

**18A:20-37 & 40A:5-15.1**  
**LEGISLATIVE HISTORY CHECKLIST**  
Compiled by the NJ State Law Library

**LAWS OF:** 2017                    **CHAPTER:** 310

**NJSA:** 18A:20-37 & 40A:5-15.1 (Permits local units and school districts to invest in local government investment pools managed in accordance with applicable Governmental Accounting Standards Board guidelines.)

**BILL NO:** S2978                    (Substituted for A4404)

**SPONSOR(S)** Beach and others

**DATE INTRODUCED:** 1/30/2017

**COMMITTEE:**                    **ASSEMBLY:** State & Local Government

**SENATE:** Community & Urban Affairs

**AMENDED DURING PASSAGE:** Yes

**DATE OF PASSAGE:**                    **ASSEMBLY:** 1/8/2018

**SENATE:** 1/8/2018

**DATE OF APPROVAL:** 1/16/2018

**FOLLOWING ARE ATTACHED IF AVAILABLE:**

**FINAL TEXT OF BILL** (First Reprint enacted) Yes

**S2978**

**SPONSOR'S STATEMENT:** (Begins on page 7 of introduced bill) Yes

**COMMITTEE STATEMENT:**                    **ASSEMBLY:** Yes

**SENATE:** Yes

(Audio archived recordings of the committee meetings, corresponding to the date of the committee statement, *may possibly* be found at [www.njleg.state.nj.us](http://www.njleg.state.nj.us))

**FLOOR AMENDMENT STATEMENT:** No

**LEGISLATIVE FISCAL ESTIMATE:** No

**A4404**

**SPONSOR'S STATEMENT:** (Begins on page 7 of introduced bill) Yes

**COMMITTEE STATEMENT:**                    **ASSEMBLY:** Yes

**SENATE:** No

(Audio archived recordings of the committee meetings, corresponding to the date of the committee statement, *may possibly* be found at [www.njleg.state.nj.us](http://www.njleg.state.nj.us))

**FLOOR AMENDMENT STATEMENT:** No

**LEGISLATIVE FISCAL ESTIMATE:** No

(continued)

**VETO MESSAGE:** No

**GOVERNOR'S PRESS RELEASE ON SIGNING:** No

**FOLLOWING WERE PRINTED:**

To check for circulating copies, contact New Jersey State Government Publications at the State Library (609) 278-2640 ext.103 or <mailto:refdesk@njstatelib.org>

**REPORTS:** No

**HEARINGS:** No

**NEWSPAPER ARTICLES:** No

RH/CL

P.L. 2017, CHAPTER 310, *approved January 16, 2018*  
Senate, No. 2978 (*First Reprint*)

1 AN ACT concerning local government investment pools and  
2 amending P.L.1977, c.177 and P.L.1977, c.396.

3  
4 **BE IT ENACTED** by the Senate and General Assembly of the State  
5 of New Jersey:

6  
7 1. Section 1 of P.L.1977, c.177 (C.18A:20-37) is amended to  
8 read as follows:

9 1. a. When authorized by resolution adopted by a majority  
10 vote of all its members the board of education of any school district  
11 may use moneys, which may be in hand, for the purchase of the  
12 following types of securities which, if suitable for registry, may be  
13 registered in the name of the school district:

14 (1) Bonds or other obligations of the United States of America  
15 or obligations guaranteed by the United States of America;

16 (2) Government money market mutual funds;

17 (3) Any obligation that a federal agency or a federal  
18 instrumentality has issued in accordance with an act of Congress,  
19 which security has a maturity date not greater than 397 days from  
20 the date of purchase, provided that such obligations bear a fixed rate  
21 of interest not dependent on any index or other external factor;

22 (4) Bonds or other obligations of the school district or bonds or  
23 other obligations of the local unit or units within which the school  
24 district is located;

25 (5) Bonds or other obligations, having a maturity date of not  
26 more than 397 days from the date of purchase, <sup>1</sup>issued by New  
27 Jersey school districts, municipalities, counties, and entities subject  
28 to the "Local Authorities Fiscal Control Law," P.L.1983, c.313  
29 (C.40A:5A-1 et seq.). Other bonds or obligations having a maturity  
30 date not more than 397 days from the date of purchase may be<sup>1</sup>  
31 approved by the Division of Investment in the Department of the  
32 Treasury for investment by school districts;

33 (6) Local government investment pools;

34 (7) Deposits with the State of New Jersey Cash Management  
35 Fund established pursuant to section 1 of P.L.1977, c.281  
36 (C.52:18A-90.4); or

37 (8) Agreements for the repurchase of fully collateralized  
38 securities, if:

39 (a) the underlying securities are permitted investments pursuant  
40 to paragraphs (1) and (3) of this subsection a. <sup>1</sup>or are bonds or other  
41 obligations, having a maturity date of not more than 397 days from

**EXPLANATION** – Matter enclosed in bold-faced brackets **[thus]** in the above bill is  
not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

<sup>1</sup>Assembly ASL committee amendments adopted December 4, 2017.

1 the date of purchase, issued by New Jersey school districts,  
2 municipalities, counties, and entities subject to the requirements of  
3 the “Local Authorities Fiscal Control Law,” P.L.1983, c.313  
4 (C.40A:5A-1 et seq.)<sup>1</sup>;

5 (b) the custody of collateral is transferred to a third party;

6 (c) the maturity of the agreement is not more than 30 days;

7 (d) the underlying securities are purchased through a public  
8 depository as defined in section 1 of P.L.1970, c.236 (C.17:9-41)  
9 and for which a master repurchase agreement providing for the  
10 custody and security of collateral is executed.

11 b. Any investment instruments in which the security is not  
12 physically held by the school district shall be covered by a third  
13 party custodial agreement which shall provide for the designation of  
14 such investments in the name of the school board and prevent  
15 unauthorized use of such investments.

16 c. Purchase of investment securities shall be executed by the  
17 "delivery versus payment" method to ensure that securities are  
18 either received by the school district or a third party custodian prior  
19 to or upon the release of the school district's funds.

