Platte INSTITUTE

POLICY REPORT

Local Tax Dollars and National Investments?

Examining Nebraska's Local Government Investment Pools

October, 2026

Introduction

Nebraskans pay their taxes faithfully to local governments, reasonably expecting their hard-earned money to be spent for the improvement and advancement of their local communities. While most tax dollars are eventually spent by local governments directly in their communities, where is this money kept from the time it is collected to when it gets spent?

For over $1.5 billion of Nebraska local tax revenue, the answer is a local government investment pool (LGIP). Local governments have options for managing public money that is not immediately needed for expenditures. In Nebraska today, local governments primarily look to either financial institutions like local banks or LGIPs (low risk, highly liquid investment trusts built specifically for lawful joint investment of public funds). Two predominant public pooled investment trusts, Nebraska Public Agency Investment Trust (NPAIT) and Nebraska Liquid Asset Fund (NLAF), are the principal providers of this option for essentially all Nebraska public agencies. While NPAIT is the broader, multi-sector local government pool, NLAF's core constituency is rooted in school districts and education related entities.

The Common Sense Institute of Iowa recently published a study on the opportunity cost of Iowa's public pooled investment trusts.[1] Of Iowa's nearly $2.5 billion in local government funds managed by their two public pooled investment trusts, over 90% leaves the state of Iowa and is deployed in investments outside Iowa's economy. They conclude that if all $2.5 billion Iowa taxpayer dollars were invested with local Iowa based financial institutions, then Iowa's banks could have lent an additional $1.75 billion into the local economy in FY 2025. Their modeling found that if the funds currently deposited in Iowa public investment pools were kept in local financial institutions, from 2026-2030 Iowa could expect an increase of $3.3-$3.5 billion in personal income and an increase of $5.3-$5.6 billion in overall GDP, boosting population in the year 2030 by 7,600-7,750 people. They also found $2 million of added costs (27% of the fees associated with Iowa's LGIPs) for royalties and sponsorships to private associations.

Considering their findings got us curious: What are NLAF and NPAIT doing with taxpayer dollars in our state…or rather outside of our state?

While Nebraska does have legal guardrails to protect the safety and liquidity of tax dollars invested into LGIPs, local government investments in Nebraska banks are also statutorily protected and potentially provide a great degree of economic benefits back to the communities where taxpayers reside. Further Nebraska-specific research is necessary to determine the explicit impact of holding idle tax dollars in Nebraska banks, nonetheless, Iowa's findings are compelling, and potentially insightful to examine in light of Nebraska's LGIP structure. This report will examine Nebraska's LGIPs, NPAIT and NLAF, setting the stage for further research and alternatives to help keep taxpayer dollars local.

Economic Impact

As a result of their economic modeling, Iowa's Common Sense Institute concluded that local government deposits in Iowa banks can stimulate local lending, lower borrowing costs, and generate broader economic benefits for Iowa's local economy. They found that Iowa banks could have lent an additional $1.75 billion into the local economy if the $2.5 billion of local government deposits in public pooled investment funds were instead invested in local banks. According to the CSI, from 2026 through 2030 Iowa could expect a cumulative increase of $3.3-$3.5 billion in personal income and $5.3 to $5.6 billion in overall GDP, boosting Iowa's 2030 economy by ~7,850 jobs and increasing the population by ~7,675. While not precise forecasts, CSI's ranges and estimates are intriguing.

With more deposits in Nebraska banks, the amount of funds available to lend in local communities increases. A stronger deposit base can allow a bank to make additional loans, replace more expensive wholesale funding, or avoid reducing credit when other funding becomes scarce. Lower funding costs may be passed to borrowers through lower interest rates, fewer fees, or greater credit availability. Community banks commonly conduct business in a certain geographic area, relying on relationships and local knowledge to evaluate borrowers. They are often the first option for

individuals seeking a small business, agricultural or consumer loan. Additionally, local banks in most communities donate heavily to community programs and schools.

Lending can create several layers of economic activity. While the initial loan may finance business expansion, inventory, construction, or working capital, borrowers often purchase goods and services from suppliers and hire or retain employees. This creates additional household spending and ripples further into the local economy.

