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# H.R. 2319/S. 1117 – Restoring Money Market Mutual Funds for Disaster Recovery

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As our states and communities seek to recover from some of the costliest natural disasters in our nation's history, they need more than government disaster assistance to repair and rebuild homes, schools, hospitals, utilities, businesses, bridges, roads and other critical infrastructure. They need low-cost private sector financing, and money market funds are among the most efficient sources of capital for infrastructure investment and economic development.

Money market funds have historically been the largest purchasers of short-term debt used as working capital and infrastructure investment by municipalities and businesses. Unfortunately, just as those resources are needed most in states hard-hit by hurricanes, floods, wildfires and other disasters, a Securities and Exchange Commission (SEC) regulation went into effect that had the unintended consequence of preventing money market funds from serving that purpose, thereby reducing liquidity in the market and driving up the cost of borrowing when it is needed most.

Tax-exempt money market funds (TEMMFs) provide financing for a variety of municipal operational, infrastructure and community development activities. TEMMFs fund general short term liabilities of municipalities as well as several specific "public good" activities. These include infrastructure projects, schools, hospitals, housing, utilities, and transit and water projects. Communities depend on these functions for economic growth and recovery.

Prime money market funds (PMMFs) are a key source of short term funding for private sector businesses. Companies borrow from PMMFs for their working capital needs. They use these funds to cover payroll, finance inventory or finance receivables. Clearly, companies must be able to access working capital if they are to rebuild following a natural disaster. As important, businesses also need access to working capital if they are to partner with state and local governments in the larger rebuilding effort.

**Here's the problem**: Regulations imposed on money market funds that took effect in October 2016 drained $1.2 trillion from the private sector and municipal sector capital pools. Investors withdrew $1.05 trillion from prime money market funds (private sector) and $135 billion from tax-exempt money market funds (municipal sector). That capital is no longer available to support main street businesses and municipal borrowing.

Ironically, among the top six states that have been most affected by the regulation are Texas, Florida and California. Combined, they lost 42 percent of funding – or nearly $24 billion – that was provided by tax-exempt money market funds. Specifically impacted is debt issued by health and educational facilities finance authorities, housing finance agencies, economic and industrial development authorities, and public power and water agencies.

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Congress can fix this problem by enacting bipartisan legislation (H.R. 2319 in the House and S. 1117 in the Senate), which would reverse the adverse consequences of the SEC rule. That rule required money market funds to switch from a fixed net asset value to a floating net asset value. Reversing the rule would allow investments to flow back into private sector and municipal money markets funds, and significantly increase the pool of capital available for disaster recovery and other infrastructure priorities.

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