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April 10, 2020

VIA Electronic Mail

The Honorable Nancy Pelosi
Speaker, U.S. House of Representatives
235 Cannon House Office Building
Washington, D.C. 20515

The Honorable Kevin McCarthy
Minority Leader,
U.S. House of Representatives
326 Cannon House Office Building
Washington, D.C. 20515

The Honorable Mitch McConnell
Majority Leader, U.S. Senate
317 Russell Senate Office Building
Washington, D.C. 20510

The Honorable Charles Schumer
Minority Leader, U.S. Senate
322 Hart Senate Office Building
Washington, D.C. 20510

Dear Speaker Pelosi and Leaders McCarthy, McConnell and Schumer:

On behalf of the Government Finance Officers Association (GFOA) and the more than 21,000 public finance professionals we represent at the state and local government levels, we write to express our appreciation for recent bipartisan efforts to provide vital resources to the countless public entities working hard to respond to the COVID-19 pandemic.

States, local governments and numerous state and local authorities are on the front lines in our collective efforts to respond to this public health emergency, whether it is in health care, public safety or ensuring vital utilities remain online. GFOA remains committed to continue working with Congress and the administration as together we develop and implement solutions to address the widespread impact of this unprecedented public health and economic crisis. While the aid enacted so far in the Families First Coronavirus Relief (FFCRA) Act and the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act provide much needed support for the public sector to respond to this crisis, that should be viewed as a beginning and not an end, since state and local governments will experience continuing difficulties and there will be lingering effects that could last well into the next year and beyond.

Direct funding to the front lines and the health and sustainability of our financial and capital markets remain our paramount concerns. The nation relies on municipal bonds because they have the capacity to immediately finance critical projects that support our nation's infrastructure needs and enable State and local governments to manage their budgetary issues while protecting the economy during this crisis.

As a fourth response package for the COVID-19 crisis is considered, we urge Congress to provide additional direct funding, in particular to local governments of all sizes, that will give governments maximum flexibility to be nimble in their responses to this quickly changing landscape.

A recent GFOA survey[1] found that states and local governments will experience dramatic constraints on budgets in waves due to increased COVID-19 related expense in addition to delayed or foregone tax receipts. Several sources of local government tax sources will be completely foregone – such as sales tax and hospitality taxes due to the various yet necessary stay-at-home orders in place. There is no one single revenue stream on which every state and local government relies. Compounding this challenge will be delayed receipt of vital revenues from income and property taxes due to the delayed tax filing deadlines

State and local governments have never backed down from previous emergencies, whether natural disasters or economic downturns. In many instances they were forced to do more with less as the top priority has always been to provide for the needs of local communities across the country. And just as the needs of each community will be varied, so too must the resources and tools available for their use.

In addition to more direct and flexible funding, we request that Congress include provisions to enhance and modernize the municipal bond market. Doing so would strengthen the proven, efficient and low cost financing tools available to manage budgets and for critical investments in infrastructure that will move this country forward immediately.

Enacting these provisions would free up scarce resources for states and localities while also stimulating investments needed to keep our economy growing. A number of provisions that were included in legislation during previous crises have demonstrated their effectiveness. As for the immediate need, we respectfully ask that the next response package include the following (but not limited to):

- *Restore Advance Refunding of Tax-Exempt Bonds (H.R. 2772):* Restoring the ability for governments and other qualifying entities to advance refund tax-exempt municipal bonds thereby freeing up billions of dollars that governments and nonprofits could spend on other projects. State and local governments and nonprofits understand that responding to a pandemic requires strengthening the infrastructure network that underpins their communities and institutions. We are asking you to restore advance refunding which would provide *immediate* debt service savings and near term debt relief for taxpayers which can be put to public works

[1] https://www.gfoa.org/early-data-gfoa-survey-shows-substantial-fiscal-impact-governments-covid-19-outbreak-and-response

and safety purposes. This would be of immense help for planning and budgeting purposes for state and local communities and institutions, such as hospitals who are first line responders during this immediate crisis.