Nebraska's two principal public investment pools, NPAIT and NLAF, held $1.87 billion in combined net assets in September 2025. For context, that amount was equivalent to roughly 2 percent of the $92.46 billion in deposits held by Nebraska banks and savings institutions as of June 30, 2025. Applying Nebraska's 87 percent statewide loan-to-deposit ratio and CSI's assumption that 85 percent of the resulting loans would remain in-state would, as an example, generate local lending of approximately:

$1.87 billion × 87% × 85% = $1.38 billion

This calculation is not a Nebraska economic impact forecast. It simply demonstrates the possible scale of the bank lending channel using CSI's methodology and Nebraska's loan-to-deposit ratio. A defensible estimate of Nebraska GDP, employment, income, and population effects would require Nebraska-specific economic modeling comparable to CSI's Iowa analysis.

Legal Guardrails

NPAIT and NLAF operate within Nebraska's statutory framework governing the joint investment of public funds. However, this framework does not make an LGIP investment equal to investing directly into a bank. A public entity's investment in NPAIT or NLAF is not FDIC insured and does not receive the same statutory collateral protection as a public deposit directly to a bank.

NPAIT and NLAF are categorized under Nebraska's Interlocal Cooperation Act, which allows public entities to exercise certain governmental powers jointly. In 2024, the Public Entities Pooled Investment Act established more defined guardrails to guide public investment into LGIPs.[2] Sen. Dungan introduced LB 1176 which codified investment priorities, mandated consumer disclosures, and defined restrictions on investments for political subdivision investment pools. LB 1074, which incorporated the major provisions of LB 1176, passed the legislature 47-0.

By law, LGIPs are to prioritize 1) preservation and safety of principal 2) liquidity 3) yield - in that order. The governing body of an eligible public entity is required to authorize investment into an LGIP by ordinance or resolution.[3] Placing funds into NPAIT or NLAF is a voluntary decision. LGIPs are limited to a defined list of low risk investment options including U.S. government and agency obligations, qualifying state and municipal obligations, certain commercial paper, government money market funds, CDs and time deposits from qualifying financial institutions, and fully collateralized repurchase agreements.[4]

Although some of NPAIT and NLAF's underlying investments may be collateralized (LGIP repurchase agreements must be fully collateralized), the entire amount of a political subdivision's tax dollars invested in NPAIT or NLAF is not statutorily required to be collateralized. If a local government invested that same amount in a local bank, however, state law requires that any portion not insured by FDIC be collateralized at 102%.[5] The 2024 Public Entities Pooled Investment Act requires LGIP's to conspicuously disclose that funds invested in their pools are not directly insured or guaranteed by the FDIC or another government agency and may lose money due to liquidity, market, issuer, and default risk.[6]

Commercial paper (short-term corporate debt) received special attention in the 2024 debate. Generally, commercial paper is unsecured, meaning the investor depends on the issuing corporation's ability to repay. Per state law, LGIPs can invest up to 50% of their total funds in commercial paper that is issued by U.S. corporations, matures within 270 days, receives the highest rating from two or more nationally recognized ratings organizations, and amounts to no more than 5% of the pool per issuer.[7] While NLAF is not invested in commercial paper, NPAIT's FY2025 financial statements show 45.6% of their total funds invested in commercial paper.

Iowa's statutory structure dealing with LGIPs is a useful comparison. Iowa's code establishes the same priorities (1. safety, 2. liquidity, 3. return), prohibits speculative securities and other risky trading for short-term profits, and permits similar types of investments.[8] Iowa, however, also maintains many provisions without a counterpart explicitly enumerated in Nebraska's code. They require political subdivisions to adopt written investment policies, subject joint investment trusts to the jurisdiction of the state's securities regulator, mandate audits of joint investment trusts, and order any royalty, residual payment, administrative fee, service fee or other fee to be reported annually to the Iowa General Assembly along with the services performed. Additionally, they require joint investment trusts to be rated within the two highest rating classifications and comply with SEC money-market rules or GASB requirements or be registered with the SEC under the Investment Company Act and operate under federal money market rules.[9]

Nebraska law should not be characterized as leaving NPAIT and NLAF without meaningful safeguards, especially in light of the 2024 changes. However, Iowa presents an example of more extensive guardrails to ensure the safety, liquidity, and transparency of public funds invested in LGIPs.

