

Public Funds Investment Institute
Connecting Public Funds Investors




State-Sponsored Local Government Investment Pools

State of the Industry

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Executive Summary



\$682 billion

State-sponsored LGIPs are a foundation of the industry with \$682 billion in assets in 47 pools offered in 32 states.



\$200 billion

We estimate that local-sponsored LGIPs make up another \$200 billion in assets.



Stable value portfolios make up the vast majority of offerings; short term bond fund offerings represent a small sliver of assets.



Stable value portfolios are managed either as government-oriented or prime-oriented portfolios

- Government oriented portfolios resemble institutional government money funds but have some additional flexibility with regard to investing in non-government assets (primarily bank deposits)
- Prime oriented portfolios resemble institutional prime money funds, but their investment policies tend to be more constrained; they are offered at a stable value.



Disclosure/transparency varies tremendously among programs with some adhering to Rule 2a-7 requirements while many offer less disclosure/transparency.

Overview



State Sponsored LGIPs are a Foundation of the Industry



32

State-sponsored programs exist in 32 states.



47

State LGIPs offer a total of 47 portfolios.



20

States have one or more local-sponsored programs.



New York

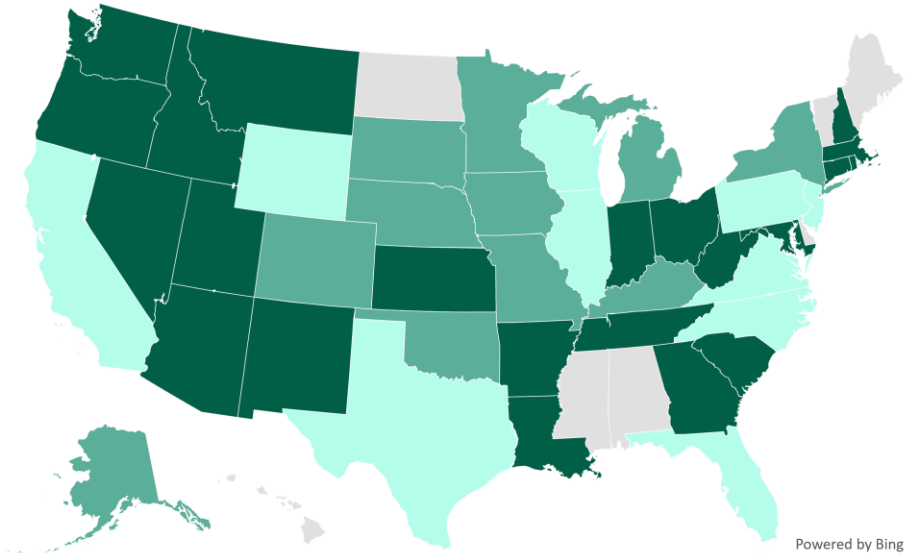
Among the large states only New York lacks a state-sponsored LGIP.



7

Only seven states lack a state or local sponsored LGIP—generally smaller or less populated.

State sponsored and Local Sponsored LGIPs



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STATE SPONSORED
 LOCAL SPONSORED ONLY
 BOTH

LGIPs Operate Within a State-Centered Legal/Regulatory Framework



State-sponsored LGIPs are viewed as providing an essential government service and thus are exempt from key provisions of Federal securities and tax laws.



Most state-sponsored programs operated under a state-specific statute; some derive from general powers of the state Treasurer.



States look to these authorities for direction:



Government Accounting Standards Board

GASB 79 and GASB 31 provide standards for participants to account for the fair value of investments, including investments in external investment pools. These are not specifically focused on operating or accounting standards for the pools.



Government Finance Officers Association

2008 Best Practices statement provides guidance on how pool investors should evaluate these investments.



National Association of State Treasurers/National Association of State Auditors Comptrollers and Treasurers

2016 Voluntary Guidelines for the Management of Stable Net Asset Value Local Government Investment Pools is a guide to the governance and management of LGIPs.



Credit rating agencies

Rating criteria are focused on portfolio management and investment quality; do not address disclosure, reporting and transparency.

Total Assets in State-Sponsored and Local-Sponsored Programs ~\$882 Billion



\$682 B

- Total assets in state-sponsored LGIPs. This includes state and local assets.
- These are in Rule 2a-7 like (\$351 billion), other stable value (\$326 billion) and variable NAV (\$5 billion) portfolios.



\$343 B

Local government assets in state sponsored programs.



\$339 B

State assets in state-sponsored programs.

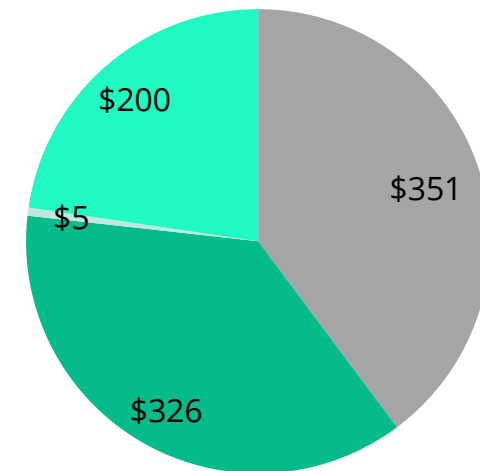


\$200 B

Local-sponsored LGIP estimated assets.

Assets of State-Sponsored and Local-Sponsored LGIPs Total ~\$882 Billion (\$ billions)

- 2a-7 Like
- Other Stable Value
- Variable NAV
- Local



Notes

- 1) Because of absence of uniform reporting, assets are as of various dates in the period 6/30/23-12/31/23.
- 2) Excludes single jurisdiction (i.e., county-wide) LGIPs.

