Federal Reserve Further Modifies Eligibility for Municipal Liquidity Facility.

The Federal Reserve expanded the Municipal Liquidity Facility (MLF) eligibility criteria on June 3, 2020 to allow more state and local governments to participate in the program. The MLF was originally established to help state and local governments respond to cash flow issues resulting from COVID-19.

Designated Cities and Counties

Upon its announcement, only states, the District of Columbia, U.S. cities with a population exceeding one million residents, and U.S. counties with a population exceeding two million residents could participate in the MLF program. Subsequently, the city and county population requirements were reduced to allow cities exceeding 250,000 residents and counties exceeding 500,000 residents to participate. However, even after the reduction in population requirements, some states still only had one or zero eligible cities and counties.

The Federal Reserve's revised Term Sheet granted governors the ability to designate up to two additional "Designated Cities and Counties." Under the updated Term Sheet, a governor who has been given the ability to designate one Designated City or Designated County may choose either:

1. The most populous city in their state that has less than 250,000 residents; or
2. The most populous county in their state that has less than 500,000 residents.

A governor that has been given the ability to designate two Designated Cities and Designated Counties (on a combined basis) may choose any of the following combinations:

1. The most populous city and most populous county;
2. The most populous city and second-most populous city; or
3. The most populous county and second-most populous county.

Designated Cities and Counties may participate in an amount up to 20% of their own sources and utility revenues for the fiscal year 2017.

Designated Revenue Bond Issuers

In addition to designating cities and counties for participation, each governor may designate up to two Revenue Bond Issuers (RBI) to participate in the MLF program. To be eligible for an RBI designation, the RBI must be a state or political subdivision thereof, or a public authority, agency, or instrumentality of a state or political subdivision thereof, that issues bonds secured by a specified source of revenue that is owned by a governmental entity. Eligible RBIs may participate in an amount up to twenty percent of the gross revenue of the RBI for fiscal year 2019.

Security of Obligations Issued under the MLF

Security for notes issued under the MLF are subject to review and approval by the Federal Reserve and will depend on the applicable constitutional and statutory provisions governing the issuer and should be generally consistent with the source of repayment and strongest security typically pledged to repay publicly offered obligations of the issuer. To be eligible to participate, the issuer also must meet a minimum credit rating threshold as determined by the Federal Reserve. If the issuer is a state, city, or county, the notes will be expected to represent general obligations of the issuer, or be backed by tax or other specified governmental revenues. If the issuer is an authority, agency, or other entity of a state, city, or county, the issuer must either commit the credit of, or pledge revenues of, the state, city, or county, or the state, city, or county must guarantee the notes. If the issuer is an RBI, the notes will be expected to be secured by a lien on the gross or net revenues of the RBI.

Unless extended, the MLF program will expire on December 31, 2020.

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