20 d. Any investments not purchased and redeemed directly from  
21 the issuer, government money market mutual fund, local  
22 government investment pool, or the State of New Jersey Cash  
23 Management Fund, shall be purchased and redeemed through the  
24 use of a national or State bank located within this State or through a  
25 broker-dealer which, at the time of purchase or redemption, has  
26 been registered continuously for a period of at least two years  
27 pursuant to section 9 of P.L.1967, c.93 (C.49:3-56) and has at least  
28 \$25 million in capital stock (or equivalent capitalization if not a  
29 corporation), surplus reserves for contingencies and undivided  
30 profits, or through a securities dealer who makes primary markets  
31 in U.S. Government securities and reports daily to the Federal  
32 Reserve Bank of New York its position in and borrowing on such  
33 U.S. Government securities.

34 e. For the purposes of this section:

35 (1) a "government money market mutual fund" means an  
36 investment company or investment trust:

37 (a) which is registered with the Securities and Exchange  
38 Commission under the "Investment Company Act of 1940," 15  
39 U.S.C. s.80a-1 et seq., and operated in accordance with 17 C.F.R.  
40 s.270.2a-7<sup>1</sup>, except that a government money market mutual fund  
41 may not impose liquidity fees or redemption gates regardless of  
42 whether permitted to do so under 17 C.F.R. s.270.2a-7<sup>1</sup>;

43 (b) the portfolio of which is limited to U.S. Government  
44 securities <sup>1</sup>that meet the definition of an eligible security pursuant  
45 to 17 C.F.R. s.270.2a-7, securities that have been issued by New  
46 Jersey school districts, municipalities, counties, and entities  
47 subject to the requirements of the “Local Authorities Fiscal Control

1 Law,” P.L.1983, c.313 (C.40A:5A-1 et seq.)<sup>1</sup> that meet the  
2 definition of an eligible security pursuant to 17 C.F.R. s.270.2a-7  
3 and repurchase agreements that are collateralized by such <sup>1</sup>**U.S.**  
4 **Government]<sup>1</sup>** securities in which direct investment may be made  
5 pursuant to paragraphs (1) <sup>1</sup>**[and]** ,<sup>1</sup> (3) <sup>1</sup> , and (5)<sup>1</sup> of subsection a.  
6 of this section ; and

7 (c) which is rated by a nationally recognized statistical rating  
8 organization.

9 (2) a "local government investment pool" means an investment  
10 pool:

11 (a) which is managed in accordance with **[17 C.F.R. s.270.2a-**  
12 **7]** generally accepted accounting and financial reporting principles  
13 for local government investment pools established by the  
14 Governmental Accounting Standards Board;

15 (b) which is rated in the highest category by a nationally  
16 recognized statistical rating organization;

17 (c) the portfolio of which is limited to U.S. Government  
18 securities <sup>1</sup>that meet the definition of an eligible security pursuant  
19 to 17 C.F.R. s.270.2a-7, securities that have been issued by New  
20 Jersey school districts, municipalities, counties, and entities  
21 subject to the requirements of the “Local Authorities Fiscal Control  
22 Law,” P.L.1983, c.313 (C.40A:5A-1 et seq.)<sup>1</sup> that meet the  
23 definition of an eligible security pursuant to 17 C.F.R. s.270.2a-7  
24 and repurchase agreements that are collateralized by such <sup>1</sup>**U.S.**  
25 **Government]<sup>1</sup>** securities in which direct investment may be made  
26 pursuant to paragraphs (1) <sup>1</sup>**[ and]** ,<sup>1</sup> (3) <sup>1</sup> , and (5)<sup>1</sup> of subsection a.  
27 of this section;

28 (d) which is in compliance with <sup>1</sup>such<sup>1</sup> rules <sup>1</sup>as may be<sup>1</sup>  
29 adopted pursuant to the "Administrative Procedure Act," P.L.1968,  
30 c.410 (C.52:14B-1 et seq.) by the Local Finance Board of the  
31 Division of Local Government Services in the Department of  
32 Community Affairs, which <sup>1</sup>may promulgate<sup>1</sup> rules <sup>1</sup>**[shall provide]**  
33 providing<sup>1</sup> for disclosure and reporting requirements, and other  
34 provisions deemed necessary by the board to provide for the safety,  
35 liquidity and yield of the investments;

36 (e) which does not permit investments in instruments that: are  
37 subject to high price volatility with changing market conditions;  
38 cannot reasonably be expected, at the time of interest rate  
39 adjustment, to have a market value that approximates their par  
40 value; or utilize an index that does not support a stable net asset  
41 value ; <sup>1</sup>**[and]<sup>1</sup>**

42 (f) which purchases and redeems investments directly from the  
43 issuer, a government money market mutual fund, or the State of  
44 New Jersey Cash Management Fund, or through the use of a  
45 national or State bank located within this State, or through a broker-  
46 dealer which, at the time of purchase or redemption, has been

1 registered continuously for a period of at least two years pursuant to  
2 section 9 of P.L.1967, c.93 (C.49:3-56) and has at least \$25 million  
3 in capital stock (or equivalent capitalization if not a corporation),  
4 surplus reserves for contingencies and undivided profits, or through  
5 a securities dealer who makes primary markets in U.S. Government  
6 securities and reports daily to the Federal Reserve Bank of New  
7 York its position in and borrowing on such U.S. Government  
8 securities<sup>1</sup>; and

9 (g) which does not impose liquidity fees or redemption gates<sup>1</sup>.

10 f. Investments in, or deposits or purchases of financial  
11 instruments made pursuant to this section shall not be subject to the  
12 requirements of the "Public School Contracts Law,"  
13 N.J.S.18A:18A-1 et seq.  
14 (cf: P.L.1997, c.148, s.1)

15

16 2. Section 8 of P.L.1977, c.396 (C.40A:5-15.1) is amended to  
17 read as follows:

18 8. Securities which may be purchased by local units.