A Stable Value Portfolio is the Starting Point for Most State-Sponsored LGIPs

Rule 2a-7 like funds—26 portfolios

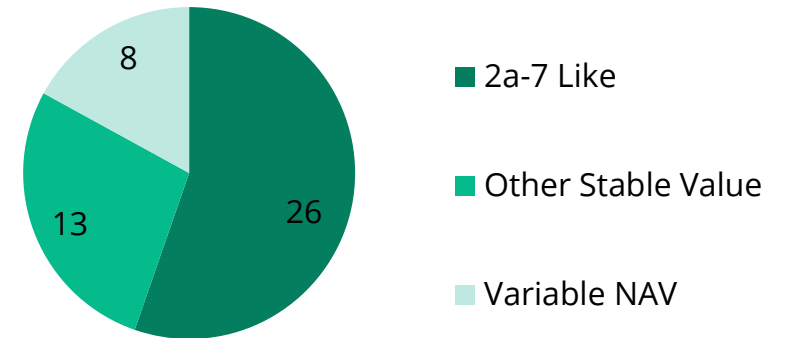
- Registered with the Securities and Exchange Commission or unregistered but closely adhere to Rule 2a-7 with regard to
 - Asset quality;
 - Maturity limits;
 - NAV determination—they advertise a stable NAV regardless of whether they are government-oriented or “prime” funds;
 - Liquidity may vary from Rule 2a-7 limits;
 - Do not provide for fees and gates, do not appear to be preparing for new liquidity fee regime that will apply to registered funds later in 2024.

Other stable value—13 portfolios

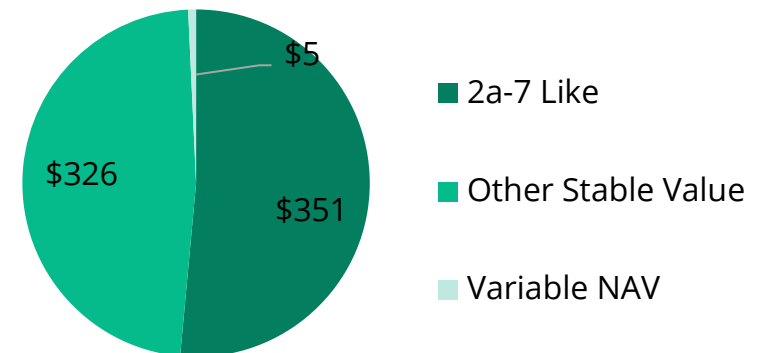
- Maturities may exceed Rule 2a-7 limits;
- Liquidity may vary from Rule 2a-7 limits;
- May not use amortized cost or penny-rounding for NAV determination.

A stable value Portfolio is offered by all states that have state-sponsored programs.

Number of State-Sponsored LGIP Portfolios



Assets of State-Sponsored LGIPs (\$ billions)



Some States Supplement their Stable Value Offerings With Other Products



**Variable NAV portfolios modeled on short term bond funds:
8 portfolios; assets of \$5 billion.**



Funds that follow basic RIC rules

- Daily mark to market;
- Daily liquidity.



Funds that use non-standard valuations and/or limit liquidity by requiring notice or specifying liquidity dates.



Specified purpose portfolios

- Portfolios open only to “community” (Pennsylvania) or “nonprofits bond proceeds” (Massachusetts);
- Portfolios limited to proceeds of tax-exempt bonds (Massachusetts, Virginia).

Some States Consolidate State and Local Assets in the LGIP

Nine states manage a consolidated portfolio of state and local government assets.

\$379 B

Total assets of consolidated stable value portfolios.

\$76 B

Local government assets in consolidated portfolios.

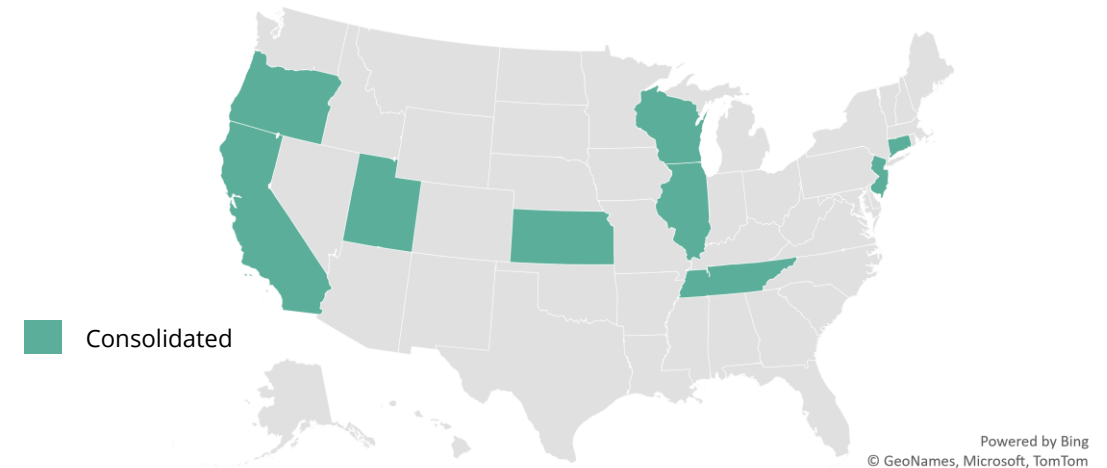
~\$166

Largest consolidated portfolio is California with ~\$166 billion of combined state and local assets and ~\$21 billion of local government assets.

\$343 B

Local assets in state-sponsored LGIPs.

States With Consolidated LGIP Portfolios

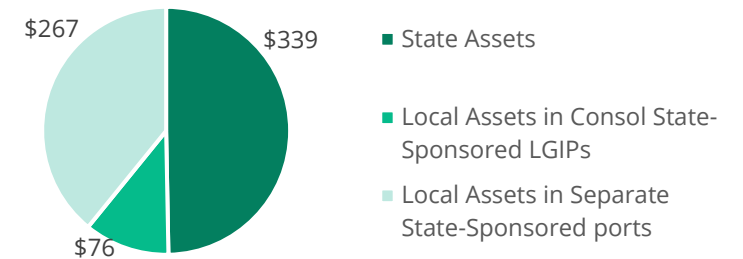


Other states manage LGIP assets in a separate portfolios

Some of these also have state or state agency participants.

