Federal MLF Program (Updated 5/26/2020)

Council Member inquiries regarding the use of the Federal MLF Program for FY21.

1. Has the finance director considered accessing the Municipal Liquidity Facility?
   a. If so, what was his assessment?
   b. If not, why not?

Finance response:

The eligibility requirements for the Federal Reserve's Municipal Liquidity Facility have been expanded. Shouldn't Metro take advantage of that rather than raising the property tax rate so much?

The timing of changes to the MLF that would allow Metro to participate precluded evaluation of any benefits the program might have for the FY21 budget. To have a structurally balanced budget requires using definable information that can be acted on. Potential impact of using short-term financing for the purposes authorized under the MLF and evaluating requirements once rules have been established will be a focus of the Finance department over the coming months. The MLF expires December 31, 2020. Below are known details of the program.

What is the Municipality Liquidity Facility: The Department of the Treasury will make an initial equity investment of $35 billion in the Special Purpose Vehicle (SPV) in connection with the Facility. The SPV will have the ability to purchase up to $500 billion of Eligible Notes. Eligible Notes are tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes issued by Eligible Issuers, provided that such notes mature no later than 24 months from the date of issuance. Proceeds could be used to help manage the cash flow impact of income tax deferrals resulting from 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 requirements for the payment of principal and interest on obligations of the relevant State, City, or County.

On April 9 the Federal Reserve authorized the use of the MLF for states, cities with populations exceeding one million residents and counties with populations exceeding two million residents. Metro did not meet the criteria to participate on its own. The authorization also allowed states to participate on behalf of cities and counties. Discussions with the State Comptroller made clear that this was not currently an option within Tennessee law and any change would require legislative action before it could be considered.

2. The federal government recently changed the criteria for the program that allows the federal government to buy municipal debt. This new criteria allows Davidson County to participate.
   a. Has the Finance Department looked into this program and how much the city could potentially borrow?
   b. If so, could participation in this program help offset the proposed $1 tax rate increase and allow for a step increase for Metro employees?

Response: See response above regarding the Federal Reserve Municipal Liquidity Facility

3. Please provide an update about Metro's reasoning why the federal government's Municipal Funding Facility is not a viable option for the FY21 operating budget.

Response: Metro Nashville MLF Analysis May 12, 2020
To Help address the liquidity shortfall related to the Covid-19, the Municipal Liquidity Program will purchase Notes (TANs, RANs and BATs) allowing states and local governments to continue to fund their operations through the crisis. The notes must mature no later than 36 months from the date of issuance. Unless the program is extended by the Feds and the U.S. Treasury, the program will cease buying notes on December 31, 2020.

Key Factors To Consider:

- The MLF was set up to help states and local governments manage short-term cash flow pressures if market access is not available, not as an alternative to capital markets
- The Fed Offers Cash Support … at a Price
  -The pricing and costs are not intended to be competitive with market rates
  -Issuers who need to use the facility will need to prove they do not have other sources of funding
- MLF's Key Impact is Limiting Short-Term Credit Risk, Not Easing Broader Market Conditions
  -Lower credit quality issuers are probably the biggest beneficiaries from these pricing terms
- Metro has other options

Municipal Lending Facility Analysis

Scenarios: 1. Municipal Liquidity Facility (MLF) Notes

2. Metro General Obligation Tax-Exempt Notes

Bond Rates: MLF Notes: Overnight Index Swap (0.026%) + Spread (1.75%)

G.O. Notes : Aa2/AA Tax-Exempt Rates as of May12, 2020

Project Fund: $200,000,000

Amortization: 3-Year Bullet

	Tax-Exempt GO Notes	**MLF Notes**	**Difference**
Total Debt Service	$206,206,500	$210,656,000	($4,449,500)
True Interest Cost	1.116%	1.810%	-0.695

The interest cost saving of issuing $200 million GO Notes compared to $200 million MLF Notes is $4,449,500.

4. What is the breakdown of the intended uses of the $121M CARES Act fund? The city of Houston used part of their funds for renters relief, is the administration looking into this
    a. Can the funds be used for other relief to citizens?
    b. Can the funds be used for direct assistance (equivalent to a stimulus check) for residents?

    Finance Response: In his letter to the Council, Mayor Cooper describes the various components of spending that are being considered. It does include economic support to individuals and small businesses. The funds cannot be used for a general stimulus to all residents as the economic support must be necessary due to suffering from employment or business interruptions. There would have to be some sort of application process to document the employment interruption.