

ASSEMBLY STATE AND LOCAL GOVERNMENT
COMMITTEE

STATEMENT TO

SENATE, No. 2978

with committee amendments

STATE OF NEW JERSEY

DATED: DECEMBER 4, 2017

The Assembly State and Local Government Committee reports favorably and with committee amendments Senate Bill No. 2978.

This bill, as amended, revises current law governing the types of securities that may be purchased by local units and school districts to provide that local government investment pools must be managed in accordance with generally accepted accounting and financial reporting principles established by the Governmental Accounting Standards Board (GASB). Current law requires local government investment pools to be managed pursuant to U.S. Securities and Exchange Commission (SEC) regulations governing money market funds (17 C.F.R. s.270.2a-7). Local government investment pools function like money market funds in the private sector

In July 2014, the SEC published amendments to these regulations that took effect in April 2016. GASB research indicated that the SEC regulatory revisions would affect investment pools to an extent that few governments would be able to continue to place their funds in these types of securities. For example, the revised federal regulations require pool participants to transact at a floating net asset value instead of a stable net asset value, and allow for the potential imposition of liquidity fees or redemption gates. These new regulations could make it difficult for New Jersey local governments to withdraw their funds from an investment pool to meet cash flow needs.

In December 2015, GASB issued Statement No. 79 (GASB 79) to address accounting and financial reporting for certain external investment pools and pool participants. GASB 79 establishes specific criteria for an external investment pool to measure its investments at amortized cost for reporting purposes. The use of amortized cost is allowed if the pool uses a stable net asset value per share and meets all GASB requirements regarding investment maturity, quality, diversification, liquidity, and the shadow price requirement. GASB 79 also requires investment pools and pool participants to disclose any limitation on participant withdrawals.

This bill is identical to A4404, sponsored by Assemblyman Greenwald, which is also before the committee, with proposed amendments, for consideration at this meeting.

COMMITTEE AMENDMENTS

The committee amended the bill to:

- expand local unit and school districts investment options into municipal, county, local authority, and school district short-term debt obligations (notes with a term not exceeding 397 days);
- require that government money market mutual funds and local government investment pools cannot impose barriers or penalties to withdrawing local government investment funds; and
- permit, rather than mandate, the Local Finance Board to promulgate rules for local government investment pools pertaining to accounting and disclosure, because the Governmental Accounting Standards Board's requirements are more than sufficient with respect to these areas.