\$267 B

Assets in State-Sponsored LGIPs (\$ billions)



Investment Management: Most State-Sponsored LGIPs are Managed by Internal Investment Staff, but Some Use External Managers



Several use both internal and external managers:

- Georgia manages a government pool internally and employs an outside manager for its L.C pool.
- Virginia manages its LGIP internally, and employs an outside manager for its bond proceeds pool.

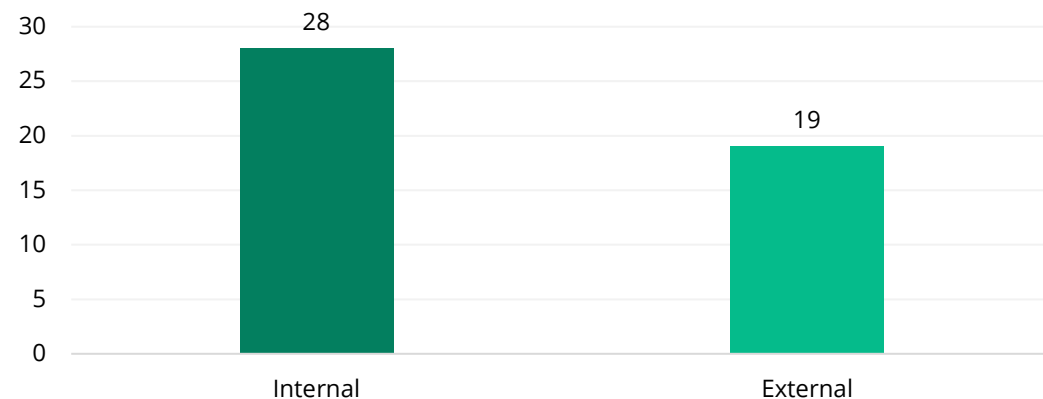


Several states employ a non-discretionary manager to provide oversight.

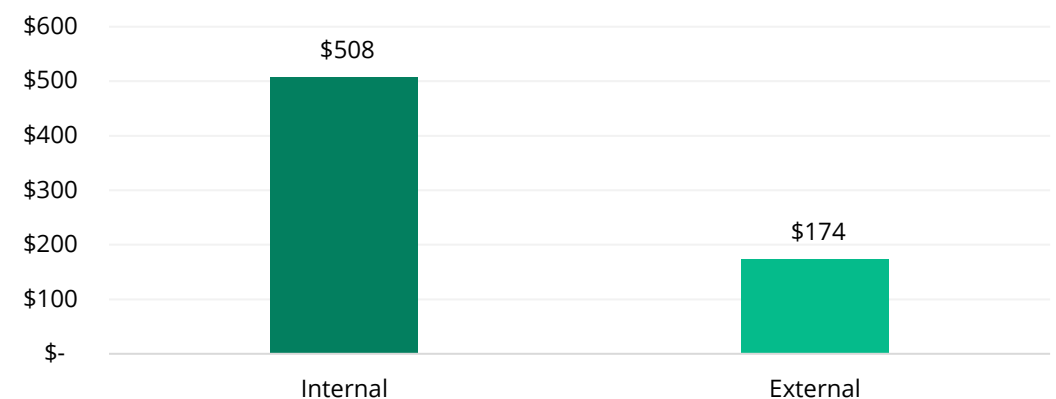


Several states employ an investment consultant.

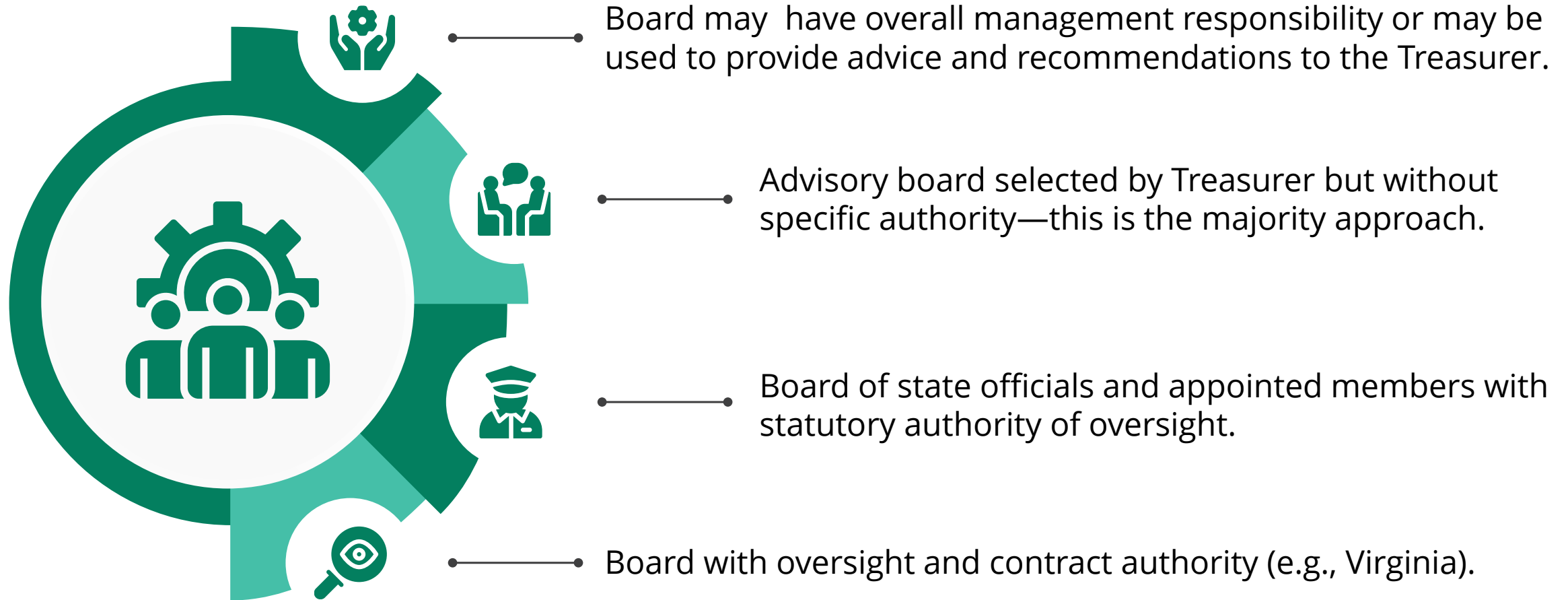
Number of Portfolios with Internal vs. External Managers



Assets of Internal vs. External Managers (\$ billions)



Most States Involve a Board in Management but the Role of the Board Varies



Credit Ratings Play a Role in State-Sponsored LGIPs, But They Are Not Universal



23 portfolios (with total assets of [\$269 billion]) are rated.



States may look to credit rating criteria in adopting an investment policy.



Most rated LGIPs are satisfied with rating by one NRSRO.



Some state LGIPs have a form of credit enhancement:

- Loss reserve fund
- In consolidated pools local government losses would be buffered by much larger state balance.



S&P rates 20 portfolios

- 19 are rated as Principal Stability Funds
- One is rated as a bond fund.



Fitch rates three portfolios

- All are rated as Principal Stability Funds.



Moody's rates one portfolio as a Principal Stability Fund.

Expense Ratios of State-Sponsored Stable Value LGIPs are Much Lower Than Those of Institutional Money Funds



Expense ratios of state-sponsored stable value funds

Mean = 5.6 basis points
Median = 4.9 basis points

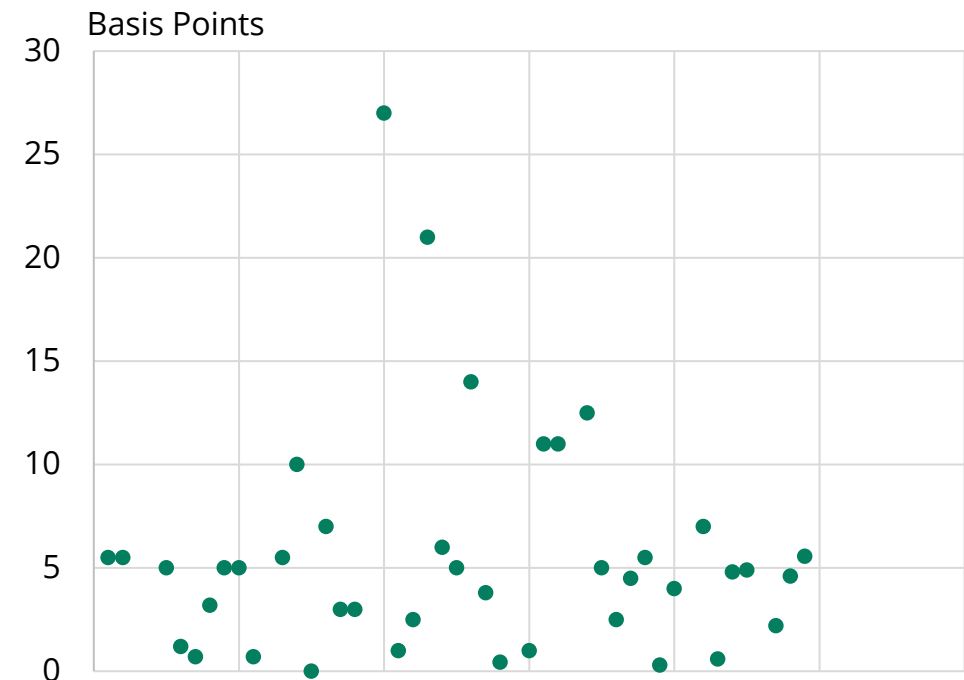
Average expense ratios of institutional money funds

Government = 22.0 basis points
Prime = 7.0 basis points *

Average expense ratio of all S&P AAAM rated GIPs

16 basis points

Expense Ratios of Stable Value Portfolios



Source: SEC, S&P Global.

Expense ratios for a money funds and S&P Index are as of 12/29/23

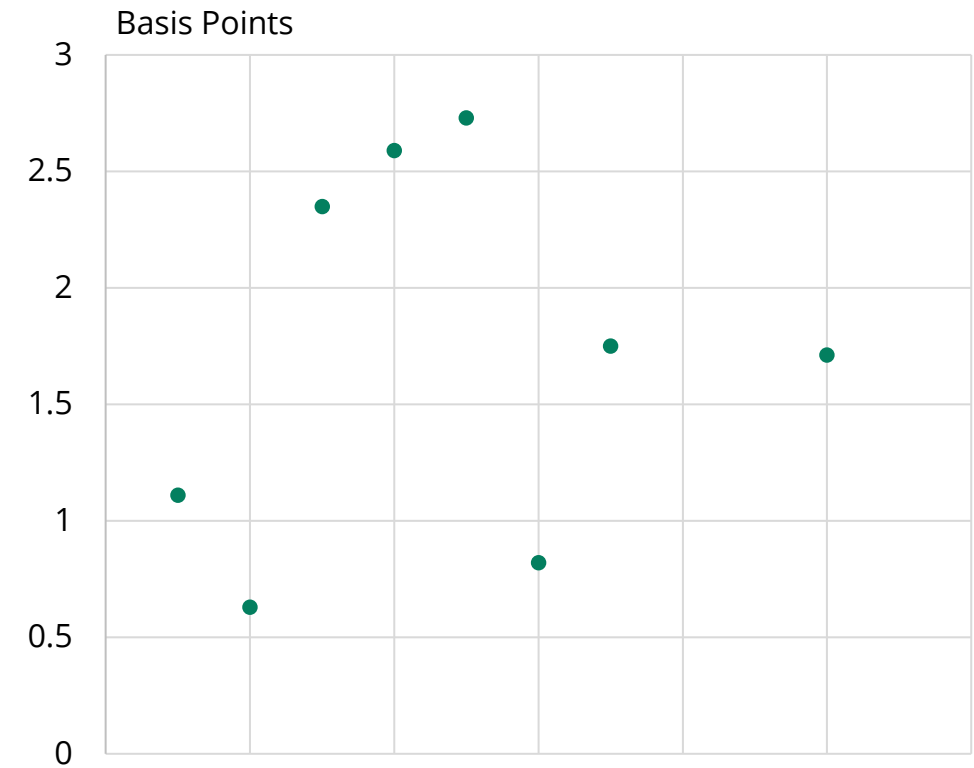
* This includes privately offered and publicly offered funds as reported by the SEC.

Expense Ratios of State-Sponsored Bond Funds are Also Low

Expense ratios of state-sponsored short term bond funds

Mean = 6.5 basis points
Median = 5.8 basis points


Expense Ratios of Variable NAV Portfolios




Investment Policies and Strategies




Stable NAV Portfolio Investment Strategies


 Permitted investments look to the same broad universe that is the basis for money market funds and short-term bond funds.

 State statutes and policies generally are more limiting than investment policies for registered investment companies.


 Among differences:

Mandated use of bank deposits	Requirements for credit ratings	Investments limited to domestic issuers.
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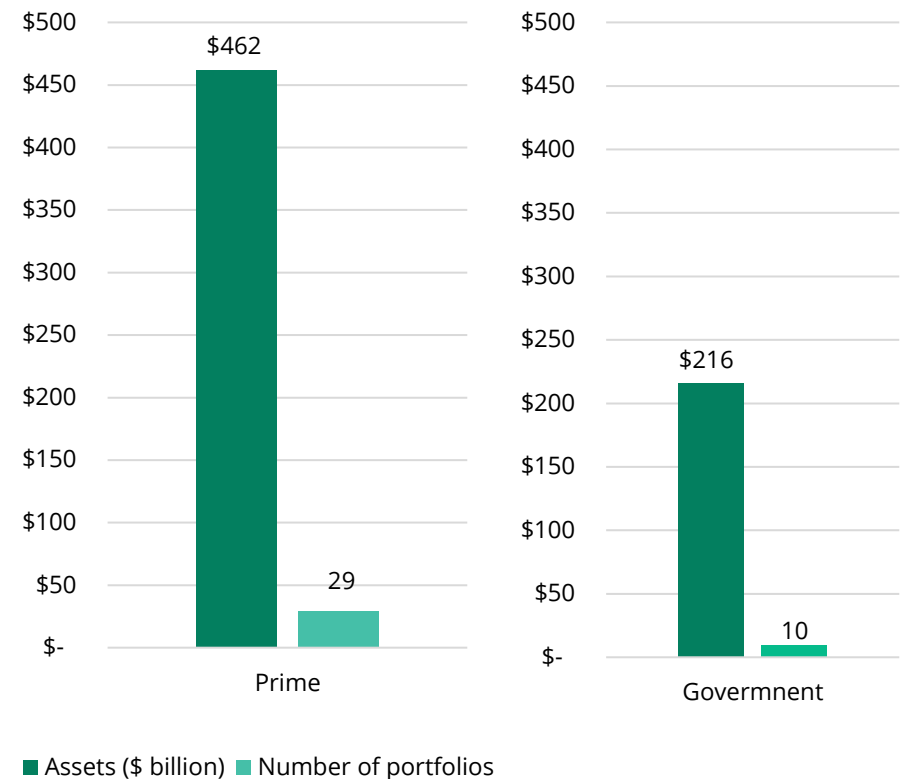
 The majority of funds offer prime stable value portfolios.

 A smaller number offer government-oriented portfolios (those with at least 85% of assets in government securities).

- They are not subject to Rule 2a-7, so they usually hold some non-government investments.

 Four states (Arizona, Georgia, Texas and West Virginia) offer both a government-oriented and a prime portfolio.

Prime vs. Government-Oriented Stable Value Portfolios



Characteristics of Government-Focused Stable Value Portfolios



Government obligations make up the majority of assets

- Non-government investments are in bank deposits/ CDs that are non-negotiable
 - Generally insured or collateralized as required by state law
- Commercial paper may be a minor portion.



Money funds supplement/replace repos for liquidity.



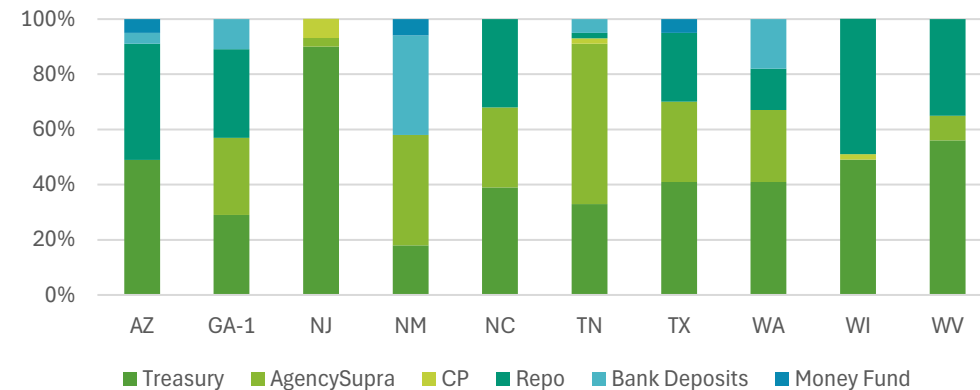
Most do not explicitly require minimum liquidity as required by Rule 2a-7

- As a practical matter most would meet the Rule 2a7 requirements because of Treasury holdings.



