

SENATE BILL REPORT

SB 6171

AS OF JANUARY 27, 1992

Brief Description: Defining money market fund and mutual fund for the sole purpose of investing public funds.

SPONSORS: Senators McCaslin and Madsen; by request of State Treasurer

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Benson Porter (786-7470)

Hearing Dates: January 28, 1992

BACKGROUND:

In 1988, the Legislature authorized the state and local governments to invest moneys in certain mutual funds or money market funds. To be eligible for public fund investment, a mutual fund must be registered with the Securities and Exchange Commission and be managed by an investment advisor with at least five years of experience and at least \$500 million in assets under management. In addition, the mutual fund must consist of federal bonds with average maturities of less than four years or bonds of any state or local government that have one of the four highest ratings of a nationally recognized rating agency.

Money market funds are defined as mutual funds with a portfolio consisting of only state, local, or otherwise authorized bonds with a maturity of not more than one year. In order to be eligible the bonds must have one of the two highest credit ratings of a nationally recognized rating agency at the time of investment. A money market fund can also consist of securities otherwise authorized for local government investment.

Any mutual fund or money market fund in which moneys are invested must post a bond with the State Risk Manager equal to at least 5 percent of the amount invested in the fund by governments of this state.

It is reported that only two money market or mutual fund companies have chosen to do business in this state. Some contend that the bonding requirement is onerous and unnecessary because of the regulation of the industry by the Securities and Exchange Commission.

SUMMARY:

The definitions of mutual fund and money market fund as used for the investment of public funds are modified.

A mutual fund or money market fund does not have to post a bond with the State Risk Manager. The mutual funds and money market funds must meet the requirements of the federal Investment Company Act of 1940.

Appropriation: none

Revenue: none

Fiscal Note: none requested