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Federal Reserve Updates Key Features of the Municipal Liquidity Facility: MoFo

On April 27, 2020, the Board of Governors of the Federal Reserve System (“**FRB**”) amended the [term sheet](#) for its Municipal Liquidity Facility (“**MLF**”) to expand the scope and duration of the facility (the “**April 27 Update**”). Additional information regarding the MLF is also available in a set of Frequently Asked Questions published on the website of the Federal Reserve Bank of New York (“**FRBNY**”).

The MLF was approved by the FRB on April 8, 2020 as one of several actions authorized under Section 13(3) of the Federal Reserve Act to support the economy. Under the MLF, the FRBNY will commit to loan to a special purpose vehicle (“**SPV**”) on a recourse basis, which will then purchase up to \$500 billion in Eligible Notes from Eligible Issuers. Eligible Notes will be purchased only at the time of issuance. The U.S. Department of the Treasury will make an initial equity investment of \$35 billion in the SPV.

Previously, the FRB stated that the facility would stop purchasing Eligible Notes on September 30; the April 27 Update extends this to December 31, 2020. In addition, the April 27 Update reduces population requirements for city and county eligibility; adds Multi-State Entities (“**MSEs**”) as Eligible Issuers; and extends the permissible term for Eligible Notes. As updated, the MLF will have the following features:

- **Eligible Issuers** – Eligible Issuers include: all 50 states and the District of Columbia; cities with populations of at least 250,000; counties with populations of at least 500,000; and MSEs
- **Eligible Notes** – Eligible Notes include tax anticipation notes, tax and revenue anticipation notes, bond anticipation notes, and other similar short-term notes
- **Eligible Use of Proceeds** – eligible use of proceeds includes addressing: cash flow impact of income tax deferrals resulting from an extension of income tax filing deadlines; deferrals or reductions in revenues or increases in expenses as a result of the pandemic; payment of principal and interest on obligations of the Eligible Issuer or its political subdivisions or other governmental entities
 - States, cities, and counties also may use proceeds to purchase similar notes issued by their political subdivisions and other governmental entities, or otherwise provide similar assistance, for the purposes described above.
- **Maximum Maturity Date** – Eligible Notes must mature no later than 36 months from the date of issuance.
- **Impact of Credit Ratings**
 - Eligibility of States, Cities and Counties – must have been rated BBB-/Baa3 by two or more major nationally recognized statistical rating organizations (“**NRSROs**”) as of April 8, 2020, and if subsequently downgraded, must be rated at least BB-/Ba3 by two or more major NRSROs at the time the SPV makes a purchase
 - Eligibility of MSEs – must have been rated A-/A3 by two or more major NRSROs as of April 8, 2020, and if subsequently downgraded, must be rated at least BBB-/Baa3 by two or more major NRSROs at the time the SPV makes a purchase

- Pricing - pricing to be based on rating at the time of purchase
- **Security** - The security for an Eligible Note is subject to review and approval by the Federal Reserve. As stated in the term sheet, the "source of repayment and security for Eligible Notes will depend on the applicable constitutional and statutory provisions governing the Eligible Issuer and should be generally consistent with the source of repayment and strongest security typically pledged to repay publicly offered obligations of the Eligible Issuer." The following are expectations for Eligible Notes of the respective types of issuers:
 - States, counties and cities - generally are expected to be general obligations or backed by tax or other specified governmental revenues
 - Authorities, agencies or other entities of states, cities or counties - must be guaranteed by, commit the credit of, or pledge revenues of, the respective state, city or county
 - MSEs - expected to be parity obligations of existing debt secured by a senior lien on the MSE's gross or net revenues
- **Limits** - The SPV may purchase Eligible Notes issued by or on behalf a state, city or county up to an aggregate amount of 20% of the general revenue from its own sources and utility revenue for FY 2017. For MSEs, the limit is 20% of gross revenue as reported in its audited financial statements for FY 2019.
- **Prepayment** - Prepayment, in whole or in part, is permitted at par at any time with the approval of the Federal Reserve.
- **Fees** - Origination fees are 10 bps of the principal amount of the notes.

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