19 a. When authorized by a cash management plan approved  
20 pursuant to N.J.S.40A:5-14, any local unit may use moneys which  
21 may be in hand for the purchase of the following types of securities  
22 which, if suitable for registry, may be registered in the name of the  
23 local unit:

24 (1) Bonds or other obligations of the United States of America  
25 or obligations guaranteed by the United States of America;

26 (2) Government money market mutual funds;

27 (3) Any obligation that a federal agency or a federal  
28 instrumentality has issued in accordance with an act of Congress,  
29 which security has a maturity date not greater than 397 days from  
30 the date of purchase, provided that such obligation bears a fixed rate  
31 of interest not dependent on any index or other external factor;

32 (4) Bonds or other obligations of the local unit or bonds or other  
33 obligations of school districts of which the local unit is a part or  
34 within which the school district is located;

35 (5) Bonds or other obligations, having a maturity date not more  
36 than 397 days from the date of purchase, <sup>1</sup>issued by New Jersey  
37 school districts, municipalities, counties, and entities subject to the  
38 "Local Authorities Fiscal Control Law," P.L.1983, c.313  
39 (C.40A:5A-1 et seq.). Other bonds or obligations having a maturity  
40 date not more than 397 days from the date of purchase may be<sup>1</sup>  
41 approved by the Division of Local Government Services in the  
42 Department of Community Affairs for investment by local units;

43 (6) Local government investment pools;

44 (7) Deposits with the State of New Jersey Cash Management  
45 Fund established pursuant to section 1 of P.L.1977, c.281  
46 (C.52:18A-90.4); or

47 (8) Agreements for the repurchase of fully collateralized  
48 securities, if:

- 1 (a) the underlying securities are permitted investments pursuant  
2 to paragraphs (1) and (3) of this subsection a. or are bonds or other  
3 obligations, having a maturity date not more than 397 days from the  
4 date of purchase, issued by New Jersey school districts,  
5 municipalities, counties, and entities subject to the "Local  
6 Authorities Fiscal Control Law," P.L.1983, c.313 (C.40A:5A-1 et  
7 seq.<sup>1</sup>;
- 8 (b) the custody of collateral is transferred to a third party;
- 9 (c) the maturity of the agreement is not more than 30 days;
- 10 (d) the underlying securities are purchased through a public  
11 depository as defined in section 1 of P.L.1970, c.236 (C.17:9-41);  
12 and
- 13 (e) a master repurchase agreement providing for the custody and  
14 security of collateral is executed.
- 15 b. Any investment instruments in which the security is not  
16 physically held by the local unit shall be covered by a third party  
17 custodial agreement which shall provide for the designation of such  
18 investments in the name of the local unit and prevent unauthorized  
19 use of such investments.
- 20 c. Purchase of investment securities shall be executed by the  
21 "delivery versus payment" method to ensure that securities are  
22 either received by the local unit or a third party custodian prior to or  
23 upon the release of the local unit's funds.
- 24 d. Any investments not purchased and redeemed directly from  
25 the issuer, government money market mutual fund, local  
26 government investment pool, or the State of New Jersey Cash  
27 Management Fund, shall be purchased and redeemed through the  
28 use of a national or State bank located within this State or through a  
29 broker-dealer which, at the time of purchase or redemption, has  
30 been registered continuously for a period of at least two years  
31 pursuant to section 9 of P.L.1967, c.93 (C.49:3-56) and has at least  
32 \$25 million in capital stock (or equivalent capitalization if not a  
33 corporation), surplus reserves for contingencies and undivided  
34 profits, or through a securities dealer who makes primary markets  
35 in U.S. Government securities and reports daily to the Federal  
36 Reserve Bank of New York its position in and borrowing on such  
37 U.S. Government securities.
- 38 e. For the purposes of this section:
- 39 (1) a "government money market mutual fund" means an  
40 investment company or investment trust:
- 41 (a) which is registered with the Securities and Exchange  
42 Commission under the "Investment Company Act of 1940," 15  
43 U.S.C. s.80a-1 et seq., and operated in accordance with 17 C.F.R.  
44 s.270.2a-7 <sup>1</sup>, except that a government money market mutual fund  
45 may not impose liquidity fees or redemption gates regardless of  
46 whether permitted to do so under 17 C.F.R. s.270.2a-7<sup>1</sup>;

1 (b) the portfolio of which is limited to U.S. Government  
2 securities <sup>1</sup>that meet the definition of an eligible security pursuant  
3 to 17C.F.R.s.270.2a-7, securities that have been issued by New  
4 Jersey school districts, municipalities, counties, and entities subject  
5 to the "Local Authorities Fiscal Control Law," P.L.1983, c.313  
6 (C.40A:5A-1 et seq.)<sup>1</sup> that meet the definition of an eligible security  
7 pursuant to 17 C.F.R. s.270.2a-7, and repurchase agreements that  
8 are collateralized by such <sup>1</sup>**["U.S. Government"]**<sup>1</sup> securities in which  
9 direct investment may be made pursuant to paragraphs (1) <sup>1</sup>**["and"]** <sup>1</sup>  
10 (3) <sup>1</sup>, and (5)<sup>1</sup> of subsection a. of this section; and

11 (c) which is rated by a nationally recognized statistical rating  
12 organization.

13 (2) a "local government investment pool" means an investment  
14 pool:

15 (a) which is managed in accordance **["with 17 C.F.R. s.270.2a-**  
16 **7"]** <sup>1</sup>with generally accepted accounting and financial reporting  
17 principles for local government investment pools established by the  
18 Governmental Accounting Standards Board;

19 (b) which is rated in the highest category by a nationally  
20 recognized statistical rating organization;

21 (c) which is limited to U.S. Government securities <sup>1</sup>that meet  
22 the definition of an eligible security pursuant to 17 C.F.R. s.270.2a-  
23 7, securities that have been issued by New Jersey school districts,  
24 municipalities, counties, and entities subject to the "Local  
25 Authorities Fiscal Control Law," P.L.1983, c.313 (C.40A:5A-1 et  
26 seq.)<sup>1</sup> that meet the definition of an eligible security pursuant to 17  
27 C.F.R. 270.2a-7 and repurchase agreements that are collateralized  
28 by such <sup>1</sup>**["U.S. Government"]**<sup>1</sup> securities in which direct investment  
29 may be made pursuant to paragraphs (1) <sup>1</sup>**["and"]** <sup>1</sup> (3) <sup>1</sup>, and (5)<sup>1</sup>  
30 of subsection a. of this section;

31 (d) which is in compliance with <sup>1</sup>such<sup>1</sup> rules <sup>1</sup>as may be<sup>1</sup>  
32 adopted pursuant to the "Administrative Procedure Act," P.L.1968,  
33 c.410 (C.52:14B-1 et seq.) by the Local Finance Board of the  
34 Division of Local Government Services in the Department of  
35 Community Affairs, which <sup>1</sup>may promulgate<sup>1</sup> rules <sup>1</sup>**["shall provide]**  
36 providing<sup>1</sup> for disclosure and reporting requirements, and other  
37 provisions deemed necessary by the board to provide for the safety,  
38 liquidity and yield of the investments;

