



National Association of State Auditors, Comptrollers and Treasurers

WASHINGTON UPDATE

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SEC Proposes New Money Fund Rules

The U.S. Securities and Exchange Commission voted 5-0 last week to propose new rules that would reform the way money market funds operate in order to make them less susceptible to runs that could harm investors. The SEC's proposal includes two principal reforms that could be adopted alone or in combination with each other. Government money market funds would be exempt from these requirements, and would be defined as any money market fund that holds at least 80 percent of its assets in cash or government securities. According to the SEC, these proposed reforms are designed to mitigate money market funds' susceptibility to heavy redemptions during times of stress, as well as preserve the benefits of money market funds for investors and the short-term financing markets. The three different proposal options are as follows:

Alternative One: Floating NAV – Prime institutional money market funds would be required to transact at a floating net asset value (NAV), not at a \$1.00 stable share price.

Alternative Two: Liquidity Fees and Redemption Gates – Money market funds would continue to transact at a stable share price, but would be able to use liquidity fees and redemption gates in times of stress.

Potential Combination of Both Proposals – Combine the floating NAV and the liquidity fees and gates proposals into a single reform package, where prime institutional money market funds would be required to transact at a floating NAV and all non-government money market funds would be able to impose liquidity fees or gates in certain circumstances.

The public comment period for the proposal will last for 90 days after its publication in the Federal Register. Details of the three reform proposals can be found at

<http://www.sec.gov/news/press/2013/2013-101.htm>.

Senate Hearing Showcases Negative Effects of Austerity Measures on National Economy

The Senate Budget Committee last Tuesday took the opportunity to discuss the toll that the sequester and austerity measures have had on the nation's economy. Committee Chairman Sen. Patty Murray (D-WA) set the tone in her opening remarks:

"I have long believed that the case for austerity during times of economic weakness has been fundamentally flawed. When demand falls off in the private sector and millions of workers are losing their jobs—I think the last thing government should do is make things worse by slashing spending and causing aggregate demand to drop even further."

Panelist and former Treasury Secretary Larry Summers told the committee that this is not the time for austerity and further cutbacks, but actually time for crucial expenditures into infrastructure due to low-level borrowing costs and an injection of employment in the job markets. Another panelist, Simon Johnson, a senior fellow at the MIT Sloan School of Management, told the committee that Europe still poses a threat to the global and U.S. economy, but ironically that is working somewhat in the U.S.'s favor because it makes the country a safe haven for foreign investments. He also recommended removing the sequester as well, as it is not a prudent fiscal policy.

Video archive of the hearing, as well as testimony from all panelists, can be found at http://www.budget.senate.gov/democratic/index.cfm/committeehearings?ContentRecord_id=cb9e219e-a3e1-4e1f-b475-274d667abd1c&ContentType_id=14f995b9-dfa5-407a-9d35-56cc7152a7ed&Group_id=d68d31c2-2e75-49fb-a03a-be915cb4550b.

Rockefeller Institute Sees Three Consecutive Years of State Fiscal Recovery

The Nelson A. Rockefeller Institute of Government in New York released its quarterly data analysis of state fiscal conditions last week. The preliminary data from the 47 states that were surveyed showed that collections from major

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tax sources increased by 9.3 percent in nominal terms in the first quarter of 2013 compared to the same quarter of 2012. The Institute also indicated that “State tax revenues have been continuously recovering for over three years now. However, state revenue recovery has been much slower and more prolonged than in previous recoveries, and revenue is still far from full recovery.”

The full data report can be found at http://www.rockinst.org/newsroom/data_alerts/2013/2013-06-SRR92_data_alert_djb_v2.htm.

The Week Ahead: State’s Views on Medicaid Reform and Infrastructure Needs

This Wednesday, the House Energy and Commerce Health Subcommittee will hold a hearing titled “The Need for Medicaid Reform: A State Perspective”

(<http://energycommerce.house.gov/hearing/need-medicare-reform-state-perspective>).

On Thursday, the Senate Appropriations Transportation, Housing and Urban Development, and Related Agencies Subcommittee will hold a hearing titled “Crumbling Infrastructure: Examining the Challenges of our Outdated and Overburdened Highways and Bridges” (<http://www.appropriations.senate.gov/transportation.cfm>).