May 11, 2020

VIA Electronic Portal

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington DC 20551

RE: Municipal Liquidity Facility

To the Board of Governors:

The American Public Power Association (APPA) is pleased to provide comments on the Federal Reserve’s (Fed) April 27, 2020, announcement of the expansion of the scope and duration of the Municipal Liquidity Facility (MLF). APPA is the voice of not-for-profit, community-owned electric utilities that power 2,000 towns and cities nationwide. The association’s top priorities in the ongoing pandemic are that public power utilities have the physical, logistical, and financial resources to continue to serve their residential, industrial, institutional, commercial, and wholesale customers while keeping their workers safe.

APPA joins with the Government Finance Officers Association (GFOA) in applauding the Federal Reserve’s careful interpretation of the legislative intent of the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act and supports the Fed’s efforts to provide emergency liquidity to states and localities facing severe uncertainties as a result of the crisis. APPA also applauds the Fed’s April 27 announcement of an expansion of entities eligible to participate in the MLF. The association also read with interest the announcement’s assertion that certain terms and features of the MLF are still being resolved, including possibly a further expansion of eligible entities. In this letter, APPA provides comments on the consideration of allowing additional entities to participate directly in the MLF.

In the April 27 announcement, the Fed said it is “considering expanding the MLF to allow a limited number of governmental entities that issue bonds backed by their own revenue to participate directly in the MLF as eligible issuers.” APPA strongly encourages the Fed to do so and, as such, to include public power utilities as eligible issuers.
Public power utilities are critical to the life safety and economic health of the communities they serve. Public power utilities provide residential service to more than 49 million people in 17 million households: homes where millions of Americans are quarantining and, in many cases, working remotely. They provide electricity to hospitals, fire departments, police departments, and other emergency response facilities. And, they power 2.6 million businesses, including factories producing critical resources.

The pandemic and quarantining to respond to the pandemic are creating a double-edge challenge for electric power providers: increased costs and reduced revenues. For example, costs are increasing as utilities move to obtain and use personal protective equipment (PPE) and coronavirus testing to ensure that workers do not become infected or infect coworkers or customers while working. This is particularly critical in power grid and power plant control rooms, which are staffed by highly trained personnel who work in close quarters to keep power supply safe and reliable. Additionally, public power utilities have rented hotel rooms or purchased cots, linens, food, and the like for staff who are being asked to stay “sequestered” on these control rooms. We also face the added costs all employers are facing, including increased sick time for workers effected by COVID-19 and the overtime paid to other workers who must work in their place. And while the Family First Coronavirus Response Act is offsetting private employer costs for emergency paid sick leave and paid family leave, public power utilities do not qualify for this relief.

At the same time, revenues are declining, in part because of a decline in commercial and industrial use. In contrast to many ongoing services, where most of the bill is flat monthly fees, roughly 90 percent of public power utility customers’ bills are based on how much power they use. That means that most of the fixed costs of providing power are paid as part of a customer’s usage rate. While less power use means reduced fuel and power costs, there are overhead costs for operation and maintenance that remain constant (and, as discussed above, some costs of operation and maintenance have increased). Additionally, while residential delinquency rates are rising, the vast majority of public power utilities are limiting collection efforts, including through moratoria on power shutoffs to customers with delinquent accounts. So, while utilities continue to incur costs for serving customers – including delinquent customers – an increasing percentage are not currently paying for those services.

APPA believes these cost and revenue issues will abate over time and that some of these additional costs and lost revenue will be recouped over time. Costs may be reimbursed through state grants, or through grants from Federal Emergency Management Administration public assistance grants for emergency protective measures. Revenues may be recouped when moratoria are lifted and collections from delinquent customers resume. In fact, on the whole, the credit outlook for public power utilities is generally seen to be stable. “Public power utilities provide essential services in a nonprofit manner, have strong liquidity, continue to deleverage and benefit from cost recovery through self-regulated rate-
setting,” Moody’s Investor Services concluded in an April 22, 2020 report. Likewise, Fitch Ratings reported on April 24 that while public power utilities face “unprecedented challenges” their long-term credit outlooks generally remains stable. This long-term stability coupled with short-term needs would make public power utilities particularly well-suited participants of the MLF.

**Metric for Participation**

While all states are eligible to participate in the MLF, the Fed has limited city and county participation based on population. APPA believes that a revenue-based standard might be more appropriate if the Fed were to expand participation in the MLF to governmental entities that issue bonds backed by their own revenue, particularly public power utilities. While city and county populations are easily ascertained through census data, the population of other political subdivisions of the state may be harder to ascertain. “Population” of such entities may also simply be an inappropriate measure of when deciding eligibility.

In the first instance, for example, the service territory of a municipal electric utility may not coincide with that city’s legal boundary. Likewise, a utility district’s service territory may not relate to the boundaries of either cities or counties. Where that is the case, the “population” of the service territory will be hard to ascertain. There is no formal census based of populations within service territory boundaries, and utilities generally measure customers by meter, i.e., by household and business, not by population. APPA data suggests that there are roughly 2.8 people, on average, for every residential “household” served by a public power utility. That is only an estimate, however, and could be subject to wide regional differences.

Additionally, some public power utilities known as joint action agencies (JAAs) have no residential customers, but serve only to provide wholesale power to other public power utilities. Some of these utilities are among the largest – when measured by revenues – in the nation, but could arguably be said to have no “population” at all. For example, one JAA has $648 million in annual revenues, provides wholesale power to 48 cities and one county with a combined population of 635,000 people, but does not have a single residential customer of its own.

As a result, a revenue-based threshold might be more appropriate. Own source revenue has clearly played a role in the Fed’s expansion of the number of entities which can participate in the MLF. Looking to the Fed’s actions to date, of the 256 entities listed as eligible to participate in the MLF: all but four had Own Source General and Utility Revenue (OSGUR) of more than $200 million (rounded to the nearest $100 million); and all but 14 had OSGUR of more than $300 million (again rounded to the nearest $100 million). APPA believes that relying on comparable thresholds for determining participation in the MLF would be appropriate. First, federal data on utility revenues are readily available and verifiable from the Department of Energy’s Energy Information Administration. A revenue threshold could also ensure access to the MLF by utilities serving the largest populations of customers – including JAAs serving other public
power utilities – while not overburdening the MLF. For example, in 2018, 70 public power utilities had revenues of $200 million or more, 59 had revenue of $250 million or more, and 48 had revenue of $300 million or more. APPA would strongly urge the Fed to choose the standard that would provide the widest reasonable eligibility to participate in the MLF, but our first priority is in ensuring direct participation by some number of public power utilities.

Finally, these comments have focused solely on the eligibility of public power utilities to the MLF. Insofar as there are other issues concerning the ongoing design, and operation, of the MLF, APPA associates itself with the comments and remarks of the GFOA.

If you have any questions, please contact John Godfrey on my staff at jgodfrey@publicpower.org or by telephone at (202) 256-7710.

Sincerely,

Joy Ditto
President & CEO