Portfolios

NPAIT and NLAF are relatively very safe investments. They each received a AAAm rating by S&P, the highest possible principal stability rating. While Nebraska law provides safeguards for NLAF and NPAIT investment, idle public funds deposited in Nebraska banks are insured by FDIC, and statutorily required to be collateralized at 102% of the amount not federally insured. NPAIT and NLAF are not FDIC insured and don't require the same 102% collateral protection of a public entity's deposit in a Nebraska bank. Legal protection of the money held in these funds is not completely absent, as they hold FDIC insured investments and collateralized instruments in their portfolios. NPAIT's commercial paper holdings are very highly rated (A-1/A-1+), but NPAIT bears an investment risk if an issuer of this commercial paper defaults or experiences stress. Political subdivisions that instead deposit money directly into a qualifying Nebraska bank don't bear that commercial paper risk directly.

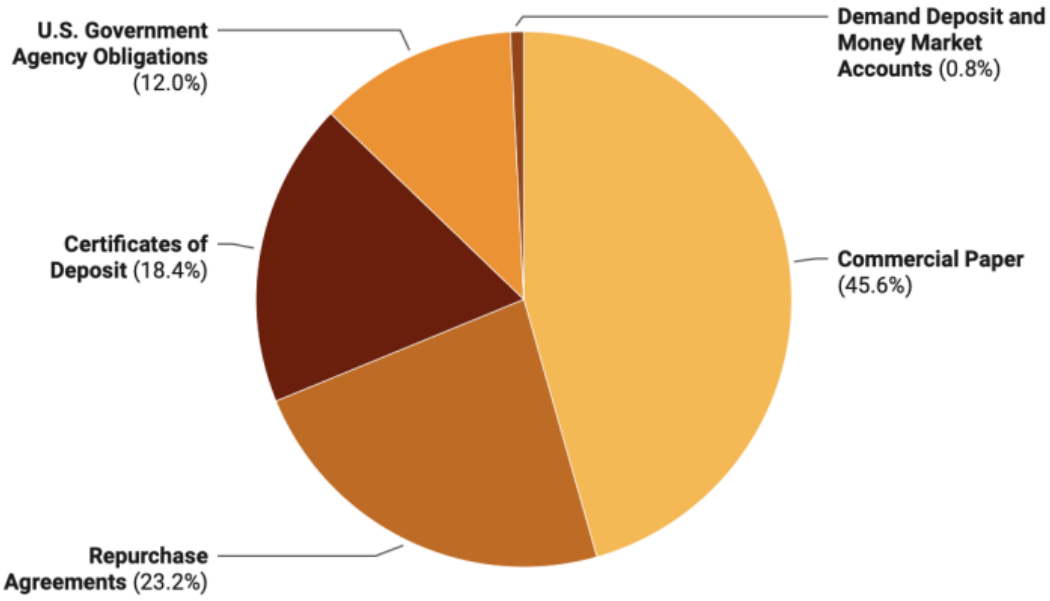
Notable observations:

- NLAF shows $0 of explicitly identifiable Nebraska-local investment.
- 96.8% of NLAF's portfolio clearly consists of investments with national/global entities.
- As of June 30, 2025, about 0.3% of NPAIT's primary $985 million investment portfolio was placed directly with Nebraska banks, based on the institutions identified in its annual report.
- Including NPAIT's separate $36.1 million Term Series, which was invested entirely with Omaha-based Mutual of Omaha, approximately 3.9% of NPAIT's combined investments were placed with identifiable Nebraska banks or companies.
- Nebraska Council of School Administrators (NCSA) and Nebraska Association of School Boards (NASB), private nonprofit education associations, receive compensation from NLAF for consulting services.
- NPAIT identifies nine sponsor organizations, which receive a fee of up to 0.10% calculated on the average daily net position of NPAIT.