39 (e) which does not permit investments in instruments that: are  
40 subject to high price volatility with changing market conditions;  
41 cannot reasonably be expected, at the time of interest rate  
42 adjustment, to have a market value that approximates their par  
43 value; or utilize an index that does not support a stable net asset  
44 value; <sup>1</sup>**["and"]**<sup>1</sup>

45 (f) which purchases and redeems investments directly from the  
46 issuer, government money market mutual fund, or the State of New



1 Jersey Cash Management Fund, or through the use of a national or  
2 State bank located within this State, or through a broker-dealer  
3 which, at the time of purchase or redemption, has been registered  
4 continuously for a period of at least two years pursuant to section 9  
5 of P.L.1967, c.93 (C.49:3-56) and has at least \$25 million in capital  
6 stock (or equivalent capitalization if not a corporation), surplus  
7 reserves for contingencies and undivided profits, or through a  
8 securities dealer who makes primary markets in U.S. Government  
9 securities and reports daily to the Federal Reserve Bank of New  
10 York its position in and borrowing on such U.S. Government  
11 securities <sup>1</sup>; and

12 (g) which does not impose liquidity fees or redemption gates<sup>1</sup>.

13 f. Investments in, or deposits or purchases of financial  
14 instruments made pursuant to this section shall not be subject to the  
15 requirements of the "Local Public Contracts Law," P.L.1971, c.198  
16 (C.40A:11-1 et seq.).  
17 (cf: P.L.2015, c.95, s.16)

18

19 3. This act shall take effect immediately.

20

21

22

23

24 \_\_\_\_\_  
25 Permits local units and school districts to invest in local  
26 government investment pools managed in accordance with  
applicable Governmental Accounting Standards Board guidelines.

**SENATE, No. 2978**

**STATE OF NEW JERSEY**  
**217th LEGISLATURE**

INTRODUCED JANUARY 30, 2017

**Sponsored by:**

**Senator JAMES BEACH**

**District 6 (Burlington and Camden)**

**Senator NILSA CRUZ-PEREZ**

**District 5 (Camden and Gloucester)**

**SYNOPSIS**

Permits local units and school districts to invest in local government investment pools managed in accordance with applicable Governmental Accounting Standards Board guidelines.

**CURRENT VERSION OF TEXT**

As introduced.



**(Sponsorship Updated As Of: 6/20/2017)**

1 AN ACT concerning local government investment pools and  
2 amending P.L.1977, c.177 and P.L.1977, c.396.

3

4 **BE IT ENACTED** by the Senate and General Assembly of the State  
5 of New Jersey:

6

7 1. Section 1 of P.L.1977, c.177 (C.18A:20-37) is amended to  
8 read as follows:

9 1. a. When authorized by resolution adopted by a majority  
10 vote of all its members the board of education of any school district  
11 may use moneys, which may be in hand, for the purchase of the  
12 following types of securities which, if suitable for registry, may be  
13 registered in the name of the school district:

14 (1) Bonds or other obligations of the United States of America  
15 or obligations guaranteed by the United States of America;

16 (2) Government money market mutual funds;

17 (3) Any obligation that a federal agency or a federal  
18 instrumentality has issued in accordance with an act of Congress,  
19 which security has a maturity date not greater than 397 days from  
20 the date of purchase, provided that such obligations bear a fixed rate  
21 of interest not dependent on any index or other external factor;

22 (4) Bonds or other obligations of the school district or bonds or  
23 other obligations of the local unit or units within which the school  
24 district is located;

25 (5) Bonds or other obligations, having a maturity date of not  
26 more than 397 days from the date of purchase, approved by the  
27 Division of Investment in the Department of the Treasury for  
28 investment by school districts;

29 (6) Local government investment pools;

30 (7) Deposits with the State of New Jersey Cash Management  
31 Fund established pursuant to section 1 of P.L.1977,  
32 c.281 (C.52:18A-90.4); or

33 (8) Agreements for the repurchase of fully collateralized  
34 securities, if:

35 (a) the underlying securities are permitted investments pursuant  
36 to paragraphs (1) and (3) of this subsection a.;

37 (b) the custody of collateral is transferred to a third party;

38 (c) the maturity of the agreement is not more than 30 days;

39 (d) the underlying securities are purchased through a public  
40 depository as defined in section 1 of P.L.1970, c.236 (C.17:9-41)  
41 and for which a master repurchase agreement providing for the  
42 custody and security of collateral is executed.

43 b. Any investment instruments in which the security is not  
44 physically held by the school district shall be covered by a third  
45 party custodial agreement which shall provide for the designation of

**EXPLANATION – Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.**

**Matter underlined thus is new matter.**

1 such investments in the name of the school board and prevent  
2 unauthorized use of such investments.

3 c. Purchase of investment securities shall be executed by the  
4 "delivery versus payment" method to ensure that securities are  
5 either received by the school district or a third party custodian prior  
6 to or upon the release of the school district's funds.

7 d. Any investments not purchased and redeemed directly from  
8 the issuer, government money market mutual fund, local  
9 government investment pool, or the State of New Jersey Cash  
10 Management Fund, shall be purchased and redeemed through the  
11 use of a national or State bank located within this State or through a  
12 broker-dealer which, at the time of purchase or redemption, has  
13 been registered continuously for a period of at least two years  
14 pursuant to section 9 of P.L.1967, c.93 (C.49:3-56) and has at least  
15 \$25 million in capital stock (or equivalent capitalization if not a  
16 corporation), surplus reserves for contingencies and undivided  
17 profits, or through a securities dealer who makes primary markets  
18 in U.S. Government securities and reports daily to the Federal  
19 Reserve Bank of New York its position in and borrowing on such  
20 U.S. Government securities.

21 e. For the purposes of this section:

22 (1) a "government money market mutual fund" means an  
23 investment company or investment trust:

24 (a) which is registered with the Securities and Exchange  
25 Commission under the "Investment Company Act of 1940," 15  
26 U.S.C. s.80a-1 et seq., and operated in accordance with 17 C.F.R.  
27 s.270.2a-7;

28 (b) the portfolio of which is limited to U.S. Government  
29 securities that meet the definition of an eligible security pursuant to  
30 17 C.F.R. s.270.2a-7 and repurchase agreements that are  
31 collateralized by such U.S. Government securities in which direct  
32 investment may be made pursuant to paragraphs (1) and (3) of  
33 subsection a. of this section ; and

34 (c) which is rated by a nationally recognized statistical rating  
35 organization.

