

Bond Case Briefs

Municipal Finance Law Since 1971

Cities Still Need Their Lifeline From the Fed.

Extend the Municipal Liquidity Facility beyond Dec. 31.

America's state and local governments face a difficult winter. Already under severe financial pressure, their resources will be stretched still further by a resurgent pandemic. Congress needs to give them new fiscal aid right now, but whether that will happen is in doubt.

Given these uncertainties, this is no time to remove the one reliable lifeline they have: the Federal Reserve's highly successful effort to ensure they can borrow what they need.

The Fed and the Treasury introduced the program, known as the Municipal Liquidity Facility, amid the Covid-induced mayhem of March and April — when markets froze and borrowing costs more than doubled for even the most highly rated cities. To restore calm, the central bank pledged to buy debt securities directly, at a closer-to-normal yield, from any creditworthy issuer that couldn't raise money from private investors.

It worked. Simply by being in place, the backstop revived the market. It brought yields below pre-pandemic levels, and only two issuers (Illinois and New York's Metropolitan Transportation Authority) actually had to tap it, using less than \$1.7 billion of the \$500 billion available. It's hard to imagine a more effective use of taxpayer resources.

Just one problem: The program expires Dec. 31, and — as Bloomberg News has reported — Republican legislators and the Treasury have opposed an extension. This wouldn't be so serious if the coronavirus crisis were ebbing and the economy were on a glide path to recovery. They're not. Cases and hospitalizations are on the rise in most states, threatening renewed social-distancing measures and a slower expansion (or worse). This will reduce municipal tax revenues again — and they're already projected to come up hundreds of billions of dollars short. Layoffs and service cuts are looming. And with Republicans likely to retain control of the Senate, it's unclear when, if ever, legislators will support a new relief package.

To be sure, borrowing is no substitute for fiscal support. But the backstop is crucial to help municipalities weather these stresses. It should remain in place until officials are certain it's no longer needed, as happened with emergency lending facilities after the 2008 financial crisis. The central bank should also consider expanding access — for example, by lowering the population threshold from the current 250,000, so struggling smaller cities can benefit.

Judging from the lack of jitters in municipal bond markets, investors are assuming that common sense will prevail. It's to be hoped they're right. The Trump administration should extend the facility immediately and, if it fails to do so, President-elect Joe Biden should pledge to set things straight after he takes office on Jan. 20. The finances of cities and states across the country depend on it.

Bloomberg Opinion

By Editorial Board

November 17, 2020, 6:30 AM PST

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com