

Government Finance Officers Association
U.S. Conference of Mayors
National Association of Counties
National League of Cities
International City/County Management Association
Large Public Power Council
National Association of Health and Educational Facilities Finance Authorities
International Municipal Lawyers Association
National Council of State Housing Agencies
American Public Power Association

October 13, 2017

The Honorable Michael Crapo
Chairman
Committee on Banking
United States Senate
Washington, DC 20515

The Honorable Sherrod Brown
Ranking Member
Committee on Banking
United States Senate
Washington, DC 20510

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairmen Crapo and Hensarling, and Ranking Members Brown and Waters:

The organizations listed above, representing state and local governments, authorities and other public entities, wish to express their support for H.R. 2319/S. 1117, *The Consumer Financial Choice and Capital Markets Protection Act*.

Our organizations have long opposed the Securities and Exchange Commission (SEC) modifications to SEC Rule 2a-7 of the Investment Company Act of 1940 that changed the net-asset-value (NAV) accounting methodology for money market mutual funds (MMMF) from stable to floating. Our members rely on the hallmark stable NAV feature in a variety of ways. First, many governments have specific state or local statutes and policies that require them to invest in financial products with a stable NAV. The policy reason for this is to ensure that public funds are appropriately safeguarded to best serve the entity. Second, MMMFs with a stable NAV are the most commonly used investment by state and local governments. Forcing governments to find alternative investments to MMMFs creates additional risk for public funds by driving them to potentially invest in other, less suitable products. Finally, non- MMMF options may not meet liquidity standards required by their governments to meet cash management policies and statutes. H.R. 2319/S. 1117 would enable state and local governments to continue to use stable NAV funds for their essential and critical investment needs.

In addition to the vital use of MMMFs as state and local government investments, it is important to note that MMMFs are the largest purchasers of short term municipal securities. Due to the new SEC rules, these funds have curbed their appetite for these securities, thus decreasing demand and increasing costs to state and local governments that issue this type of debt. In fact, between January 2016 and July 2017, tax

exempt MMMFs assets fell by 50 percent, from \$254 billion to \$135 billion, thereby dramatically shrinking the funding pool available to municipal borrowers. Over 30 states lost at least \$1 billion in funding from tax-exempt MMMFs. At the same time, municipalities fortunate enough to continue selling their debt to tax-exempt funds saw their borrowing costs increase by nearly double the Federal Reserve's rate increases over the same period. Those costs have increased even more for state and local governments that can no longer sell their debt to MMMFs, and have to borrow from other investors or replace the debt with bank loans.

Money market funds have been utilized effectively in the past to both manage liquidity and provide a reliable source of working capital to fund public services and finance continued infrastructure investment and economic development throughout all economic conditions. This is particularly important today as states and communities impacted by recent devastating hurricanes and other natural disasters seek to finance rebuilding and recovery efforts. We ask that you enact H.R. 2319/S. 1117 so that state and local governments can continue to have unrestricted access to these safe and highly liquid capital markets tools.

Thank you again for considering this important legislation. We look forward to working with you and supporting your efforts to help state and local governments on this and other regulatory and financial matters of mutual interest.

Sincerely,

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Larry Jones, United States Conference of Mayors, 202-861-6709

Jack Peterson, National Association of Counties, 202-661-8805

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