> "However, direct public deposits into Nebraska financial institutions provide more explicit principal protection."

Portfolios

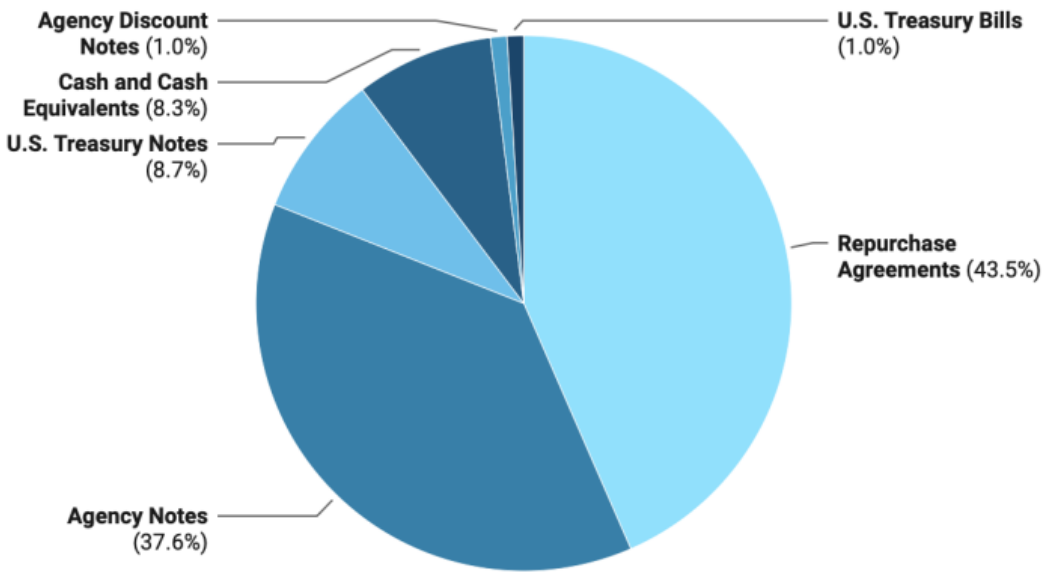
NPAIT Portfolio



As of 6/30/25

Source: NPAIT 2025 Annual Report • Created with Datawrapper

NLAF Portfolio



As of 5/31/25

Source: NLAF Annual Report 5/31/2025 • Created with Datawrapper

Public funds: deposits and pooled investments

Public funds deposited in eligible Nebraska financial institutions:	Public funds invested in NLAF or NPAIT:
FDIC coverage	FDIC insurance on some, but not all investments
102% qualifying collateral under Nebraska law	No blanket 102% collateral protecting participants' entire investment
Essentially no market risk for ordinary deposit held as intended	Some market risk
Credit/default risk mitigated by FDIC+collateral	Very low credit risk/default risk
Liquidity risk depends on deposit type	In some circumstances, liquidity risk exists
Potentially strong economic connection with local communities	Very limited local economic connection based on national profiles
No corresponding royalties/sponsorship fees.	Royalties/sponsorship fees paid to private nonprofit sponsoring organizations

NPAIT and NLAF are not significantly riskier than Nebraska banks. However, direct public deposits into Nebraska financial institutions provide more explicit principal protection.

*See Appendix for more information on NLAF and NPAIT portfolios.

Returns

According to the study by Iowa's Common Sense Institute, returns at Iowa banks typically outpaced Iowa's public pooled investment fund. Other than FY2024 and FY2025, Iowa-based banks showed higher yields on comparable assets to their LGIPs - IPAIT and ISJIT. Nebraska's public investment pools generally produced returns similar to Iowa's public investment pools over the comparable period. For the purposes of this report, comparable statewide data was not available to precisely determine whether Nebraska banks paid the same rates as Iowa banks on public deposits. Nevertheless, because banks in both states operate under the same national interest rate environment, Nebraska banks' high-dollar deposit rates would generally be expected to follow similar market trends.

