September 24, 2020

The Honorable French Hill
1533 Longworth House Office Building
Washington, D.C. 20515

The Honorable Donna Shalala
1320 Longworth House Office Building
Washington, D.C. 20515

The Honorable Pat Toomey
248 Russell Senate Office Building
Washington, D.C. 20510

Commissioner Bharat Ramamurti
SD-G55 Dirksen Senate Office Building
Washington, D.C. 20510

Dear members of the Congressional Oversight Commission:

On behalf of the National Association of Counties (NACo) and the 3,069 counties we represent, thank you for holding last week's hearing to examine the Municipal Liquidity Facility (MLF) established under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. As members of NACo's Fiscal Policy and Pensions Subcommittee, we understand the importance of this critical program, which works to support county governments impacted by the COVID-19 pandemic.

While we appreciate federal efforts made thus far, counties and our residents continue to experience devastating health and economic impacts as we remain on the frontlines of the ongoing coronavirus pandemic. America's counties agree on the following principles:

- Counties of all sizes need access to additional direct, flexible funding to fight this pandemic, rebuild the economy and strengthen our communities
- The U.S. Department of Treasury and Federal Reserve should expand access to the Municipal Liquidity Facility to help address local government budget challenges and support the national economy

Counties of all sizes need access to additional direct, flexible funding to fight this pandemic, rebuild the economy and strengthen our communities

While the CARES Act was an important first step, the aid provided is not enough to support our efforts to effectively implement containment and community mitigation strategies that will preserve the health and safety of our residents and local communities.

Counties across the country are in desperate need of additional assistance to protect the lives of citizens and re-open the economy. The CARES Act did not contain funding to offset the drastic state and local revenue shortfalls that county governments are experiencing across the country, nor did it provide any relief to local governments with populations under 500,000. In fact, only five percent of the nation's counties were eligible to receive direct payments from the U.S. Department of Treasury.

The detrimental fiscal impact of COVID-19 extends far beyond urban counties. Counties with populations below 500,000 are also taking a major hit to our budgets. New NACo research estimates that the COVID-19 pandemic could have a $202 billion budgetary impact on counties of all sizes through fiscal year 2021, including $172 billion in lost revenue and an additional $30 billion in COVID-19 response costs.

In total, counties are estimated to lose $35 billion in sales tax revenue through fiscal year 2021. Across the nation, 69 percent of counties that levy local option sales tax have reported a decline in sales tax revenue as a result of COVID-19, with losses ranging from 7 to 41 percent. Furthermore, counties are also facing cash flow challenges due to the delayed collection and timing of property taxes. State and county authorities in 16 states across the nation have extended property tax deadlines or penalty relief for late payment.

This tremendous loss of revenue and increase in costs may ultimately result in cuts to essential county services including public safety, social services, child protective services, mental health, homelessness, jail diversion, reentry and more.

To maintain mandated balanced budgets, many counties have already been forced to cut costs by furloughing or laying off workers. Since the start of the pandemic, there have been more than 800,000 jobs lost in the local government sector – 332,000 of which were non-education jobs ranging from law enforcement officers to health care practitioners, social workers, maintenance crews, construction works, administrative support and more. **In total, local governments have lost 1.2 million jobs since the outset of the pandemic.**

Beyond the impacts on our workforce, the financial fallout from COVID-19 has forced cuts and delays in capital investments. NACo's research finds that 66 percent of counties have cut, or delayed infrastructure maintenance and 54 percent have cut or delayed new infrastructure projects. These cuts will mitigate cash flow shortages in the short-term but will have long-term economic impacts and disrupt critical local development.

If counties are to continue to play a significant role in mitigating the spread of the COVID-19 virus, we need a robust coronavirus relief bill that ensures counties of all sizes have access to additional direct, flexible funding to fight this pandemic, rebuild the economy and strengthen our communities.

<u>The U.S. Department of Treasury and Federal Reserve should expand access to the Municipal Liquidity Facility to help address local government budget challenges and support the national economy</u>

The MLF is an important piece of the initial and necessary response to the COVID-19 pandemic. Although the MLF provided some stability to the municipal bond market when it was established, it is not practical or accessible to entities that need it most – state and local governments.

To ensure that state and local governments may take advantage of this tool, we recommend that the U.S. Treasury and Federal Reserve take the following steps to make the MLF more accessible:

- **The Federal Reserve should extend the MLF's underwriting deadline beyond December 31, 2020.** Under the CARES Act, the facility is currently set to expire at the end of this year even though the state and local government budget crisis is just beginning. For example, according to NACo's research, while 27 percent of counties have already experienced reduced property tax collection in the current budget cycle, this number may almost double to 43 percent during next year's budget cycle.

- **The Federal Reserve should lower the MLF population threshold so that more counties are eligible to sell short-term debt to the facility.** While we appreciate that the Federal Reserve lowered the population threshold for counties from 2 million residents to 500,000, the new threshold still leaves out the majority of our nation's counties. In fact, under the new population threshold, only 5 percent of counties have access to the MLF. As mentioned earlier, counties of all sizes are facing dire fiscal impacts. Expanding the scope of the MLF would help relieve some of this pressure and is an important step to stabilize the municipal market in the future.

- **The Federal Reserve should restructure the facility's pricing structure and lower the current rates.** As of September 18, the facility had purchased only two issuers, which demonstrates that the MLF's current pricing is unfavorable for many municipal issuers. For example, in Fresno County, Calif., the MLF offers a 1.20 percent rate for AA governments wishing to borrow, in comparison to the county's short-term TRAN of 0.18 percent. Therefore, Fresno County has decided to not use the MLF since there are other less costly rates the county can borrow from. The Federal Reserve should make the rate as low as possible for local governments to save taxpayer dollars and jobs as well as prevent future drastic budget cuts.

Thank you for your continued hard work and leadership during these challenging times. We would welcome the opportunity to discuss this issue further. We are committed to a solution that helps our nation mitigate, respond, and recover from this historic crisis.

Sincerely,

Members of NACo's Fiscal Policy and Pensions Subcommittee:

Kevin L. Boyce

Hon. Kevin L. Boyce
Commissioner
Franklin County, Ohio

Laura M. Montoya

Hon. Laura Montoya
Treasurer
Sandoval County, New Mexico

Kurt A. Gibbs

Hon. Kurt A. Gibbs
Board Chair
Marathon County, Wisconsin

C Bulloch

Hon. Cindy Bulloch
County Assessor
Iron County, Utah

John Wilson

Hon. John Wilson
County Assessor
King County, Washington

Dolores Ortega Carter

Hon. Dolores Ortega-Carter
Treasurer
Travis County, Texas

Hon. Nathan Magsig
Supervisor
Fresno County, California

Hon. Brian Sullivan
Treasurer
Snohomish County, Washington

Diane Dillon

Hon. Diane Dillon
Supervisor
Napa County, California