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THE VOLCKER ALLIANCE ISSUES STATEMENT ON FEDERAL RESERVE’S PLAN TO BUY $500 BILLION IN SHORT-TERM STATE AND LOCAL DEBT

NEW YORK, NY (April 9, 2020) – The Volcker Alliance advances effective management of government to achieve results that matter to citizens. The Alliance’s Truth and Integrity in Government Finance Initiative investigates states’ budgeting practices and challenges, their unique fiscal landscapes, and their financing of public assets.

William Glasgall, senior vice president and director of state and local initiatives at the Volcker Alliance, released the following statement:

“The Federal Reserve’s announcement today that it will launch a Municipal Liquidity Facility to buy as much as $500 billion of short-term debt from US states, counties, and cities is a much-needed move to head off a looming cash crunch for governments facing plunging revenue and spiraling costs caused by the COVID-19 pandemic,” said William Glasgall.

“Coupled with the Fed’s earlier announcements that it will buy longer-term municipal bonds and accept short-term state and local obligations as collateral from money-market funds, the latest move will help stabilize the $3.8 trillion municipal debt market and preserve governments’ ability to raise funds for critically needed infrastructure projects and the jobs they create,” said Glasgall.

“States, counties, and cities are currently facing cash-flow problems because many are joining the federal government’s move to delay 2019 income tax filing from April 15 to July 15,” said Glasgall. “April is usually the biggest month for income tax collections for states and localities, and the federal filing postponement may force them to borrow until the delayed payments arrive. Governments are also facing sharply reduced tax withholding payments and unprecedented drawdowns of cash from state unemployment trust funds as businesses shut down and millions of Americans are laid off.”

“New York State’s recently enacted plan to borrow as much as $11 billion in the current fiscal year to cover revenue shortfalls is a harbinger of similar moves that are being contemplated by other states and localities,” said Glasgall. “The Fed’s action today will throw them a welcome lifeline to help preserve critical government services.”

The Volcker Alliance advances effective management of government to achieve results that matter to citizens. The nonprofit, nonpartisan organization is inspired by the legendary public
service of our founder, Paul A. Volcker, former Chairman of the Federal Reserve, and his vision of a public sector workforce with the experience, preparation, and commitment to ensure that government is accountable and delivers with excellence. Visit volckeralliance.org to learn more. Follow us on social media @VolckerAlliance and subscribe to the Volcker Alliance newsletter for the latest news and developments. The Volcker Alliance is a 501(c)(3) organization.