Redirecting a greater portion of Nebraska's public funds to qualified Nebraska banks would strengthen the deposit base available to finance local credit and could lower bank funding costs and expand lending capacity, resulting in benefits for businesses, farms, households, and local tax bases. The size of those effects would depend on loan demand, bank balance sheet conditions, collateral costs, and the extent to which participating banks actually deploy the funds within Nebraska. The CSI report showed significant potential impact to the State of Iowa in lending activity, jobs, and GDP, and Nebraska policymakers may want to consider whether a similar impact could be seen in Nebraska.

Policy

Many states have policy on the books relating to this issue of public pooled investment funds. The prevalent model is often a mixture of giving local banks the first opportunity to receive public deposits, requiring or preferring in-state institutions, creating an in-state CD program alongside the investment pool, and limiting pooled fund concentration or requiring specific risk and geographic disclosures. A few notable cases can be found in Iowa, New Mexico, and Kansas.

Iowa's 2026 Senate bill on local government use of pooled investment trusts included limiting a political subdivision's aggregate investment in joint investment trusts to 25% of its average public funds during the preceding two fiscal years.[10] It also would have required its governing body to acknowledge in writing that pooled investments may not be federally insured, are not collateralized or guaranteed by the state or a political subdivision, and are subject to principal loss. The bill would have prohibited a trust from paying associations or other entities unless they truly provide investment management, administrative, custodial, or operational services. The House did not pass the bill before the 2026 session ended.

In New Mexico, interest bearing public deposits are distributed among qualified institutions located within the governmental unit, with some exceptions.[11] An eligible government may use the state LGIP when local institutions will not pay the statutory rate. Before money is invested or reinvested through the LGIP, the finance officer must notify and make it available to eligible banks, savings institutions, and credit unions within the governmental unit's boundaries. Those institutions can retain the funds by paying the rate established under state policy.

Kansas political subdivisions must first offer investable funds to eligible banks and savings institutions located in the community. If a local institution meets the statutory benchmark rate, the governmental unit generally selects it before using the state municipal investment pool or other alternatives, which become available when eligible local institutions cannot or will not meet the benchmark.[12]

In their study, the Common Sense Institute offers a survey of state policy regarding the depositing of idle government funds.

Conclusion

Local tax dollars ought to benefit the people who pay them. Although it may be possible for local governments to earn marginally higher returns over time with slightly more liquidity in large public pooled investment funds like NPAIT and NLAF, depending on their portfolio makeup, there is a significant potential for taxpayer dollars to provide economic benefits in communities through local banks and financial institutions, as seen in Iowa's Common Sense Institute study. Before conclusive results can be drawn on the economic impact of investing idle tax revenue in local banks, deeper Nebraska-specific study and economic analysis must be undertaken. However, as a reasonable principle, Nebraskans' hard earned tax money ought to be used in the best interest of the taxpayers, whether being deployed or held by local governments. Nebraska taxpayers deserve to see their tax dollars working for the greatest benefit of their local communities and local economy.

Appendix - NLAF and NPAIT Portfolios

NLAF

- **Credit Quality:** As of May 31, 2025, NLAF holds 79.88% of its portfolio in AA+ credit quality investments as rated by S&P, 19.1% in U.S. Treasury obligations, and 1.02% in A-1+ credit quality investments.
- **Weighted Average Maturity:** As of September 25, 2025 the weighted average maturity of the Fund's portfolio, including cash and cash equivalents, was 48 days. NLAF's investment policies limit its exposure to market value fluctuations due to changes in interest rates by requiring that it maintain a dollar weighted average maturity of not greater than 60 days.

• **NLAF's largest issuers include:**

Issuer	%
BNP Paribas (1)	12.51%
BofA Securities, Inc. (1)	14.33%
Freddie Mac	6.43%
Federal Farm Credit Bank	15.07%
Federal Home Loan Bank	18.53%
Goldman Sachs & Company(1)	5.18%
Toronto Dominion Bank(1)	12.00%
U.S. Treasury	10.49%

(1) These issuers are also counterparty to repurchase agreements entered into by the Fund. These repurchase agreements are collateralized by U.S. government and agency obligations.

