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State Treasurers: Fed Must Step Up as Municipal Bond Market Craters.

OAKLAND — As the Covid-19 crisis batters state economies, more than a dozen state treasurers are urging Congress to authorize the Federal Reserve to buy municipal bonds — a key tool to finance necessary infrastructure and public projects.

“We are hoping the federal government is going to step in a little bit more,’’ said California State Treasurer Fiona Ma, one of 14 state treasurers who signed a letter to congressional leaders, Treasury Secretary Steven Mnuchin and Jerome Powell, the head of the Federal Reserve.

Ma says that while federal officials are assessing how to help the private sector, “they shouldn’t forget about the state and local municipal bond market.”

“That would really help stabilize the market and help local governments during these difficult times,’’ Ma said in an interview with POLITICO on Sunday.

Municipal bonds issued by states and local governments have traditionally been a major tool to finance public projects such as bridges, highways, schools and airports. Nationally, the municipal bond market is valued at approximately $4 trillion — with California representing about 15 percent of that market, experts say.

Big investors such as mutual funds have traditionally been large buyers of municipal bonds, which have been widely considered safe investments in volatile times. But the Covid-19 crisis has had a devastating effect on the municipal bond market as mutual funds sold off bonds, cratering the demand. California experts say in the past week, the activity in municipal bond deals for state and local municipal bonds has collapsed as much as 90 percent.

Ma said she’s been in contact with Rep. Maxine Waters, who heads the House Financial Services Committee, as well as Sens. Dianne Feinstein and Kamala Harris to plead for federal help for the states.

In their letter, the treasurers argued that for “state governments to do their part in mitigating the associated economic and social costs” in the current crisis, “they need to have confidence that they will continue to have access to financing.”

The letter asks Congress specifically to revise Section 14(2)(b) of the Federal Reserve Act “to authorize the Federal Reserve to purchase securities in the municipal debt market of a sufficiently broad set of maturities” to help states sell their bonds. Currently, the statute only permits purchases of state and local debt “with a maturity from date of purchase of not exceeding six months.”

“The Federal Reserve is best-suited to achieve that end,’’ they argued.

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