

[First Reprint]

**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)**

**Assemblyman LOUIS D. GREENWALD**

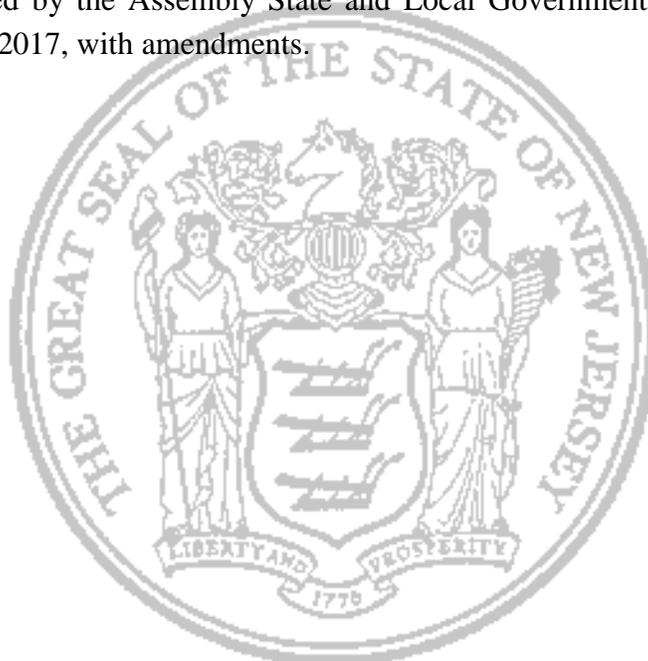
**District 6 (Burlington and Camden)**

**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 reported by the Assembly State and Local Government Committee on December 4, 2017, with amendments.



**(Sponsorship Updated As Of: 1/9/2018)**

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  
42 the date of purchase, issued by New Jersey school districts,  
43 municipalities, counties, and entities subject to the requirements 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.

Matter enclosed in superscript numerals has been adopted as follows:

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

1 the “Local Authorities Fiscal Control Law,” P.L.1983, c.313  
2 (C.40A:5A-1 et seq.)<sup>1</sup>;

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

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

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

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

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

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

32 e. For the purposes of this section:

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

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

41 (b) the portfolio of which is limited to U.S. Government  
42 securities <sup>1</sup>that meet the definition of an eligible security pursuant  
43 to 17 C.F.R. s.270.2a-7, securities that have been issued by New  
44 Jersey school districts, municipalities, counties, and entities  
45 subject to the requirements of the “Local Authorities Fiscal Control  
46 Law,” P.L.1983, c.313 (C.40A:5A-1 et seq.)<sup>1</sup> that meet the  
47 definition of an eligible security pursuant to 17 C.F.R. s.270.2a-7

1 and repurchase agreements that are collateralized by such <sup>1</sup>["U.S.  
2 Government"]<sup>1</sup> securities in which direct investment may be made  
3 pursuant to paragraphs (1) <sup>1</sup>["and"]<sup>1</sup> (3) <sup>1</sup>, and (5)<sup>1</sup> of subsection a.  
4 of this section ; and

5 (c) which is rated by a nationally recognized statistical rating  
6 organization.

7 (2) a "local government investment pool" means an investment  
8 pool:

9 (a) which is managed in accordance with 17 C.F.R. s.270.2a-  
10 7 generally accepted accounting and financial reporting principles  
11 for local government investment pools established by the  
12 Governmental Accounting Standards Board;

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

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

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

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

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

1 surplus reserves for contingencies and undivided profits, or through  
2 a 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<sup>1</sup>; and

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

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

12

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

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

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

21 (1) Bonds or other obligations of the United States of America  
22 or obligations guaranteed by the United States of America;

23 (2) Government money market mutual funds;

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

29 (4) Bonds or other obligations of the local unit or bonds or other  
30 obligations of school districts of which the local unit is a part or  
31 within which the school district is located;

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

40 (6) Local government investment pools;

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

44 (8) Agreements for the repurchase of fully collateralized  
45 securities, if:

46 (a) the underlying securities are permitted investments pursuant  
47 to paragraphs (1) and (3) of this subsection a. <sup>1</sup>or are bonds or other

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

1 to the “Local Authorities Fiscal Control Law,” P.L.1983, c.313  
2 (C.40A:5A-1 et seq.)<sup>1</sup> that meet the definition of an eligible security  
3 pursuant to 17 C.F.R. s.270.2a-7, and repurchase agreements that  
4 are collateralized by such <sup>1</sup>U.S. Government<sup>1</sup> securities in which  
5 direct investment may be made pursuant to paragraphs (1) <sup>1</sup>and<sup>1</sup> ,<sup>1</sup>  
6 (3) <sup>1</sup>, and (5)<sup>1</sup> of subsection a. 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] <sup>1</sup>with<sup>1</sup> generally accepted accounting and financial reporting  
13 principles 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) which is limited to U.S. Government securities <sup>1</sup>that meet  
18 the definition of an eligible security pursuant to 17 C.F.R. s.270.2a-  
19 7, securities that have been issued by New Jersey school districts,  
20 municipalities, counties, and entities subject to the “Local  
21 Authorities Fiscal Control Law,” P.L.1983, c.313 (C.40A:5A-1 et  
22 seq.)<sup>1</sup> that meet the definition of an eligible security pursuant to 17  
23 C.F.R. 270.2a-7 and repurchase agreements that are collateralized  
24 by such <sup>1</sup>U.S. Government<sup>1</sup> securities in which direct investment  
25 may be made pursuant to paragraphs (1) <sup>1</sup>and<sup>1</sup> ,<sup>1</sup> (3) <sup>1</sup>, and (5)<sup>1</sup> of  
26 subsection a. of this section;  
27 (d) which is in compliance with <sup>1</sup>such<sup>1</sup> rules <sup>1</sup>as may be<sup>1</sup>  
28 adopted pursuant to the "Administrative Procedure Act," P.L.1968,  
29 c.410 (C.52:14B-1 et seq.) by the Local Finance Board of the  
30 Division of Local Government Services in the Department of  
31 Community Affairs, which <sup>1</sup>may promulgate<sup>1</sup> rules <sup>1</sup>[shall provide]  
32 providing<sup>1</sup> for disclosure and reporting requirements, and other  
33 provisions deemed necessary by the board to provide for the safety,  
34 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; <sup>1</sup>and<sup>1</sup>  
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

1 stock (or equivalent capitalization if not a corporation), surplus  
2 reserves for contingencies and undivided profits, or through a  
3 securities dealer who makes primary markets in U.S. Government  
4 securities and reports daily to the Federal Reserve Bank of New  
5 York its position in and borrowing on such U.S. Government  
6 securities <sup>1</sup>; and

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

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

12 (cf: P.L.2015, c.95, s.16)

13

14 3. This act shall take effect immediately.