36 (2) a "local government investment pool" means an investment  
37 pool:

38 (a) which is managed in accordance with **17 C.F.R. s.270.2a-**  
39 **7** generally accepted accounting and financial reporting principles  
40 for local government investment pools established by the  
41 Governmental Accounting Standards Board;

42 (b) which is rated in the highest category by a nationally  
43 recognized statistical rating organization;

44 (c) the portfolio of which is limited to U.S. Government  
45 securities that meet the definition of an eligible security pursuant to  
46 17 C.F.R. s.270.2a-7 and repurchase agreements that are  
47 collateralized by such U.S. Government securities in which direct

1 investment may be made pursuant to paragraphs (1) and (3) of  
2 subsection a. of this section;

3 (d) which is in compliance with rules adopted pursuant to the  
4 "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et  
5 seq.) by the Local Finance Board of the Division of Local  
6 Government Services in the Department of Community Affairs,  
7 which rules shall provide for disclosure and reporting requirements,  
8 and other provisions deemed necessary by the board to provide for  
9 the safety, liquidity and yield of the investments;

10 (e) which does not permit investments in instruments that: are  
11 subject to high price volatility with changing market conditions;  
12 cannot reasonably be expected, at the time of interest rate  
13 adjustment, to have a market value that approximates their par  
14 value; or utilize an index that does not support a stable net asset  
15 value ; and

16 (f) which purchases and redeems investments directly from the  
17 issuer, a government money market mutual fund, or the State of  
18 New Jersey Cash Management Fund, or through the use of a  
19 national or State bank located within this State, or through a broker-  
20 dealer which, at the time of purchase or redemption, has been  
21 registered continuously for a period of at least two years pursuant to  
22 section 9 of P.L.1967, c.93 (C.49:3-56) and has at least \$25 million  
23 in capital stock (or equivalent capitalization if not a corporation),  
24 surplus reserves for contingencies and undivided profits, or through  
25 a securities dealer who makes primary markets in U.S. Government  
26 securities and reports daily to the Federal Reserve Bank of New  
27 York its position in and borrowing on such U.S. Government  
28 securities .

29 f. Investments in, or deposits or purchases of financial  
30 instruments made pursuant to this section shall not be subject to the  
31 requirements of the "Public School Contracts Law,"  
32 N.J.S.18A:18A-1 et seq.  
33 (cf: P.L.1997, c.148, s.1)

34

35 2. Section 8 of P.L.1977, c.396 (C.40A:5-15.1) is amended to  
36 read as follows:

37 8. Securities which may be purchased by local units.

38 a. When authorized by a cash management plan approved  
39 pursuant to N.J.S.40A:5-14, any local unit may use moneys which  
40 may be in hand for the purchase of the following types of securities  
41 which, if suitable for registry, may be registered in the name of the  
42 local unit:

43 (1) Bonds or other obligations of the United States of America  
44 or obligations guaranteed by the United States of America;

45 (2) Government money market mutual funds;

46 (3) Any obligation that a federal agency or a federal  
47 instrumentality has issued in accordance with an act of Congress,  
48 which security has a maturity date not greater than 397 days from

- 1 the date of purchase, provided that such obligation bears a fixed rate  
2 of interest not dependent on any index or other external factor;
- 3 (4) Bonds or other obligations of the local unit or bonds or other  
4 obligations of school districts of which the local unit is a part or  
5 within which the school district is located;
- 6 (5) Bonds or other obligations, having a maturity date not more  
7 than 397 days from the date of purchase, approved by the Division  
8 of Local Government Services in the Department of Community  
9 Affairs for investment by local units;
- 10 (6) Local government investment pools;
- 11 (7) Deposits with the State of New Jersey Cash Management  
12 Fund established pursuant to section 1 of P.L.1977,  
13 c.281 (C.52:18A-90.4); or
- 14 (8) Agreements for the repurchase of fully collateralized  
15 securities, if:
- 16 (a) the underlying securities are permitted investments pursuant  
17 to paragraphs (1) and (3) of this subsection a.;
- 18 (b) the custody of collateral is transferred to a third party;
- 19 (c) the maturity of the agreement is not more than 30 days;
- 20 (d) the underlying securities are purchased through a public  
21 depository as defined in section 1 of P.L.1970, c.236 (C.17:9-41);  
22 and
- 23 (e) a master repurchase agreement providing for the custody and  
24 security of collateral is executed.
- 25 b. Any investment instruments in which the security is not  
26 physically held by the local unit shall be covered by a third party  
27 custodial agreement which shall provide for the designation of such  
28 investments in the name of the local unit and prevent unauthorized  
29 use of such investments.
- 30 c. Purchase of investment securities shall be executed by the  
31 "delivery versus payment" method to ensure that securities are  
32 either received by the local unit or a third party custodian prior to or  
33 upon the release of the local unit's funds.
- 34 d. Any investments not purchased and redeemed directly from  
35 the issuer, government money market mutual fund, local  
36 government investment pool, or the State of New Jersey Cash  
37 Management Fund, shall be purchased and redeemed through the  
38 use of a national or State bank located within this State or through a  
39 broker-dealer which, at the time of purchase or redemption, has  
40 been registered continuously for a period of at least two years  
41 pursuant to section 9 of P.L.1967, c.93 (C.49:3-56) and has at least  
42 \$25 million in capital stock (or equivalent capitalization if not a  
43 corporation), surplus reserves for contingencies and undivided  
44 profits, or through a securities dealer who makes primary markets  
45 in U.S. Government securities and reports daily to the Federal  
46 Reserve Bank of New York its position in and borrowing on such  
47 U.S. Government securities.
- 48 e. For the purposes of this section:

