

April 24, 2020

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Chairman Powell,

On April 9, 2020, the Federal Reserve announced the establishment of the Municipal Liquidity Facility (Facility) to purchase up to \$500 billion in debt from states and eligible local governments dealing with budgetary stresses as a result of the COVID-19 pandemic. Although this is a significant and welcome development, the terms issued by the Federal Reserve limit Facility purchases to short-term notes that mature within two years.¹ State and local governments are dealing with unprecedented circumstances and it is unclear how long they will need to respond to impacts from COVID-19. I urge you to extend this two-year time frame and give states substantially more time to repay loans to the Facility.

Our state and local governments are on the front lines dealing with this pandemic. In addition to the public health emergency, they are facing both a loss of revenue as well as a higher demand for services. One analysis estimates that states could be facing budget shortfalls totaling more than \$500 billion over the next two years.² Moreover, this estimate does not include new costs resulting from the pandemic which are significant in both scope and magnitude. State and local governments will be managing budgetary stresses caused by the pandemic for the foreseeable future. As an example, the State of Hawaii estimates a \$1.5 billion shortfall for just the next 15 months, making a two-year loan challenging. Requiring repayment of loans before revenue returns to normal and pandemic-related costs cease will lengthen the amount of time our governments are under stress and could delay a full economic recovery.

In addition, other facilities announced by the Federal Reserve and the U.S. Department of the Treasury provide assistance with longer repayment options. The Main Street New Loan Facility targeted to help small and medium-sized businesses provides for loans of up to four years.³ The

¹ <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a3.pdf>


² <https://www.cbpp.org/press/statements/greenstein-new-covid-19-bill-helpful-but-inadequate-more-needed-for-states-and>

³ <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a7.pdf>

Primary Market Corporate Credit Facility which provides support for corporate bond markets also allows a four year maturity rate⁴ and the Secondary Market Corporate Credit Facility allows for five years.⁵ Providing state and local governments at least that amount of time would give them much needed flexibility in recovering from this pandemic. Further, based on the information released by the Federal Reserve to date, there does not appear to be a clear legal or policy rationale for the shorter duration provided to state and local governments compared to private sector entities.

This Facility is a historic step by the Federal Reserve in support of our state and local governments, but changes are needed to make this program effective and truly beneficial. The Federal Reserve has stated it “will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments.”⁶ I urge you to exercise this discretion by significantly extending the amount of time the Facility gives our states, cities, and counties, to deal with the extraordinary circumstances they are facing as a result of the pandemic.

Sincerely,

A handwritten signature in black ink, reading "Mazie K. Hirono". The signature is fluid and cursive, with the first name "Mazie" being more prominent and the last name "Hirono" following in a similar style.

Mazie K. Hirono
United States Senator

⁴ <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a5.pdf>

⁵ <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a2.pdf>

⁶ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm>