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Clash Over Municipal Loan Program Delays Stimulus Report.

Political disagreements have prevented a congressional commission from releasing a monthly report about how federal stimulus aid is being spent.

WASHINGTON — An oversight panel responsible for monitoring $500 billion in federal aid has become stymied by disagreements about a program to prop up struggling state and local governments and has failed to send a legally mandated report to Congress for weeks.

The standoff over the Municipal Lending Facility, which is operated by the Federal Reserve and supported by the Treasury Department, comes as talks between Congress and the Trump administration over additional stimulus have stalled. Those talks have run aground largely because lawmakers disagree about whether the federal government ought to provide more money to states and municipalities, with Democrats arguing for it and Republicans against it.

The $2.2 trillion stimulus law passed in March created a Congressional Oversight Commission, which includes two Republicans and two Democrats, to keep tabs on some of that spending. By law, it must issue a report to Congress each month.

While the passage of the stimulus legislation was overwhelmingly bipartisan, the oversight commission's work has become politically charged. A Democrat on the commission recently accused his Republican colleagues of stonewalling its work.

The dispute centers on whether the Fed's lending program could be doing more to help lower borrowing costs for states, cities and other local governments.

"The commission has a legal obligation to issue monthly reports," said Bharat Ramamurti, the Democratic commissioner and a former aide to Senator Elizabeth Warren of Massachusetts. "I'm disappointed that Republican foot-dragging has caused us to delay the release of the September report, which reflects broad support for expanding the Fed's state and local lending program — including from one of the Republicans' own witnesses at our recent hearing."

The Fed announced in early April that it would set up a program to buy municipal debt using its emergency lending powers, and the Treasury Department agreed to insure the program against defaults. The central bank hired Kent Hiteshew, an expert on municipal debt, to help devise the program, which is run on a day-to-day basis by the Federal Reserve Bank of New York.

The program was set up as a last-ditch option for local governments that could not borrow money as they usually do by selling bonds. While it has been expanded several times to make more borrowers eligible, the program offers loans at relatively high interest rates, making it an expensive option for all but the hardest-hit states and localities. So far, only Illinois and the Metropolitan Transportation Authority, which operates New York City's subway system, have used it, borrowing a total of $1.65 billion.

Democrats and some economists have argued that the Fed and Treasury should be more generous, offering lower rates and longer payback terms.

The Fed, for its part, has pointed out that the mere existence of the program has helped calm the market for municipal debt, so that states and localities have been able to sell bonds at extremely low interest rates. The Fed is not supposed to supplant willing private lenders, according to the legislation that enabled its emergency powers.

“Our mandate is to serve as a backstop lender to accomplish these objectives — not as a first stop that replaces private capital,” Mr. Hiteshew said last month at the oversight commission’s hearing. The program “has contributed to a strong and rapid recovery in municipal securities markets.”

He added that state and local governments and other municipal bond issuers could issue securities with interest rates that are “at or near historic lows.”

Democrats counter that the Fed is doing more to help lower the interest rates at which corporations borrow money than it is for state and local governments.

One of the Fed’s corporate programs buys bonds directly and is akin to the municipal program. It, too, charges high interest rates, and, partly as a result, has never been used. But the central bank has a second program that buys corporate debt that has already been issued, either through exchange-traded funds or according to a preset index.

That program was announced early in the pandemic, when the corporate bond market was struggling. But it has bought bonds in the months since, even after borrowing costs for businesses dropped sharply — something officials characterized as follow-through on their promise. The purchases have slowed to a trickle in recent months.

The Fed and Treasury never established a similar program to buy up existing municipal bonds. If one had been, it might have lowered already-low borrowing costs in the municipal market, but that might not do much to help governments that are facing the most stress because their revenues have tumbled or they are legally prohibited from running budget deficits.

According to a summary of a draft of the September report reviewed by The New York Times, some members of the commission planned to call for the existing municipal program to be broadened, offering loans with lower interest rates that can be repaid over longer periods. Another proposal would grant state and local governments more flexibility so that the money could be used for capital infrastructure projects, not just for certain cash flow purposes.

The report is expected to be structured in a way that offers views of expert witnesses who testified at last month’s commission hearing. Republicans intended to offer dissenting views of many of the recommendations that called for making the program more generous.

The municipal bond program, like most of the Fed’s facilities, expires at the end of the year. Treasury Secretary Steven Mnuchin and the Fed chair, Jerome H. Powell, could choose to renew any or all of them, but have not said whether they intend to do so.

Senator Patrick J. Toomey of Pennsylvania, one of the Republicans on the commission, has supported winding down the municipal program, saying that it has served its purpose.

The unfinished September oversight report has been languishing in Mr. Toomey’s office. A spokesman for Mr. Toomey, Steve Kelly, said that he hoped the report would be released “soon” but offered no timeline.

"The reports written by the oversight commission require significant collaboration and compromise," Mr. Kelly said. "Right now, the members and their staffs are working through some differences of opinion."

The New York Times

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Oct. 9, 2020