



## CITY OF ATLANTA

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Honorable Barney Frank  
Chairman  
House Committee on Financial Services  
United States House of Representatives

Dear Chairman Frank:

I am writing about the current credit crisis's continuing impact on the ability of state and local municipalities to raise much needed capital through the issuance of municipal securities. The over \$2 trillion municipal securities market serves as a vital source of needed capital to finance the building of roads, schools, airports, water systems and so many other public needs. Annually, states and localities issue nearly \$400 billion of new securities.

As you are well aware, the municipal bond market has not been immune to the effects of the credit crisis and in the current climate it is either very expensive or impossible to raise needed capital. This sharp decline in the issuance of municipal bonds has been the result of external events wholly beyond the control of municipal bond issuers. This crisis has instead been the result of risky sub-prime lending practices, substantial losses at traditional municipal bond underwriters, the broader collapse of liquidity in our debt capital markets, the ratings downgrade of certain traditional municipal bond insurers and the effect of home mortgage foreclosures on state and local finance.

The City of Atlanta currently has several major projects underway involving both our water system and our airport that will be idled if we continue to be unable to access the capital markets. Immediate steps are therefore needed to restart this critical market. At the Hartsfield-Jackson Atlanta International Airport, construction on the new Maynard Jackson International Terminal may be forced to be shut down- idling several hundred workers - if the Airport is unable to immediately access the municipal commercial paper market which remains frozen in the current environment.

While various programs have been created by the Treasury Department under the Emergency Economic Stabilization Act (EESA) and the Federal Reserve to stabilize our financial markets and enhance liquidity in the debt capital markets, these efforts have basically ignored the municipal bonds markets. Instead, federal efforts have focused on: (i) addressing the short-term liquidity and borrowing needs of the U.S. Primary Dealers, (ii) restoring confidence in our money markets and commercial paper markets, and (iii) attempting to restart the new issuance market for asset-backed securities and corporate bonds. While laudable, these steps are just beginning to bear fruit, and more - much more - needs to be done to immediately help states and municipalities raise working capital.

We were extremely pleased to see that both you and President Obama have recognized this inconsistency in policy and propose to expand various Treasury programs, such as TALF, to cover securities newly issued by states and localities. Your legislation to amend the TARP provisions of the EESA would clarify the Treasury's authority to provide support to issuers of municipal securities for new issuance or remarketing of existing auction rate securities. With the Senate's defeat of a motion of disapproval for the second portion of TARP funds, we understand your bill may function as a blueprint providing policy direction to the Obama Administration with respect to the remaining TARP funds.

This policy is as overdue as it is welcome. While we agree that the Treasury has authority in this area, in light of the immediate and urgent need for capital, we ask you do all that you can to possibly convince the Federal Reserve to immediately open up its liquidity facilities so that they more broadly cover state and local securities.

The Federal Reserve has clear authority to act in this area. Section 13(3) of the FRA, 12 U.S.C. 343, specifically provides that “[i]n unusual and exigent circumstances,” the Board of Governors may authorize any Federal Reserve bank to lend to any individual, partnership or corporation by discounting of notes, drafts or bills of exchange which are secured to the satisfaction of the Federal Reserve Bank, provided that the potential borrower is unable to otherwise obtain sufficient credit through the banking system.

We cannot afford to wait for either passage of an economy recovery bill or the outcome of Congressional deliberations with the Administration on how to spend the remaining TARP funds. Several hundred jobs in Atlanta and probably several thousand jobs nationally are at risk right now. The effectiveness of the Fed's existing liquidity facilities is quite clear and we remain confident that once Treasury's TALF is operational, it too will help restore new issuance in asset-backed securities. Their only drawback is that at this time TALF and several of the Federal Reserve facilities do not cover securities issued by states and localities. This oversight can and should be addressed immediately.

Enhancing liquidity in the state and local sector will not only help make that marketplace operate more efficiently, but will help states and localities complete projects that are crucial to meeting public needs and consistent with job creation and economic stimulus. At a time when the Federal Government is searching for ways to create jobs and stimulate economic activity and to help stabilize the financial markets, broadening TALF and the various Federal Reserve's liquidity facilities to include state and local debt securities will help to address all three goals. The cost of delay, particularly for those jobs that are at immediate risk of being idled, is just too great to ignore. We therefore urge you to do all you can to see that our critical municipal bond markets return to normal.

I would like to discuss this urgent matter with you at your earliest convenience.

Sincerely



Shirley Franklin