Government-oriented portfolios tracked in the S&P LGIP Index (which includes both state-and local-sponsored LGIPs) generally hold 85%-90% in government securities.

Composition of Government-Oriented Stable Value Portfolios



Average Holdings of Government-Oriented Stable Value Portfolios



Characteristics of Prime Stable Value Portfolios



Portfolios focused on credit

- Credit may be up to 90% of holdings.



Commercial paper makes up majority of credit holdings.



Bank deposits/CDs:

- May use negotiable CDs
- May also use bank deposits/nonnegotiable CDs
 - These are generally insured or collateralized as required by state law
 - Some portfolios may have 20% to 50% or more in bank deposits.



Liquidity via money funds and/or repo.



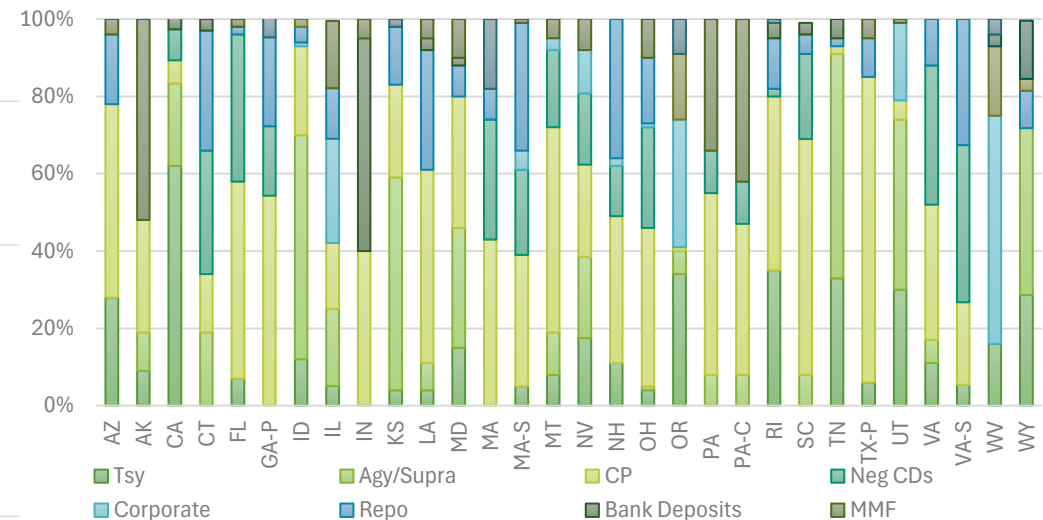
Do not require Rule 2a -7 liquidity

- Some meet the pre-2024 Rule 2a-7 requirement
- Others do not disclose liquidity or may not meet the requirement.

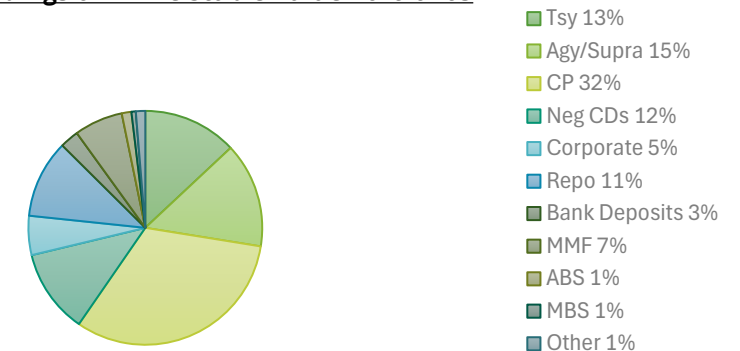


Advertise and transact share activity at a stable net asset value.

