

SENATE STATE GOVERNMENT COMMITTEE

STATEMENT TO

SENATE, No. 1413

with committee amendments

STATE OF NEW JERSEY

DATED: NOVEMBER 18, 1996

The Senate State Government Committee reports favorably and with committee amendments Senate Bill No. 1413.

Senate Bill No. 1413, as amended, expands the methods by which school boards and local units may purchase and redeem authorized mutual funds by permitting direct purchase and redemption from the issuer, government money market mutual funds, local government investment pools, or the State of New Jersey Cash Management Fund and purchase and redemption through the use of broker-dealers, which at the time of purchase or redemption, have been registered continuously for a period of at least two years pursuant to the "Uniform Securities Law (1967)" and have at least \$25 million in capital stock (or equivalent capitalization if not a corporation), surplus reserves for contingencies and undivided profits. Currently, the only avenue through which a school board or local unit may purchase and redeem such securities is a national or State bank located within this State.

The bill equalizes investment authority between school boards and local units, while restricting the type of investments in mutual funds to government money market mutual funds and tightening existing practices with respect to investments in local government pools and repurchase agreements. The bill defines a government money market mutual fund to mean an investment company: which is registered with the Securities and Exchange Commission and operated in accordance with federal regulations; the portfolio of which is limited to U.S. Government securities and repurchase agreements that are collateralized by U.S. Government securities; and which is rated by a nationally recognized statistical rating organization.

In addition, under the bill: local units are required to approve on an annual basis a cash management plan; local units must receive a monthly report summarizing all investments made or redeemed since the last meeting of the governing body; and any local unit official involved in selecting an entity seeking to sell an investment to the local unit is required to disclose to the governing body of the local unit and

to the Local Finance Board or a county or municipal ethics board, as appropriate, information on a material or personal relationship, if any, that official has with that entity. The local unit is also required to provide its cash management plan to the registered principal of any security brokerage firm selling securities to the local unit and that registered principal is required to sign an acknowledgment that the registered principal has seen and reviewed the local unit's cash management plan, and that the firm will not execute transactions resulting in investments that are not authorized under the local unit's cash management plan or State law.

Finally, the bill provides that: the maturity date of certain federal obligations or other bonds or obligations approved by the Division of Investment shall be 397 days, consistent with the federal regulation, 17 C.F.R. §270.2a-7; the purchase of investment securities shall be executed under a "delivery versus payment" method which requires that the securities are to be received either by the school district, local unit or a third party custodian prior to or upon release of the school district's or local unit's funds; and deposits or purchases of financial instruments made by boards of education or local units consistent with the requirements of the bill are not subject to the requirements of the "Public School Contracts Law," N.J.S.18A:18A-1 et seq. or of the "Local Public Contracts Law," P.L.1971, c.198 (C.40A:11-1 et seq.), respectively.

As amended, Senate, No. 1413 is identical to Assembly, No. 832 (2R) as amended.

COMMITTEE AMENDMENTS

Amendments to the bill change the definition of a government money market mutual fund by: deleting the prohibition on investing in instruments that (1) are subject to high price volatility with changing market conditions; (2) cannot reasonably be expected, at the time of interest rate adjustment, to have a market value that approximates their par value; and (3) utilize an index that supports a stable net asset value (these prohibitions are currently in the federal regulations, 17 C.F.R. §270.2a-7, incorporated into the bill); provide clarification that investments can be purchased directly not only from the issuer, but also from a government money market mutual fund, local government investment pool and the State of New Jersey Cash Management Fund; and clarify that when the local unit provides its cash management plan to the registered principal of any security brokerage firm selling securities to the local unit, the registered principal is required to sign an acknowledgment that the registered principal has seen and reviewed the local unit's cash management plan, and, instead of certifying that the firm has implemented controls against investments that are contrary to the local unit's cash management plan or State law, to acknowledge that the firm will not execute transactions resulting in

investments that are not authorized under the local unit's cash management plan or State law.

Other amendments make Senate Bill No. 1413 identical to Assembly Bill No. 832(2R) as amended.