**Background on Federal Reserve’s Municipal Liquidity Facility**

Last Friday, April 10, the Federal Reserve quietly released a new program to financially help states and cities with the impacts from COVID-19.

It is very similar to the Quantitative Easing that the Federal Reserve used in the Great Recession and initially with COVID-19 for banks, however, this time for governments.

While the Federal Reserve entitles it as the Federal Municipal Liquidity Facility, it is being characterized as Community QE. NOTE: As a point of reference and clarification, city staff will utilize that term in this report and in all future presentations.

The Municipality Liquidity Facility (MLF, is a component of the Fed’s Community QE initiative will lend up to $500 billion to “Eligible Issuers” through September 30, 2020, subject to extension. All U.S. States are eligible to avail this program. Moreover, all U.S. cities with populations of at least one million residents as well as U.S. counties with populations of at least two million residents are also eligible.

The loans can be availed through Tax anticipation notes, tax and revenue anticipation notes, bond anticipation notes and other similar short-term notes. Currently, the issued notes must have maturities of 24 months or less from the date of issuance. However, Analysts anticipate expansion of coverage from 24-month to longer-term paper. A memorandum by Cornell Law insists that there are “Assurances that the MLF is a ‘work in progress’ whose scope will expand if and as the need for it expands.”

The notes will be purchased by a Special Purpose Vehicle (SPV) originated by the Fed. The SPV will purchase these notes directly from States or their Subdivisions. The securities will not have to be sold first on the ‘open market’ to private sector financial institutions. The pricing of these issued notes will Depend on Eligible Issuer’s ratings at the time of purchase. Moreover, to participate in the MLF program, an Eligible Issuer will pay an origination fee equal to ***10 basis points*** of the aggregate principal amount of the Eligible Notes purchased by the SPV. Notably, the origination fee can be paid from the proceeds of the Eligible Notes. The Notes can also be called by the Issuer at any time before their maturity.

For each individual Issuer, the SPV will purchase a maximum dollar value of notes equal to the aggregate amount of 20% of the sum of the general revenue from own sources for fiscal year 2017 ***plus*** utility revenue of the relevant State, City or County government for fiscal year 2017. States may request the SPV to purchase Eligible Notes in excess of the above limitation in order to provide financial support to political subdivisions that are not Eligible for the program. This is important because, only one issuer per State, City or County is eligible to participate in the MLF.

The funds from the MLF program can be used for reductions in cash flow caused by an extension of an income tax filing deadline, Potential reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19 pandemic and Required payments of principal and interest on debt obligations. Moreover, A State Issuer can also use the proceeds of Eligible Notes to purchase similar notes issued by, or otherwise to assist, political subdivisions of the relevant State, City or County in their pursuit of COVID-19 relief.

It is currently unclear which bank or company will be selected (and be willing) to administer these purchases.