Composition of Prime Stable Value Portfolios



Average Holdings of Prime Stable Value Portfolios



Weighted Average Maturity (WAM) of Stable Value Portfolios

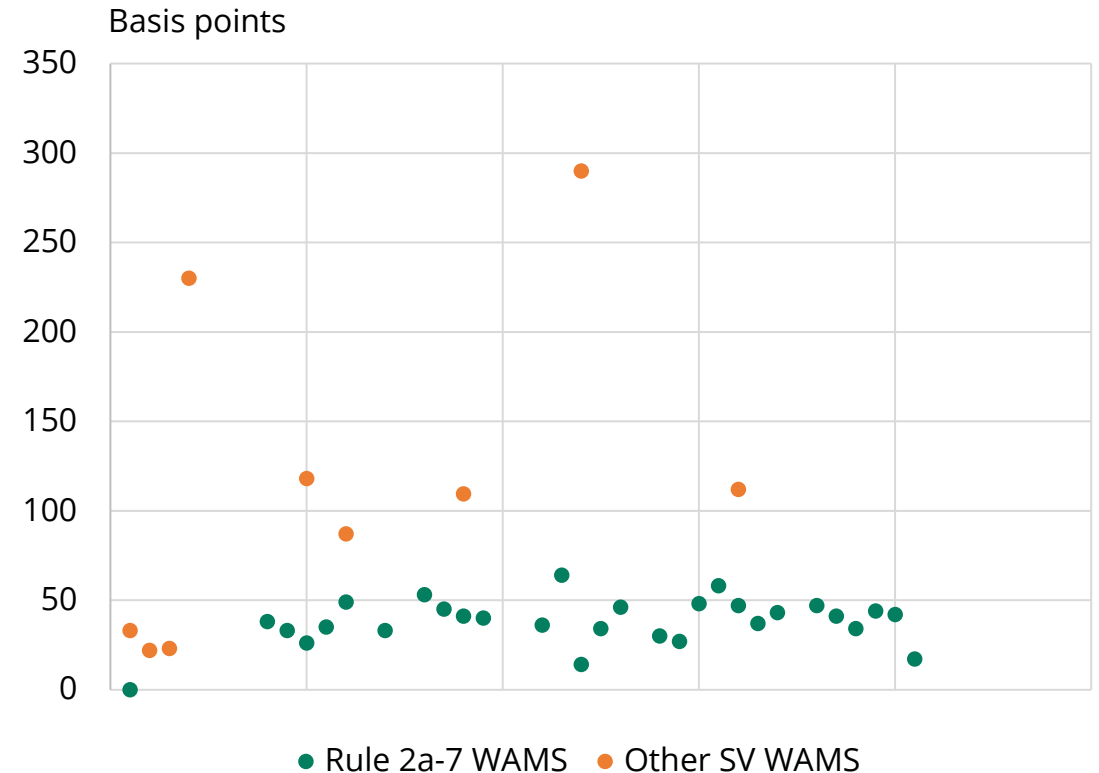


WAMs of Rule 2a-7-like portfolios are similar to those of money funds.



WAMS of other stable value portfolios tend to be longer than the 60-day maximum required for money funds.

Weighted Average Maturity Stable Value Portfolios



Characteristics of Short-Term Bond Fund Portfolios



Portfolios have fluctuating net asset values reflecting market value of holdings.



May make use of less liquid securities

- Corporate bonds
- ABS
- MBS
- Munis.



Durations range from 0.63 to 2.73.

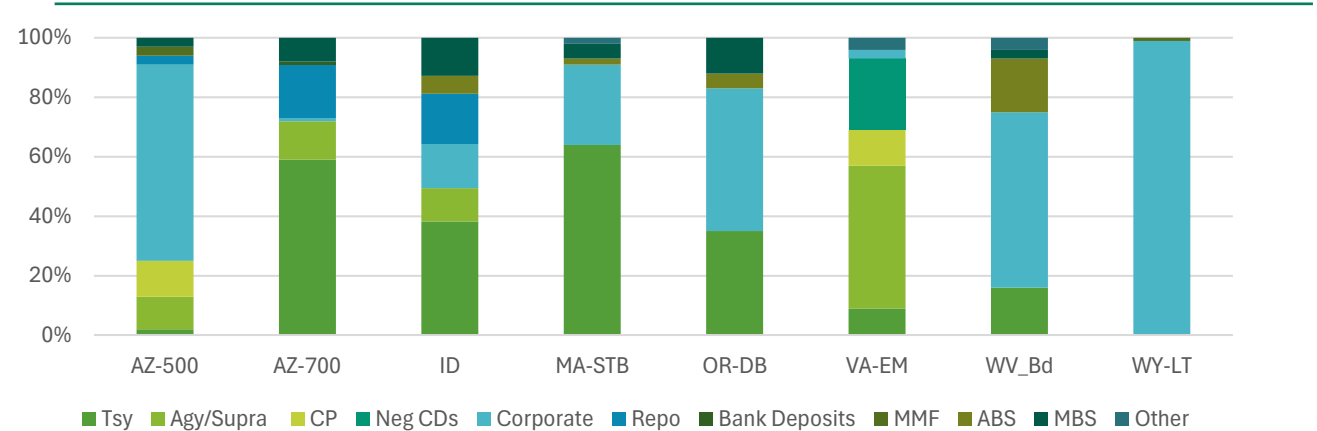


Only one portfolio is rated.

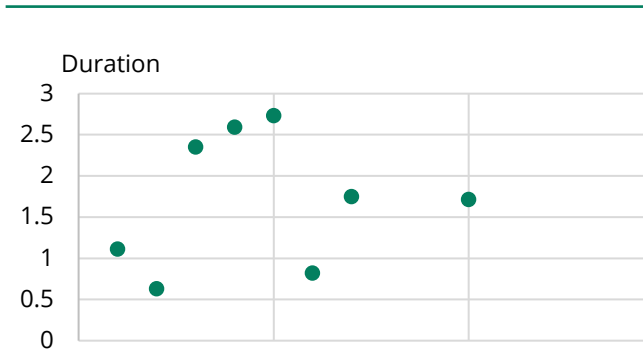


Some have liquidity limited by notice requirements and/or specified liquidity/redemption dates (e.g., once a month) that are less frequent than daily.

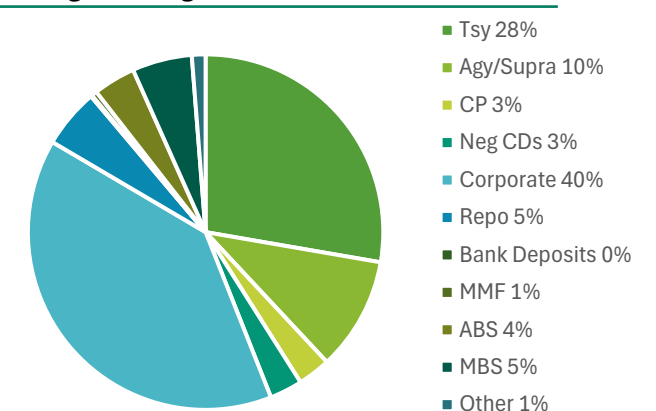
Composition of Short-Term Bond Funds



Duration of Short-Term Bond Portfolios



Average Holdings of Short-Term Bond Funds





Disclosure/ **Transparency**

Disclosure/transparency Varies Tremendously among LGIPs



No uniform national requirement or standard.



Investment Company Act and Rules may be a guide but are not a requirement.



Other sources of guidance:














- Government Finance Officers Association 2008 statement on LGIPs does not contain disclosure guidance.
- National Association of State Treasurers/National Association of State Auditors, Comptrollers and Treasurers 2016 voluntary guidelines contain broad guidelines.
- Government Accounting Standards Board Statement 79 concerns note disclosures in connection with audits of financial statements which are generally annual.



37 programs have separate audited financial statements, 23 prepared by state agencies and the balance by private firms.