- 1 (1) a "government money market mutual fund" means an  
2 investment company or investment trust:
- 3 (a) which is registered with the Securities and Exchange  
4 Commission under the "Investment Company Act of 1940," 15  
5 U.S.C. s.80a-1 et seq., and operated in accordance with 17 C.F.R.  
6 s.270.2a-7;
- 7 (b) the portfolio of which is limited to U.S. Government  
8 securities that meet the definition of an eligible security pursuant to  
9 17 C.F.R. s.270.2a-7 and repurchase agreements that are  
10 collateralized by such U.S. Government securities in which direct  
11 investment may be made pursuant to paragraphs (1) and (3) of  
12 subsection a. of this section; and
- 13 (c) which is rated by a nationally recognized statistical rating  
14 organization.
- 15 (2) a "local government investment pool" means an investment  
16 pool:
- 17 (a) which is managed in accordance **with 17 C.F.R. s.270.2a-**  
18 **7** generally accepted accounting and financial reporting principles  
19 for local government investment pools established by the  
20 Governmental Accounting Standards Board;
- 21 (b) which is rated in the highest category by a nationally  
22 recognized statistical rating organization;
- 23 (c) which is limited to U.S. Government securities that meet the  
24 definition of an eligible security pursuant to 17 C.F.R. 270.2a-7 and  
25 repurchase agreements that are collateralized by such U.S.  
26 Government securities in which direct investment may be made  
27 pursuant to paragraphs (1) and (3) of subsection a. of this section;
- 28 (d) which is in compliance with rules adopted pursuant to the  
29 "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et  
30 seq.) by the Local Finance Board of the Division of Local  
31 Government Services in the Department of Community Affairs,  
32 which rules shall provide for disclosure and reporting requirements,  
33 and other provisions deemed necessary by the board to provide for  
34 the safety, liquidity and yield of the investments;
- 35 (e) which does not permit investments in instruments that: are  
36 subject to high price volatility with changing market conditions;  
37 cannot reasonably be expected, at the time of interest rate  
38 adjustment, to have a market value that approximates their par  
39 value; or utilize an index that does not support a stable net asset  
40 value; and
- 41 (f) which purchases and redeems investments directly from the  
42 issuer, government money market mutual fund, or the State of New  
43 Jersey Cash Management Fund, or through the use of a national or  
44 State bank located within this State, or through a broker-dealer  
45 which, at the time of purchase or redemption, has been registered  
46 continuously for a period of at least two years pursuant to section 9  
47 of P.L.1967, c.93 (C.49:3-56) and has at least \$25 million in capital  
48 stock (or equivalent capitalization if not a corporation), surplus

1 reserves for contingencies and undivided profits, or through a  
2 securities dealer who makes primary markets in U.S. Government  
3 securities and reports daily to the Federal Reserve Bank of New  
4 York its position in and borrowing on such U.S. Government  
5 securities.

6 f. Investments in, or deposits or purchases of financial  
7 instruments made pursuant to this section shall not be subject to the  
8 requirements of the "Local Public Contracts Law," P.L.1971,  
9 c.198 (C.40A:11-1 et seq.).  
10 (cf: P.L.2015, c.95, s.16)

11

12 3. This act shall take effect immediately.

13

14

15

#### STATEMENT

16

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

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

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



**S2978 BEACH, CRUZ-PEREZ**

1       Enactment of this bill would permit New Jersey's local units and  
2 school districts to place public funds in local government  
3 investment pools that are managed in accordance with GASB  
4 benchmarks. It is the sponsor's view that local government entities  
5 should be able to continue to use safe and liquid investments with  
6 competitive interest rates as a means of generating interest income  
7 on operating and reserve funds and bond proceeds. Interest income  
8 allows local units and school districts to restrain property tax  
9 increases and borrowing needs. These entities have limited  
10 investment options and enactment of this legislation will make it  
11 easier for them to find suitable investments.

# SENATE COMMUNITY AND URBAN AFFAIRS COMMITTEE

## STATEMENT TO

### SENATE, No. 2978

# STATE OF NEW JERSEY

DATED: JUNE 19, 2017

The Senate Community and Urban Affairs Committee reports favorably Senate Bill No. 2978.

This bill amends 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 United States 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.

Enactment of this bill would permit New Jersey's local units and school districts to place public funds in local government investment pools that are managed in accordance with GASB benchmarks. It is the sponsor's view that local government entities should be able to continue to use safe and liquid investments with competitive interest rates as a means of generating interest income on operating and

reserve funds and bond proceeds. Interest income allows local units and school districts to restrain property tax increases and borrowing needs. These entities have limited investment options and enactment of this legislation will make it easier for them to find suitable investments.

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.

# ASSEMBLY, No. 4404

## STATE OF NEW JERSEY 217th LEGISLATURE

INTRODUCED DECEMBER 15, 2016

**Sponsored by:**  
**Assemblyman LOUIS D. GREENWALD**  
**District 6 (Burlington and Camden)**

### **SYNOPSIS**

Permits local units and school districts to invest in local government investment pools managed in accordance with applicable Governmental Accounting Standards Board guidelines.

### **CURRENT VERSION OF TEXT**

As introduced.



A4404 GREENWALD

2

1 AN ACT concerning local government investment pools and  
2 amending P.L.1977, c.177 and P.L.1977, c.396.

3

4 **BE IT ENACTED** by the Senate and General Assembly of the State  
5 of New Jersey:

6

7 1. Section 1 of P.L.1977, c.177 (C.18A:20-37) is amended to  
8 read as follows:

9 1. a. When authorized by resolution adopted by a majority vote  
10 of all its members the board of education of any school district may  
11 use moneys, which may be in hand, for the purchase of the  
12 following types of securities which, if suitable for registry, may be  
13 registered in the name of the school district:

14 (1) Bonds or other obligations of the United States of America  
15 or obligations guaranteed by the United States of America;

16 (2) Government money market mutual funds;

17 (3) Any obligation that a federal agency or a federal  
18 instrumentality has issued in accordance with an act of Congress,  
19 which security has a maturity date not greater than 397 days from  
20 the date of purchase, provided that such obligations bear a fixed rate  
21 of interest not dependent on any index or other external factor;

22 (4) Bonds or other obligations of the school district or bonds or  
23 other obligations of the local unit or units within which the school  
24 district is located;

25 (5) Bonds or other obligations, having a maturity date of not  
26 more than 397 days from the date of purchase, approved by the  
27 Division of Investment in the Department of the Treasury for  
28 investment by school districts;

29 (6) Local government investment pools;

30 (7) Deposits with the State of New Jersey Cash Management  
31 Fund established pursuant to section 1 of P.L.1977, c.281  
32 (C.52:18A-90.4); or

33 (8) Agreements for the repurchase of fully collateralized  
34 securities, if:

35 (a) the underlying securities are permitted investments pursuant  
36 to paragraphs (1) and (3) of this subsection a.;

37 (b) the custody of collateral is transferred to a third party;

38 (c) the maturity of the agreement is not more than 30 days;

39 (d) the underlying securities are purchased through a public  
40 depository as defined in section 1 of P.L.1970, c.236 (C.17:9-41)  
41 and for which a master repurchase agreement providing for the  
42 custody and security of collateral is executed.

