the novel Coronavirus (COVID-19) pandemic across our country. Cities and counties are on the front lines in this public health emergency and need assistance from the federal government to address the lost revenue from and increased costs of the fight against COVID-19. The pandemic has caused significant revenue shortfalls and has also increased costs for local governments. A National League of Cities report released earlier this week found that more than 2,100 cities are planning for major budget

[1] Board of Governors of the Federal Reserve, Term Sheet: Municipal Liquidity Facility, April 9, 2020, https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a3.pdf.
[2] Aaron Klein and Camille Busette, "Improving the equity impact of the Fed's municipal lending facility," the Brookings Institution, April 14, 2020. https://www.brookings.edu/research/a-chance-to-improve-the-equity-impact-of-the-feds-municipal-lending-facility/
[3] Financial Times, "Federal Reserve faces blowback over plan to back some cities over others," Colby Smith and Patrick Temple West, April 14, 2020. https://www.ft.com/content/e2d20041-0d86-4dea-8016-d1cfcc01f4c0

shortfalls this year as a result of unexpected increase in expenditures and loss in revenue.[4] This has resulted in localities scaling back projects and services to focus on curbing the spread of the virus. Now more than ever, localities need the expeditious support of the federal government to fill these short and long-term gaps in funding.

On a local level, localities are experiencing and responding to these shocks in a variety of ways. Baltimore City, Maryland (population 602,000) anticipates a $42.3 million budget shortfall as a result of COVID-19 and has been forced to undergo a spending and hiring freeze.[5] The City of Boston (population nearly 695,000) will see tens of millions in lost revenue and unexpected expenses related to the immediate public health response and the long term effects of restarting the local economy. Because of the pandemic, Toledo, Ohio (population: 276,491) anticipates a budget deficit of $10 million but it could balloon as high as $50 million. To trim costs, the city has placed over 10% percent of its employees on temporary emergency leave - a decision that has affected every facet of city government, including the police and fire departments. And, New York's Westchester County (population 967,506) is estimating over a $100 million decline in sales tax revenue, plus nearly $16 million in reduced public transportation fares and $8 million in county park fees. These are just four examples of how this economic shock is playing out around the U.S.

Congress intended for the law to channel badly needed resources to state and local governments that are fighting on the front lines of the coronavirus pandemic while grappling with a historic economic slowdown and billions of dollars in lost revenue. By imposing the limits set out in its Municipal Liquidity Facility program, the Federal Reserve is denying the vast majority of our country's local governments direct access to funding, leaving them in desperate straits. Without quick access to federal assistance, these governments will be forced to cut services or raise taxes—both of which can harm public health and the economy when they are most vulnerable.

As we continue to navigate this difficult time for our Nation, we must stay united in our resolve to combat this virus and the economic crisis it has created, and the federal government must provide all states and counties with much-needed assistance. We therefore urge you to expand eligibility for the new Municipal Liquidity Facility.

Sincerely,

Chris Van Hollen
Chris Van Hollen
United States Senator

/s/ Charles E. Schumer
Charles E. Schumer
United States Senator

[4] Washington Post, "More than 2,100 U.S. cities brace for budget shortfalls due to coronavirus, survey finds, with many planning cuts and layoffs," Tony Romm, April 14, 2020. https://www.washingtonpost.com/business/2020/04/14/cities-budget-cuts-coronavirus/.

[5] Baltimore Sun, Baltimore faces $42.3 million deficit as the coronavirus pandemic upends economic activity, April 1, 2020. http://www.baltimoresun.com/politics/bs-md-pol-budget-deficit-coronavirus-20200401-4lusscuwynhwfdebaowdj7vrku-story.html.

/s/ Elizabeth Warren

Elizabeth Warren
United States Senator

/s/ Sherrod Brown

Sherrod Brown
United States Senator

Tammy Baldwin
United States Senator

Kyrsten Sinema
United States Senator

Jeanne Shaheen
United States Senator

cc: The Honorable Steve Mnuchin, Secretary of the Treasury