



CARES Act Financial Assistance to States and Municipalities

Friday, April 17, 2020

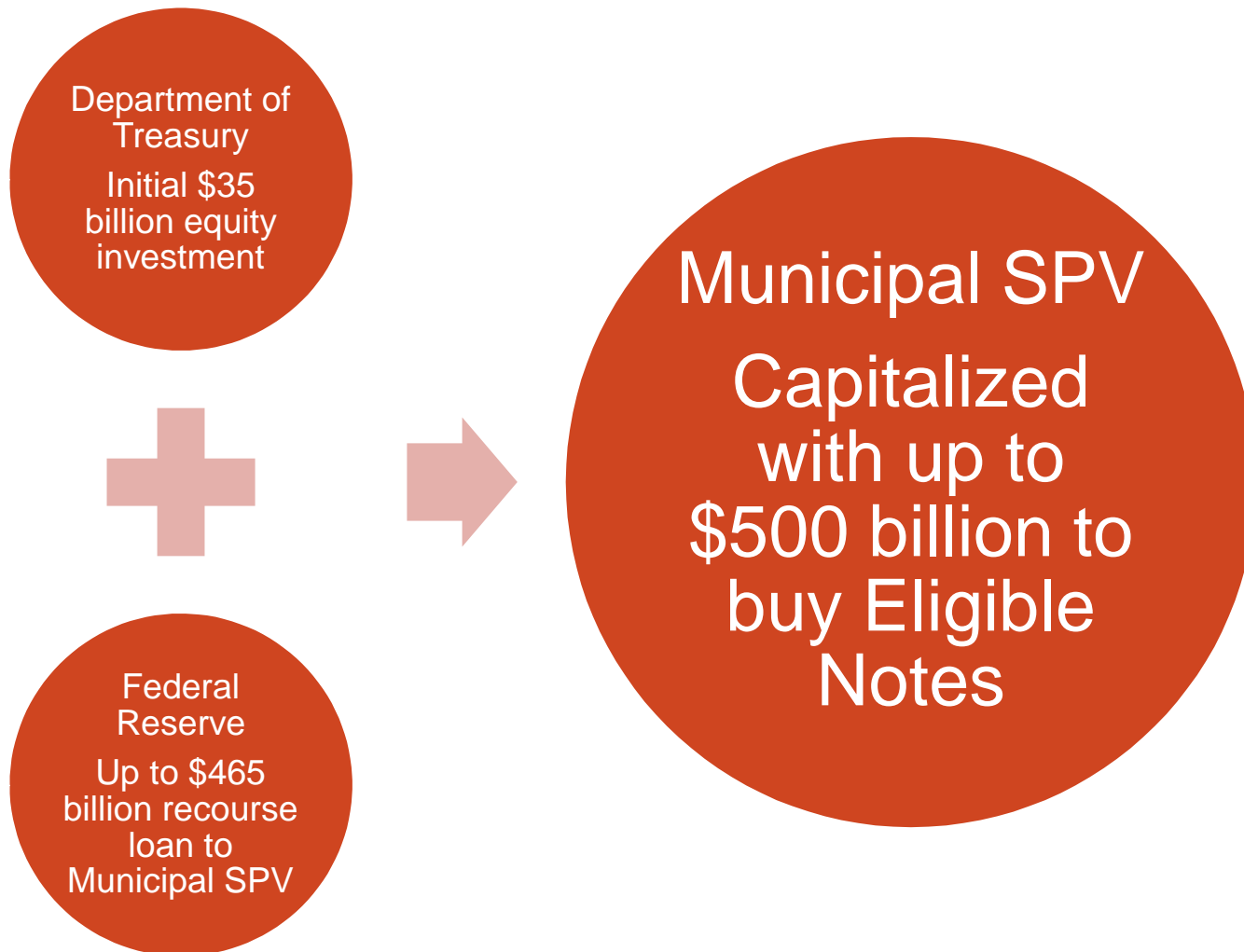


Municipal Liquidity Facility (“MLF”)

What’s in the program:

