COUNTY COMMISSIONERS
Association of Pennsylvania

September 18, 2017

The Honorable Bob Casey
393 Russell Senate Office Building
Washington, DC 20510

Dear Senator Casey:

On behalf of County Commissioners Association of Pennsylvania, representing all 67 counties in the commonwealth, I write to ask for your support of H.R. 2319 and S. 1117, the Consumer Financial Choice and Capital Markets Protection Act. Specifically, H.R. 2319 and S. 1117 would fix the unintended consequences of a recently implemented Securities Exchange Commission (SEC) rule that is undermining the finances of counties and other municipalities.

The rule in question, which went into effect in October 2016, prohibits public and private sector institutions that invest short-term cash from investing in prime and tax-exempt money market funds that have a stable net asset value (NAV). That has limited the investment options of counties and other municipal governments, and with about $1.2 trillion leaving money market funds, has wiped out a significant source of low-cost liquidity used to finance county operations, public infrastructure, affordable housing and economic development.

Pennsylvania's counties depend on the liquidity provided by money market funds for investments in critical infrastructure. Because the SEC rule has caused money market fund holdings of municipal paper to decline by 50 percent, the interest rates borrowers pay on that short-term debt have spiked from a few basis points to about 90 basis points. This is about 40 basis points higher than the Federal Reserve's interest rate increases over the past year.

This has increased the cost of short-term borrowing for counties, and at the same time, has reduced the ability of municipalities to obtain market returns on the short-term management of taxpayer money. These extra costs and lower returns are putting unnecessary pressure on municipal finances, with no apparent benefit to reduced risk or increased market transparency.

We would also note that these increased costs come at a time when Congress and the Administration are debating federal tax reform, including the potential of a cap or a repeal of the tax-exempt status of municipal bond interest. Municipal bonds are the primary investment tool used to finance public capital improvements and public infrastructure projects, and removing their tax-exempt status would not only cause local governments to pay millions, if not billions, more in interest on their debt service, but it would also be compounded by forcing them to pay interest rates driven higher by the SEC rule.

H.R. 2319 and S. 1117 are bipartisan and common sense bills, and we ask for your support and co-sponsorship so that they can move expeditiously through the legislative process. Thank you for your consideration.

Sincerely,

Lisa Schaefer
Director of Government Relations