- *Increase Access to Capital for Small Borrowers (H.R. 3967):* For many thousands of small issuers and governmental and nonprofit borrowers, increasing the bank qualified borrowing limit from $10 million to $30 million, and having it apply at the borrower level so that thousands of small local governments and non-profit hospitals and healthcare systems would provide access to low cost capital for immediate project needs.

- *Restore and Expand the Use of Direct-Pay Bonds:* Restoring and expanding the use of direct-pay type bonds and ending their exposure to sequestration, would immediately create an attractive investment option globally while funding thousands of state and local projects, particularly while the municipal bond market is recovering from the initial effects of the COVID-19.

Other measures to provide greater liquidity will also help relieve pressure on budgets and working capital challenges include:

- To address severe cash flow difficulties and uncertain revenue streams (and available amounts) of state and local government, pass legislation to direct Treasury to permit long term cash flow borrowings on a tax-exempt basis with sizing based on potential deficits rather than having to demonstrate actual deficits of a certain size and clearly permitting expenses to handle the pandemic under the extraordinary working capital exception of Treasury Regulation Section 1.148-6(d)(3)(ii)(B). This relief should also provide there is no retesting for deficit financings for at least 10.5 years after issuance to handle unanticipated and difficult-to-predict cash flow issues.

- *Reinstate a Stable Net Asset Value to Money Market Mutual Funds (H.R. 4492):* This legislation will provide significant relief to state and local government that depend on the municipal debt markets to finance the facilities, resources and infrastructure needed to protect our citizens from this epidemic by encouraging greater investment in money market mutual funds.

GFOA urges more expediency and clarification to several of the provisions regarding the Federal Reserve already enacted into law in the previous relief packages.

Stability in our $3.8 trillion municipal bond market is important during this crisis as state and local governments and the municipal bond market provide critical support for the infrastructure needed to care for and support our citizens.

On April 9, the Federal Reserve announced the parameters of its new Municipal Liquidity Facility that is in place to assist State and local governments, per Section 4003 of the CARES Act. The program allows State and very large cities and counties to access the facility which will purchase short-term notes thus helping governments alleviate some of the budget pressures that are occurring and will continue to take place due to delayed and deferred tax and fee inflows. However, there are many details still yet to be determined including the rates the Federal Reserve will offer and other transactional details that remain forthcoming. Providing access to funds for operational purposes is beneficial for those entities that qualify and under their own state laws can use these facilities.

Congress could further weigh in to ensure that smaller governments and entities will have access to funds from the Facility. Further, section 4003 of the CARES Act states that the Federal Reserve may purchase bonds in the secondary market. We urge Congress to call on the Federal Reserve to make these purchases which will help reinvigorate the municipal bond market and provide access to capital for all municipal issuers. By making these purchases, the Federal Reserve will help banks shed some of their holdings, thus freeing up their capacity to underwrite and purchase new municipal securities issuances (i.e. infrastructure).

Finally, we urge Congress to restore parity between private and public sector employers as it relates to eligibility for tax credits to alleviate the costs of emergency paid leave provisions included in the FFCRA.

State and local governments collectively employ millions of individuals, many of whom are responsible for providing the services that are now in high demand. We were immediately concerned and opposed the prohibition of public employers from eligibility of the tax credits as detailed in Sections 7001(e)(4) and 7003(e)(4) of the FFCRA. In the GFOA survey noted early, another finding was that a majority of respondents identified staff overtime and staff sick leave as unanticipated expenses that could be particularly high in the near term due to the pandemic. This new requirement is a large expense that is an unfunded mandate imposed at a time when state and local governments are already strained due to reduced tax revenues.

While the full impact the COVID-19 pandemic will have on the economy is uncertain, we remain steadfast knowing that federal, state and local governments working together in partnership is a critical component of getting through this crisis. We thank you again for your important work and efforts thus far and stand ready to help advance additional relief packages to address the pandemic's widespread effects.

Sincerely,

Emily S. Brock

Emily Swenson Brock
Federal Policy Director

CC: Members of the United States House of Representatives
Members of the United States Senate