43 b. Any investment instruments in which the security is not  
44 physically held by the school district shall be covered by a third  
45 party custodial agreement which shall provide for the designation of

**EXPLANATION – Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.**

**Matter underlined thus is new matter.**

1 such investments in the name of the school board and prevent  
2 unauthorized use of such investments.

3 c. Purchase of investment securities shall be executed by the  
4 "delivery versus payment" method to ensure that securities are  
5 either received by the school district or a third party custodian prior  
6 to or upon the release of the school district's funds.

7 d. Any investments not purchased and redeemed directly from  
8 the issuer, government money market mutual fund, local  
9 government investment pool, or the State of New Jersey Cash  
10 Management Fund, shall be purchased and redeemed through the  
11 use of a national or State bank located within this State or through a  
12 broker-dealer which, at the time of purchase or redemption, has  
13 been registered continuously for a period of at least two years  
14 pursuant to section 9 of P.L.1967, c.93 (C.49:3-56) and has at least  
15 \$25 million in capital stock (or equivalent capitalization if not a  
16 corporation), surplus reserves for contingencies and undivided  
17 profits, or through a securities dealer who makes primary markets  
18 in U.S. Government securities and reports daily to the Federal  
19 Reserve Bank of New York its position in and borrowing on such  
20 U.S. Government securities.

21 e. For the purposes of this section:

22 (1) a "government money market mutual fund" means an  
23 investment company or investment trust:

24 (a) which is registered with the Securities and Exchange  
25 Commission under the "Investment Company Act of 1940," 15  
26 U.S.C. s.80a-1 et seq., and operated in accordance with 17 C.F.R.  
27 s.270.2a-7;

28 (b) the portfolio of which is limited to U.S. Government  
29 securities that meet the definition of an eligible security pursuant to  
30 17 C.F.R. s.270.2a-7 and repurchase agreements that are  
31 collateralized by such U.S. Government securities in which direct  
32 investment may be made pursuant to paragraphs (1) and (3) of  
33 subsection a. of this section ; and

34 (c) which is rated by a nationally recognized statistical rating  
35 organization.

36 (2) a "local government investment pool" means an investment  
37 pool:

38 (a) which is managed in accordance with **17 C.F.R. s.270.2a-**  
39 **7** generally accepted accounting and financial reporting principles  
40 for local government investment pools established by the  
41 Governmental Accounting Standards Board;

42 (b) which is rated in the highest category by a nationally  
43 recognized statistical rating organization;

44 (c) the portfolio of which is limited to U.S. Government  
45 securities that meet the definition of an eligible security pursuant to  
46 17 C.F.R. s.270.2a-7 and repurchase agreements that are  
47 collateralized by such U.S. Government securities in which direct



1 investment may be made pursuant to paragraphs (1) and (3) of  
2 subsection a. of this section;

3 (d) which is in compliance with rules adopted pursuant to the  
4 "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et  
5 seq.) by the Local Finance Board of the Division of Local  
6 Government Services in the Department of Community Affairs,  
7 which rules shall provide for disclosure and reporting requirements,  
8 and other provisions deemed necessary by the board to provide for  
9 the safety, liquidity and yield of the investments;

10 (e) which does not permit investments in instruments that: are  
11 subject to high price volatility with changing market conditions;  
12 cannot reasonably be expected, at the time of interest rate  
13 adjustment, to have a market value that approximates their par  
14 value; or utilize an index that does not support a stable net asset  
15 value ; and

16 (f) which purchases and redeems investments directly from the  
17 issuer, a government money market mutual fund, or the State of  
18 New Jersey Cash Management Fund, or through the use of a  
19 national or State bank located within this State, or through a broker-  
20 dealer which, at the time of purchase or redemption, has been  
21 registered continuously for a period of at least two years pursuant to  
22 section 9 of P.L.1967, c.93 (C.49:3-56) and has at least \$25 million  
23 in capital stock (or equivalent capitalization if not a corporation),  
24 surplus reserves for contingencies and undivided profits, or through  
25 a securities dealer who makes primary markets in U.S. Government  
26 securities and reports daily to the Federal Reserve Bank of New  
27 York its position in and borrowing on such U.S. Government  
28 securities .

29 f. Investments in, or deposits or purchases of financial  
30 instruments made pursuant to this section shall not be subject to the  
31 requirements of the "Public School Contracts Law,"  
32 N.J.S.18A:18A-1 et seq.  
33 (cf: P.L.1997, c.148, s.1)

34

35 2. Section 8 of P.L.1977, c.396 (C.40A:5-15.1) is amended to  
36 read as follows:

37 8. Securities which may be purchased by local units.

38 a. When authorized by a cash management plan approved  
39 pursuant to N.J.S.40A:5-14, any local unit may use moneys which  
40 may be in hand for the purchase of the following types of securities  
41 which, if suitable for registry, may be registered in the name of the  
42 local unit:

43 (1) Bonds or other obligations of the United States of America  
44 or obligations guaranteed by the United States of America;

45 (2) Government money market mutual funds;

46 (3) Any obligation that a federal agency or a federal  
47 instrumentality has issued in accordance with an act of Congress,  
48 which security has a maturity date not greater than 397 days from

