



State of Rhode Island and Providence Plantations
State House, Room 224
Providence, Rhode Island 02903
401-222-2080

Lincoln D. Chafee
Governor

September 13, 2013

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number S7-03-13

Dear Secretary Murphy:

As Governor of the State of Rhode Island, I have made it a priority to bolster the state's budget and to work with our distressed cities and towns to ensure their financial stability. We successfully led the City of Central Falls out of bankruptcy in January of this year, transitioned the City of East Providence to structural balance through a budget commission, continue to lead a budget commission for the City of Woonsocket, and are closely monitoring and working with other struggling municipalities with significant budgetary challenges. The success of our communities directly relates to the success of our state's economy, and nothing is more important than that as we continue down the path of recovery from the Great Recession. While we have made significant progress supporting our cities and towns, we must stay on top of it to keep our municipalities financially solvent.

As you know, state and local governments need reliable financial tools to help maintain fiscal solvency and to help keep property taxes down for residents. With more than \$120 billion of short-term and mid-term investments held by state and local governments, money market mutual funds (MMMFs) are a significant instrument for state and municipal finance. MMMFs are important daily cash management and liquidity tools that are used to finance working capital in advance of personal income tax receipts that are expected toward the end of the fiscal year. MMMFs purchase the short-term, tax-exempt securities issued by state and local governments because of the stability offered by the financial product.

Proposed policy changes for MMMFs, such as the floating net asset values (NAVs) and liquidity fees and redemption gates, may have several unintended consequences for Rhode Island and our cities and towns during this critical time in our economic recovery:

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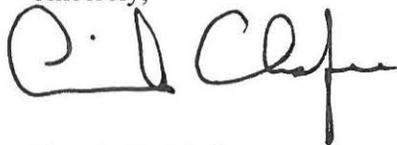
- Without a stable NAV, state and municipal tax-exempt securities will become a less attractive investment for MMMF purchasers and may cause investors to exit the MMMF market. Reduced demand for public debt will increase costs for state and local governments that rely on the issuance of debt to fund many critical public projects.
- It is unclear why government funds, defined as federal agency funds and Treasuries, would be exempt from the floating NAV proposal, but municipal retail tax-exempt funds must be subject to the proposed requirement. We must strive for lower costs to finance public projects; therefore, all government financing tools should be allowed to take advantage of the lower costs associated with a stable NAV that ultimately benefit the same taxpayers.
- A floating NAV may increase transaction costs, require costly system changes, and increase the workload of handling daily investments. State and local governments are already doing more with less resources and staff. This would add another unnecessary burden to the cost of running government.

I commend the President, his Administration, and the Securities and Exchange Commission (SEC) for focusing on making our financial markets more stable and transparent for investors. However, the changes under consideration by the SEC for MMMFs could lead to detrimental economic consequences for many Rhode Island cities and towns. Resolving the fiscal challenges of states and municipalities will require not only actions to address revenue and spending, but also efficient and effective municipal finance markets.

Before final action on the proposed reforms, I urge the SEC to take into full consideration the important role MMMFs play in both the national economy and in my state of Rhode Island, particularly at this critical time in our economic recovery. Any action that may lead to increased costs for state and local governments and that limit the ability of funds to purchase municipal debt would jeopardize the great strides we have made to set Rhode Island and its municipalities on the path to fiscal solvency.

Thank you for your consideration of this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "L. D. Chafee". The signature is fluid and cursive, with a large initial "L" and "D" and a long, sweeping tail.

Lincoln D. Chafee
Governor

Cc: Denis McDonough, White House Chief of Staff
Senator Jack Reed
Senator Sheldon Whitehouse
Congressman Jim Langevin
Congressman David Cicilline