- Federal Reserve will purchase up to \$500 billion of short-term municipal notes (“Eligible Notes”) from selected states, counties and cities (“Eligible Issuers”)
- Federal Reserve Bank will commit to lend to a SPV (“Municipal SPV”) on a recourse basis
- Municipal SPV will commit to lend to Eligible Issuers on (presumably) a recourse basis
- Municipal SPV will purchase Eligible Notes directly from Eligible Issuers
- Department of Treasury will provide an initial equity investment of US \$35 billion to the Municipal SPV in connection with the MLF by using funds authorized by the CARES Act
- Program sunsets on Eligible Notes issuances on September 30, 2020, unless extended

Municipal Liquidity Facility: Structure



Eligible Issuers

- U.S. states and the District of Columbia
- U.S. counties with a population exceeding two million residents
- U.S. cities with a population exceeding one million residents

Limitations:

- The Municipal SPV may only purchase Eligible Notes from the Eligible Issuer up to an aggregate amount of 20% of the general revenue from its own sources and utility revenue for FY 2017 (the “20% Limit”)
- Short term eligible notes include tax anticipation notes, tax and revenue anticipation notes, bond anticipation notes and other similar short-term notes that mature within two years from the date of issuance
- Each state, county or city may issue Eligible Notes through an instrumentality that issues debt on behalf of the state, county or city for the purpose of managing cash flows

Municipal Liquidity Facility: Use of Proceeds

- Proceeds may be used as follows:
 - Assist with cash flow management
 - Income tax deferrals resulting from an extension of an income tax filing deadline
 - Potential reductions of tax and other revenues related to the pandemic
 - Increases in expenses related to the pandemic
 - To provide for the payment of principal and interest on debt obligations
 - To purchase similar notes issued by, or otherwise to assist, political subdivisions and instrumentalities for any purpose approved for Eligible Issuers
 - Upon request from a State, the Municipal SPV is not restricted from purchasing more than the 20% limit of a State's Eligible Notes if such proceeds are used to assist "political subdivisions and instrumentalities"



Terms and Conditions

- Pricing: pricing the Eligible Notes will be based solely on the Eligible Issuer's rating at the time of the Municipal SPV's purchase
- Origination Fee: upon the Municipal SPV's purchase, the Eligible Issuer will have to pay an origination fee equal to 0.10% (10 bps) of the principal amount of the Eligible Notes purchased by the Municipal SPV
- Origination Fee may be paid from proceeds of the issuance
- Call Right: Eligible Notes are callable by the Eligible Issuer at any time at par
- Size Limitation: 20% limit
- Eligible Notes may be purchased in multiple tranches
- Upon request from a State, the Municipal SPV may purchase Eligible Notes in excess of the 20% limit to assist "political subdivisions and instrumentalities" that cannot otherwise access the MLF program

Coronavirus Relief Fund

- \$150 billion to the U.S. Treasury to provide aid to States, Indian tribes, territories and units of local government for necessary expenditures incurred due to the COVID-19 public health emergency.
- Of the \$150 billion:
 - \$8 billion is reserved for Indian tribes.
 - \$3 billion is reserved for the District of Columbia, Puerto Rico, the United States Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa.
 - The remaining \$139 billion will be allocated to the 50 States proportionally based on their share of the U.S. population (excluding the District of Columbia and other U.S. territories), with each State receiving no less than \$1.25 billion.
- Of each State's apportionment, 45 percent will be further distributed to units of local government, defined as: a county, municipality, town, township, village, parish, borough, or other unit of general government below the State level with a population that exceeds 500,000.

Coronavirus Relief Fund

- On April 13, Treasury released initial guidance: <https://home.treasury.gov/policy-issues/cares/state-and-local-governments>
 - Eligible Units of Local Government are identified on the site
 - Data Sources and Distribution Methodology on site showing eligibility based on census date
 - Form of Certification is on the site. Certification requires statement that funds provided:
 - Are necessary, expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19)
 - Were not accounted for in the budget most recently approved as of March 27, 2020 for the local government entity
 - Were incurred during the period that begins on March 1, 2020 and ends on December 30, 2020
 - Treasury will rely on the certification as a material representation in making a direct payment to the local government entity
 - **Submissions required by 11:59 p.m. EDT on Friday, April 17, 2020.**

Oversight

- Department of the Treasury's Inspector General has oversight and monitoring responsibility over funds advanced
- If the Inspector General determines that funds have not been used for the allowed purposes, that amount will be converted to a debt that the local government owes to the federal loan
- Review will be done in hindsight



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- Office locations
- Regional desks and strategic alliances

