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# Federal Reserve expands MLF program to allow more issuers to participate

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The Federal Reserve is expanding the number and types of local governments eligible to use its short-term muni note program.

The central bank said it would allow all U.S. states to be able to have at least two cities or counties eligible to directly issue notes to its Municipal Liquidity Facility program regardless of population.

“Governors of each state will also be able to designate two issuers in their jurisdictions whose revenues are generally derived from operating government activities (such as public transit, airports, toll facilities, and utilities) to be eligible to directly use the facility,” the Fed said in a press release Wednesday.

The Fed also released a table, detailing the number of cities and counties, on a combined basis, that governors may designate to participate in the $500 billion program. Before, only cities and counties with populations of 250,000 and 500,000 respectively, were able to directly access the program.

Those numbers "were selected to ensure that each U.S. state has at least two total cities and counties (on a combined basis) that may participate in the facility," the Fed explained. This means large, populous states generally cannot designate additional issuers.

*Fed Chair Jerome Powell announced the expansion for the eligibility of cities and counties in the Municipal Liquidity Facility program. Bloomberg News*

“A governor that has the ability to designate one designated city or designated county may choose either (i) the most populous city in his or her state that has less than 250,000 residents or (ii) the most populous county in his or her state that has less than 500,000 residents,” the Fed said.

For governors that can designate two cities and counties, they can decide to choose — the most populous city and most populous county, the most populous city and second-most populous city or the most populous county and second most populous county.

The Fed also said it will support lending to multistate entities and revenue bond issuers, or RBIs. The Fed defines revenue bond issuers as a state or political subdivision or a public authority or agency that issues bonds secured by revenue owned by a government entity.

“Eligible notes issued by eligible issuers that are not multi-state entities or designated RBIs will generally be expected to represent general obligations of the eligible issuer, or be backed by tax or other specified governmental revenues of the applicable state, city, or county,” the Fed said. “If the eligible issuer is an

authority, agency, or other entity of a state, city, or county, such eligible issuer must either commit the credit of, or pledge revenues of, the state, city, or county, or the state, city, or county must guarantee the eligible notes issued by such issuer."

Each governor may designate up to two RBI to participate in the program, separate from the designated cities and counties provision that not all governors can utilize. The mayor of Washington, D.C., may designate one RBI.

Many market participants have asked for the Fed to expand the program's parameters, worried that many cities and local governments wouldn't qualify for the program. The population parameters were widened from 2 million for counties and 1 million for cities when the Municipal Liquidity Facility program was announced in April.

The termination date for the program was set for Dec. 31, 2020.

Illinois was the first issuer to access the Municipal Liquidity Facility, with a trade of $1.2 billion of one-year general obligation notes and a rate of 3.82%. That deal is expected to close June 5.