- **Nebraska-Specific Investment:** NLAF shows $0 of explicitly identifiable Nebraska-local investment. 96.76% of NLAF's portfolio clearly consists of investments with national/global entities.
- **Investment Manager Fees:** U.S. Bancorp Asset Management (USBAM) fee at an annual rate equal to 0.25% of the fund's average daily net assets.
- **Royalties/Consultant Fees:** 0.03% of NLAF's average daily net assets ($482,376 in FY 2025). Nebraska Council of School Administrators (NCSA) and Nebraska Association of School Boards (NASB), private nonprofit education associations, receive compensation for helping "advise on applicable and pending state laws affecting the Fund, schedule and announce through their publications informational meetings and seminars at which representatives of the Fund will speak, and provide mailing lists of potential participants."

NPAIT

- **Credit Quality:** As of September 25, 2025, NPAIT holds 67.6% of its portfolio in A-1+ credit quality investments as rated by S&P, and 32.4% of its portfolio in A-1 investments.
- **Weighted Average Maturity:** As of September 25, 2025 the weighted average maturity of the Fund's portfolio, including cash and cash equivalents, was 44 days.

• **NPAITs largest issuers include:**

- Federal Home Loan Bank
- Federal Farm Credit Bank
- Liberty Street Funding
- Bay Square Funding
- Toyota Motor Credit Corp.
- Natixis NY Branch
- ING (US) Funding
- Starbird Funding
- Manhattan Asset Funding
- Mizuho Bank NY Branch
- **Nebraska-Specific Investment:** As of June 30, 2025, about 0.3% of NPAIT's primary $985 million investment portfolio was placed directly with Nebraska banks, based on institutions identified in its annual report. Including NPAIT's separate $36.1 million Term Series, which was invested entirely with Omaha-based Mutual of Omaha, approximately 3.9% of NPAIT's combined investments were placed with identifiable Nebraska banks or companies.
- **Investment Manager Fees:** NPAIT pays its investment manager PMA Asset Management, LLC at a fee at an annual rate equal to 0.18% of the Trust portfolio's average assets during FY2025.
- **Royalties/Sponsor Fees:** NPAIT identifies nine sponsoring organizations, which receive a fee of up to 0.10% calculated on the average daily net position of NPAIT. In FY2025 the sponsors waived roughly 90% of the state sponsorship fee. After $772,883 in voluntary fee waivers, NPAIT paid $85,904 in sponsorship fees to nine sponsoring organizations in FY2025:

- Metropolitan Area Planning Agency
- Nebraska Association of County Officials (NACO)
- Nebraska Association of Resources Districts
- Nebraska Community College Association
- Nebraska Rural Electric Association
- Nebraska State Irrigation Association
- Nebraska State Volunteer Firefighters Association
- Northeast Nebraska Economic Development District
- Panhandle Area Development District

Endnotes

1. Ben Murrey and Thomas Young, Keeping Local Tax Dollars Local," https://commonsenseinstituteus.org/iowa/research/taxes-and-fees/keeping-local-tax-dollars-local/.

2. Neb. Rev. Stat. §§ 77-23,109-114.

3. Neb. Rev. Stat. § 77-23,111.

4. Neb. Rev. Stat. § 77-23,110.

5. Neb. Rev. Stat. § 77-2398.

6. Neb. Rev. Stat. § 77-23,112.

7. Neb. Rev. Stat. § 77-23,110.

8. Iowa Code § 12B.10(2)–(5).

9. Iowa Code § 11.6(1)(a)(1), (1)(c)(6)–(7); 12B.10(3)(a), (5)(a)(7); 12B.10A(7); 12B.10B(1)–(2); 28E.5(2); 502.701.

10. Iowa S.F. 2286, 91st Gen. Assemb., Reg. Sess. § 3 (2026), as amended and passed by the Senate April 8, 2026.

11. N.M. Stat. Ann. § 6-10-36(A), (C)–(F) (1978); 6-10-10.1(B)–(C).

12. Kan. Stat. Ann. § 12-1675(b)(2)(A)–(C), (b)(5), (c), (g) (2025 Supp.), 12-1675a(g), 12-1677a(f).

Sources

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