VGFOA

Virginia Government Finance Officers' Association

'Developing Governmental and Financial Leaders'

919 East Main Street, Suite 1100
Richmond, VA 23219
Phone: (804) 249-4525
vgfoa@valocalfinance.org
www.vgfoa.org

April 21, 2015

The Honorable Mark Warner
United States Senate
475 Russell Senate Office Building
Washington, DC 20510

Dear Senator Warner,

My name is Jon Munch, and I am currently serving as President of the Virginia Government Finance Officers' Association (VGFOA). We represent approximately 850 members from state and local government agencies across the Commonwealth of Virginia.

I am writing you on behalf of the VGFOA to request your support in cosponsoring legislation that is being developed by Senator Pat Toomey, which would appear to correct several of the provisions included in the SEC's 2014 money market mutual fund (MMMF) reform rule that are harmful to Virginia's local governments. While many governments appealed to the SEC directly in 2013 and 2014 to educate the Commission about the negative consequences that would result from these provisions, the SEC ultimately chose to include them. Senator Toomey's proposed legislation focuses on removing the requirement in the 2014 SEC reform rule that MMMFs price their shares at a floating net asset value (NAV); this would allow such funds to return to a fixed NAV. The VGFOA supports this change for a number of reasons.

First, the new rule's change of the main feature of these funds from a fixed to a floating NAV would create administrative and costly burdens to governments, large and small. This is because as investors, local governments rely on MMMFs as one of the main components of their short- and mid-term investing needs. For example, while some local governments do not have a steady and predictable inflow of revenue (tax payments and payments from local governments are collected only at certain times of the year), disbursements – including payroll and general bill paying – is constant. Many governments invest in money market funds because of their simple accounting methodology and management, security and liquidity – all features that are necessary for governments to protect public funds, access cash, and pay bills when they are due.

Second, many local governments are subject to policies and legal restrictions permitting them to invest only in funds that do not fluctuate in value. If the SEC's new floating NAV requirement is imposed on MMMFs as scheduled in 2016, governments may be forced out of these funds and would have to look to other investment vehicles that have historically paid lower yields, or to other less secure products with equal or less liquidity than MMMFs. All of these potential scenarios would increase costs to Virginia's local governments.

Finally, the new floating NAV requirement would also harm Virginia local governments that issue municipal securities. MMMFs are the largest investor in short-term municipal bonds, holding roughly 70 percent of all outstanding short term bonds totaling over $500 billion. Our local governments rely on the sale of these bonds to support government functions important to our citizens. Changing the NAV from fixed to floating would make MMMFs far less attractive to all investors, thereby limiting the appetite for MMMFs to purchase municipal securities. Losing this vital investing power would lead to higher debt issuance costs for many of our local governments.

For all of these reasons we hope that you can cosponsor Senator Toomey's draft legislation to maintain a fixed NAV for MMMFs, as well as work with the Senator to ensure that this legislation also addresses two other harmful features of the SEC's new rule – liquidity fees and redemption gates. The new rule allows MMMFs to impose liquidity fees on investors as well as temporarily suspend redemptions during times of fiscal stress. It is very unlikely that Virginia local governments will be able to maintain investments in funds if we are penalized for, or prohibited from, redeeming from these funds when they fail to perform. Again, the result of these features – a floating NAV, liquidity fees, and redemption gates – could force Virginia local governments out of MMMFs and into other investments that have historically paid lower yields, or to other less secure products with equal or less liquidity than money market funds MMMFs. All of these potential scenarios would increase costs to our local governments.

Thank you for your consideration of this request.

Warmest regards,

Jon Munch
President