Bond Case Briefs

Municipal Finance Law Since 1971

Fed Expands Municipal Liquidity Program to Include Transit, Airports, Utilities.

WASHINGTON — The Federal Reserve said on Wednesday it will allow governors of U.S. states to designate transit agencies, airports, utilities and other institutions to borrow under its municipal liquidity program as the central bank tries to mitigate economic fallout from the coronavirus pandemic.

Governors will be able to designate two issuers in their states whose revenues are generally derived from operating so-called government activities, the Fed said in a statement.

The central bank also said it is expanding its program to allow all U.S. states to be able to have at least two cities or counties eligible to directly issue notes to the municipal liquidity facility regardless of population.

Currently only U.S. states and cities with a population of at least 250,000 residents or counties with a population of at least 500,000 residents have been able to make use of the $500 billion short-term borrowing program.

The Fed has come under pressures to expand its population criteria from lawmakers whose states have no local governments that met the population thresholds.

New York's hard-hit Metropolitan Transportation Authority last month asked Fed Chair Jerome Powell for direct access to the program.

Even with the expansion of potential users, demand may be low given the cost.

"It's been less a question of eligibility and more of a question of pricing," said William Glasgall, director of state and local initiatives at the Volcker Alliance.

Recent sample purchase rates from the New York Fed range from 1.51% for the highest-rated governments to 3.84% for those with the lowest investment-grade ratings.

On Tuesday, Illinois became the first state or local government to tap the Fed's program with a $1.2 billion borrowing. Analysts have said the program, announced in April, was set up to be the lender of last resort and would make the most sense for lower-rated governments.

By Reuters

June 3, 2020

(Reporting by Lindsay Dunsmuir and Howard Schneider; Additional reporting by Karen Pierog in Chicago; Editing by Chris Reese, David Gregorio and Will Dunham)