Common Disclosure/Transparency Practices

		Best Practice 	Other Practice 
Program Information		<ul style="list-style-type: none"> Prospectus and Statement of Additional Information or equivalent Information Statement Website used for communication 	<ul style="list-style-type: none"> Investment policy and/or operations guide website program description
Shadow Pricing		<ul style="list-style-type: none"> Daily pricing and publication of current daily shadow net asset value published via website Historic shadow NAV published via website 	<ul style="list-style-type: none"> Periodic (monthly or quarterly) publication of portfolio market values as part of holdings report
Yield		<ul style="list-style-type: none"> One day, seven day and 30-day yields published via website Historic yields published via website 	<ul style="list-style-type: none"> Prior month monthly yield published via website
Dividend Rate		<ul style="list-style-type: none"> Daily dividend factor published 	<ul style="list-style-type: none"> Monthly interest accrual factor provided to participants
WAM		<ul style="list-style-type: none"> WAM published daily Website contains historic WAM data 	<ul style="list-style-type: none"> WAM made available periodically No WAM data available
WAL		<ul style="list-style-type: none"> WAL published daily along with WAM Historic WAL data available on website 	<ul style="list-style-type: none"> WAL made available periodically No WAL data available
High Level Holdings Summary		<ul style="list-style-type: none"> Summary portfolio characteristics published monthly. Top 10 holdings published monthly 	<ul style="list-style-type: none"> No summary or high-level information available Periodic presentations or webinars include portfolio updates
Holdings Detail		<ul style="list-style-type: none"> Holdings published on website monthly 	<ul style="list-style-type: none"> Holdings made available to participants after delay of 30/60 days Quarterly/annual investment reports with holdings published or made available to participants Holdings published as part of audited financial statements
Current Assets/ Recent Shareholder Activity		<ul style="list-style-type: none"> Daily current and historic pool assets published on website 	<ul style="list-style-type: none"> Periodic (monthly, quarterly or annual) newsletters or reports include total portfolio balances
Liquidity		<ul style="list-style-type: none"> Daily and weekly liquidity percentages calculated using Rule 2a-7 method and published daily Historic liquidity factors available on website 	<ul style="list-style-type: none"> Daily liquidity factor published with same frequency as yield Some programs do not publish liquidity
Financial Statements		<ul style="list-style-type: none"> Separate audited financial statements published 	<ul style="list-style-type: none"> Treasurer's annual report on operation of Treasury includes audited financial statements

Disclosure/Transparency Rankings



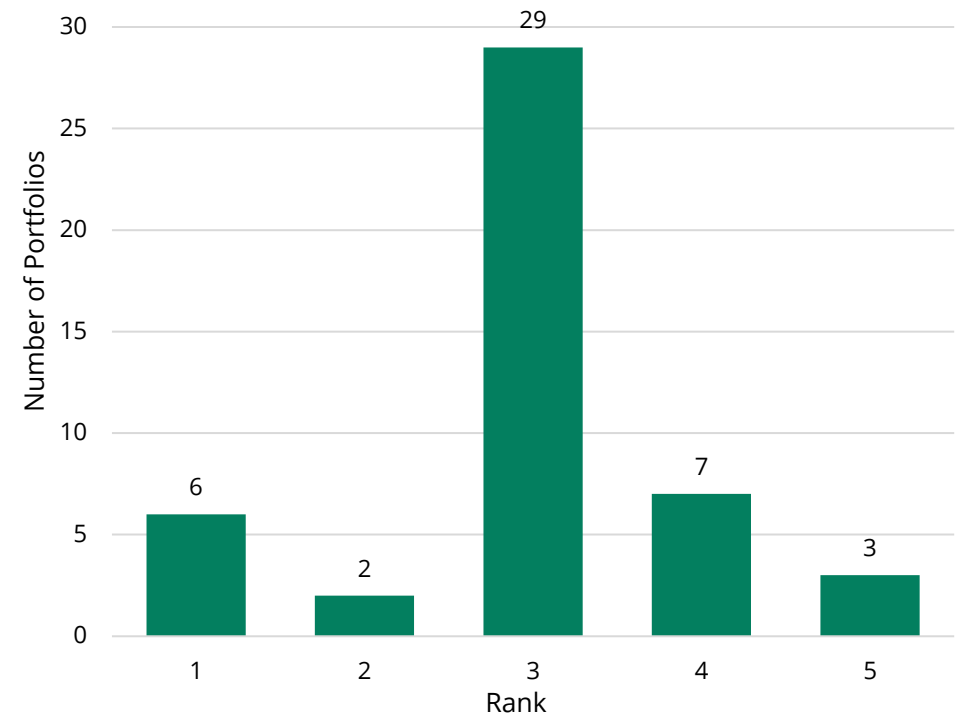
A few LGIPs follow best practices closely:

- Extensive program disclosure via an Information Statement
- Daily yield and portfolio characteristic information
- Daily shadow pricing and share flows.



Most LGIPs provide less detailed or less frequent disclosure of this information.

Disclosure/Transparency Rank of State-Sponsored LGIPs





STUDY METHOD



1. Basic information for all programs is available on a state treasurer's website or a separate program website.
2. Yields, net asset values and portfolio characteristics may be available on the program website but the frequency of calculation and publication vary from program to program. Accordingly it is not possible to obtain data such as total assets, portfolio characteristics and weighted average maturity for a common date. As a result, the data is for various dates (as available) around December 31, 2023. There is no uniform standard or requirement for calculation of key portfolio characteristics such as yield. While published information is useful for assessing the overall state of the industry, the lack of common dates and common calculation methods limits its utility in comparing one fund to another.
3. Some programs provide separate audited financial statements while for others the financial statement information is a part of the state's Comprehensive Annual Financial Report.
4. Money market mutual fund information is available on the Securities and Exchange Commission's [Money Fund Statistics release](#). S&P Global's LGIP statistics and analysis is available [here](#).

