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STATE HOUSE NEWS

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REFUNDING BONDS

One positive outcome of NJAC's cap calculation meeting with DCA Commissioner Lori Grifa and Deputy Commissioner Betty Lou DeCroce is that the Department has agreed to follow up with an issue raised by Morris County Finance Officer Glen Roe concerning the issuance of refunding bonds. As you know, N.J.S.A. 40A:2-51(c) authorizes the:

> "Issuance of bonds to realize debt service savings on outstanding obligations without the approval of the local finance board when authorized by conditions set forth in rules and regulations of the local finance board and upon a resolution adopted by 2/3 vote of the full membership of the governing body."

Although this law has been on the books since 2003, the Department never developed the necessary rules and regulations to carry out its intended purpose. However, the Department now seems committed to streamlining the issuance of refunding bonds and moving forward with publishing the proposed rule changes within the next few months.

COMPETITIVE CONTRACTING FOR HEALTH BENEFIT PLANS

Based on the recommendations of its Legislative Affairs Committee, NJAC is in the process of coordinating meetings with the sponsors of **SENATE, NO. 2999** *(Kean R-21/Vitale D-18),* which requires local governing bodies to use the competitive contracting process when purchasing health benefit plans for employees.

Although NJAC applauds their efforts to provide an open and competitive process for procuring health benefit plans at a potential cost savings for local government employers, we are concerned with the unintended consequences this legislation will impose. As you know, local governing bodies typically solicit quotes for health benefit plans through a traditional Request for Proposal (RFP) process, which empowers a broker of record to competitively shop and negotiate plan specifications with providers of such plans. Our county administrators, finance officers, and purchasing officials agree that the flexibility of the current process keeps premium increases at consistent and manageable levels that would not be achieved through a competitive contracting process, which would prohibit negotiations between providers and local governing bodies.

Moreover, competitive contracting is an overly burdensome procurement process, which under this legislation, would require local governing bodies to hire costly consultants to prepare, evaluate, and make recommendations on complex proposals. At a time in which local governments are struggling to make ends meet by reducing critical staff, essential services, and capital improvement projects, county officials will find it very difficult to allocate the necessary resources to pay consultants that may not yield the intended cost savings. In addition to these concerns, this legislation does not seem to provide guidance for local governments that participate in the State Health Benefits Program (SHBP) or on the recommended duration of contracts for health benefit plans.

Despite our concerns with this legislation, NJAC is a strong advocate of openness and transparency in government - especially when it promotes competition that may save valuable taxpayer dollars. With this in mind, we look forward to meeting with senators Kean and Vitale to this legislation in more detail, so that we may work on a bill that preserve's the legislation's original intent, but makes its implementation more practical for local governments.

MONEY MARKET FUNDS

NJAC and the New Jersey State League of Municipalities recently submitted the Op-Ed piece copied below to the Star Ledger and Asbury Park Press concerning the Securities and Exchange Commission's (SEC) anticipated proposed changes to money market funds.

"Over the past four decades money market mutual funds have emerged as a steady and predictable feature of our financial system and a valued financing tool used by state and local governments. Like individual households, businesses, and non-profit organizations, state and local governments have relied on money market funds for stability, convenience, a high degree of liquidity, and a historically higher yield than competing investment products. Money market funds offer these benefits within a robust regulatory framework – bound by both comprehensive rules which apply to all mutual funds and by specific risk-limiting regulations which are unique to money market funds. In fact, as recently as early 2010, the SEC adopted a revised regulatory framework which has successfully enhanced the resiliency of money market funds under extreme market conditions.

This tool has been essential to the fiscal health of local governments. Money market funds hold more than half of the short-term debt that finances state, county and municipal governments for public projects such as roads, bridges, airports, water and sewage treatment facilities, hospitals, and low-income housing. The single most appealing aspect of these funds is their stable $1.00 net asset value (NAV) – which allows investors to treat them as the equivalent of cash, like money in a bank, but with a higher rate of return.

Unfortunately, the reforms likely to be proposed by the SEC would change the money market funds' characteristic stable NAV to a floating value, thereby eliminating one of the key incentives that attract investment. In surveys, public statements, and letters to regulators, investors across the board have expressed a preference for the current structure of money market funds and that they would be unable or unwilling to use a floating-NAV fund. In fact, more than three quarters of corporate money market fund users surveyed stated that they would move cash out of these funds if their NAV was changed from stable to floating.

Without that financing, local governments may be forced to limit projects, spend more on financing, or increase taxes. Given our current operating environment, none of these are viable. Money market funds also hold more than one-third of the commercial paper that businesses use to finance payrolls and inventories. The flight of investors in the face of a floating NAV – or other changes that undermine the character of money market funds – could significantly disrupt the supply of short-term credit that employers, as well as state and local governments, need to operate.

Also, were money market funds forced to adopt a floating NAV, many state agencies, cities, counties, public authorities, public universities and other public entities would be forced to shift to products that have historically paid lower yields or to other cash products that are less secure. Floating the NAV would undermine the convenience and simplicity of money market funds; and, force local governments to consider imposing new taxes. What's more, few immediate substitutes are available to fill the financing gap that would be created by the rapid shrinkage of money market funds. Even if banks could raise the new capital needed to meet corporate and government demand, the lending market would be less efficient and associated costs would likely rise.

In our view, forcing money market funds to float their NAVs would harm investors, state, county, and municipal governmental institutions, and the broader U.S. economy. That is why we are deeply concerned about proposals to change the very structure of money market funds. In particular, we strongly oppose such recommendations as a floating NAV, and support maintaining the ability of money market funds to offer a stable $1.00 per-share value."

DIRECT DEPOSIT

As mentioned in several prior editions, Assemblyman Ruben Ramos introduced **ASSEMBLY, NO. 3899**, which requires direct deposit for all State employee compensation by 2014. At the request of Hudson County Administrator Abe Antun and based on the recommendations of our Legislative Affairs Committee, the Assemblyman has graciously agreed to amend the bill to *authorize* county governments to pay its employees by direct deposit as a more cost effective alternative for conducting business. As you may know, current law N.J.S.A. 34:11-4.2 requires local government employers to pay its employees by check, while N.J.S.A. 34:11-4.2a authorizes public employees to consent to receiving wages through direct deposit.

We've requested that the Assembly State Government Committee consider this bill during the lame-duck session where NJAC plans to testify in support of this important and timely initiative. The Senate version **SENATE, NO. 2833** *(Stack D-33)* is currently in the Senate State Government, Wagering, Tourism, and Historic Preservation Committee awaiting consideration.

SUMMIT ON POLICE CONSOLIDATION

We're pleased to announce that Lieutenant Governor Kim Guadagno has agreed to serve as the keynote speaker at our December 2nd "Summit on Police Consolidation."

Don't miss this unique opportunity to learn about the timely and significant efforts of Camden and Somerset Counties to save valuable taxpayer dollars and provide a more efficient level of service by studying the consolidation of police services in their respective counties. We've assembled an outstanding panel of subject matter experts that will provide local officials, decision makers, and statewide leaders with an educational and informative panel discussion on the feasibility of countywide police forces. Check out our website at www.njac.org for details.

"Management is doing things right; leadership is doing the right thing." Peter F. Drucker