- 1 the date of purchase, provided that such obligation bears a fixed rate  
2 of interest not dependent on any index or other external factor;
- 3 (4) Bonds or other obligations of the local unit or bonds or other  
4 obligations of school districts of which the local unit is a part or  
5 within which the school district is located;
- 6 (5) Bonds or other obligations, having a maturity date not more  
7 than 397 days from the date of purchase, approved by the Division  
8 of Local Government Services in the Department of Community  
9 Affairs for investment by local units;
- 10 (6) Local government investment pools;
- 11 (7) Deposits with the State of New Jersey Cash Management  
12 Fund established pursuant to section 1 of P.L.1977, c.281  
13 (C.52:18A-90.4); or
- 14 (8) Agreements for the repurchase of fully collateralized  
15 securities, if:
- 16 (a) the underlying securities are permitted investments pursuant  
17 to paragraphs (1) and (3) of this subsection a.;
- 18 (b) the custody of collateral is transferred to a third party;
- 19 (c) the maturity of the agreement is not more than 30 days;
- 20 (d) the underlying securities are purchased through a public  
21 depository as defined in section 1 of P.L.1970, c.236 (C.17:9-41);  
22 and
- 23 (e) a master repurchase agreement providing for the custody and  
24 security of collateral is executed.
- 25 b. Any investment instruments in which the security is not  
26 physically held by the local unit shall be covered by a third party  
27 custodial agreement which shall provide for the designation of such  
28 investments in the name of the local unit and prevent unauthorized  
29 use of such investments.
- 30 c. Purchase of investment securities shall be executed by the  
31 "delivery versus payment" method to ensure that securities are  
32 either received by the local unit or a third party custodian prior to or  
33 upon the release of the local unit's funds.
- 34 d. Any investments not purchased and redeemed directly from  
35 the issuer, government money market mutual fund, local  
36 government investment pool, or the State of New Jersey Cash  
37 Management Fund, shall be purchased and redeemed through the  
38 use of a national or State bank located within this State or through a  
39 broker-dealer which, at the time of purchase or redemption, has  
40 been registered continuously for a period of at least two years  
41 pursuant to section 9 of P.L.1967, c.93 (C.49:3-56) and has at least  
42 \$25 million in capital stock (or equivalent capitalization if not a  
43 corporation), surplus reserves for contingencies and undivided  
44 profits, or through a securities dealer who makes primary markets  
45 in U.S. Government securities and reports daily to the Federal  
46 Reserve Bank of New York its position in and borrowing on such  
47 U.S. Government securities.
- 48 e. For the purposes of this section:

1 (1) a "government money market mutual fund" means an  
2 investment company or investment trust:

3 (a) which is registered with the Securities and Exchange  
4 Commission under the "Investment Company Act of 1940," 15  
5 U.S.C. s.80a-1 et seq., and operated in accordance with 17 C.F.R.  
6 s.270.2a-7;

7 (b) the portfolio of which is limited to U.S. Government  
8 securities that meet the definition of an eligible security pursuant to  
9 17 C.F.R. s.270.2a-7 and repurchase agreements that are  
10 collateralized by such U.S. Government securities in which direct  
11 investment may be made pursuant to paragraphs (1) and (3) of  
12 subsection a. of this section; and

13 (c) which is rated by a nationally recognized statistical rating  
14 organization.

15 (2) a "local government investment pool" means an investment  
16 pool:

17 (a) which is managed in accordance **【**with 17 C.F.R. s.270.2a-  
18 **7】** generally accepted accounting and financial reporting principles  
19 for local government investment pools established by the  
20 Governmental Accounting Standards Board;

21 (b) which is rated in the highest category by a nationally  
22 recognized statistical rating organization;

23 (c) which is limited to U.S. Government securities that meet the  
24 definition of an eligible security pursuant to 17 C.F.R. 270.2a-7 and  
25 repurchase agreements that are collateralized by such U.S.  
26 Government securities in which direct investment may be made  
27 pursuant to paragraphs (1) and (3) of subsection a. of this section;

28 (d) which is in compliance with rules adopted pursuant to the  
29 "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et  
30 seq.) by the Local Finance Board of the Division of Local  
31 Government Services in the Department of Community Affairs,  
32 which rules shall provide for disclosure and reporting requirements,  
33 and other provisions deemed necessary by the board to provide for  
34 the safety, liquidity and yield of the investments;

35 (e) which does not permit investments in instruments that: are  
36 subject to high price volatility with changing market conditions;  
37 cannot reasonably be expected, at the time of interest rate  
38 adjustment, to have a market value that approximates their par  
39 value; or utilize an index that does not support a stable net asset  
40 value; and

41 (f) which purchases and redeems investments directly from the  
42 issuer, government money market mutual fund, or the State of New  
43 Jersey Cash Management Fund, or through the use of a national or  
44 State bank located within this State, or through a broker-dealer  
45 which, at the time of purchase or redemption, has been registered  
46 continuously for a period of at least two years pursuant to section 9  
47 of P.L.1967, c.93 (C.49:3-56) and has at least \$25 million in capital  
48 stock (or equivalent capitalization if not a corporation), surplus

1 reserves for contingencies and undivided profits, or through a  
2 securities dealer who makes primary markets in U.S. Government  
3 securities and reports daily to the Federal Reserve Bank of New  
4 York its position in and borrowing on such U.S. Government  
5 securities.

6 f. Investments in, or deposits or purchases of financial  
7 instruments made pursuant to this section shall not be subject to the  
8 requirements of the "Local Public Contracts Law," P.L.1971, c.198  
9 (C.40A:11-1 et seq.).  
10 (cf: P.L.2015, c.95, s.16)

11

12 3. This act shall take effect immediately.

13

14

15

STATEMENT

16

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

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

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

**A4404 GREENWALD**

1       Enactment of this bill would permit New Jersey's local units and  
2 school districts to place public funds in local government  
3 investment pools that are managed in accordance with GASB  
4 benchmarks. It is the sponsor's view that local government entities  
5 should be able to continue to use safe and liquid investments with  
6 competitive interest rates as a means of generating interest income  
7 on operating and reserve funds and bond proceeds. Interest income  
8 allows local units and school districts to restrain property tax  
9 increases and borrowing needs. These entities have limited  
10 investment options and enactment of this legislation will make it  
11 easier for them to find suitable investments.

ASSEMBLY STATE AND LOCAL GOVERNMENT  
COMMITTEE

STATEMENT TO  
**ASSEMBLY, No. 4404**

with committee amendments

**STATE OF NEW JERSEY**

DATED: DECEMBER 4, 2017

The Assembly State and Local Government Committee reports favorably and with committee amendments Assembly Bill No. 4404.

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 S2978, sponsored by Senators Beach and Cruz-Perez, 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.