

Date of Hearing: July 14, 2021

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez, Chair

SB 239 (Committee on Banking and Financial Institutions) – As Introduced January 21, 2021

Policy Committee: Banking and Finance

Vote: 12 - 0

Urgency: No

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill allows, with limitations, the investment of surplus state funds in specified money market mutual funds. This bill reduces, from at least 110% to 100% of the amount deposited, the required value of a letter of credit issued by the Federal Home Loan Bank (FHLB) of San Francisco, that a credit union or savings and loan association may use as security for a deposit of state funds.

FISCAL EFFECT:

Minor and absorbable costs to the State Treasurer's Office (STO).

COMMENTS:

- 1) **Purpose.** This omnibus measure by the Senate Committee on Banking and Financial Institutions intends to make non-controversial changes to statute. This bill is sponsored by State Treasurer Fiona Ma, who notes that allowing the STO to invest in money market mutual funds is a safe and sound investment strategy for the state, and can help the STO manage the large swings in cash flow that come with being one of the largest economies in the world. Treasurer Ma further notes that reducing collateral requirements applicable to FHLB letters of credit makes the requirement consistent and equitable among all depository institutions that do business with the state.
- 2) **Pooled Money Investment Account (PMIA) and Money Market Mutual Funds.** Existing law authorizes the State Treasurer to invest cash surpluses to manage the state's cash flow through the PMIA. The PMIA is governed by the Pooled Money Investment Board, which generally invests in safe instruments with short-term maturity schedules. A money market mutual fund invests in liquid and short-term instruments, such as cash equivalent securities or US Treasury bills with short-term maturity, and is generally considered low risk.

This bill adds money market mutual funds to the list of allowable PMIA investments. This bill also includes guardrails by only allowing investments in the highest rated money market mutual funds with shares issued by experienced financial institutions, and by prohibiting the state from purchasing more than 10% of any single fund's total assets or investing more than 10% of the PMIA's funds in any single fund.

- 3) **State Collateral and FHLB Letters of Credit.** Financial institutions that accept a deposit of state funds must pledge collateral, in an amount calculated by the STO, as an additional

protection for taxpayer money. A letter of credit, issued by one financial institution to another, serves as a guarantee for specified payments. Since the value of letters of credit does not fluctuate with the market, many public entities prefer them to direct issue securities, whose value is more volatile. Letters of credit issued by the FHLB of San Francisco, one of 11 US government-sponsored enterprises to support mortgage lending and related community investment, have high credit quality, can be paid quickly and directly to beneficiaries on presentment and are not subject to call provisions.

SB 363 (Committee on Banking and Financial Institutions), Chapter 516, Statutes of 2017, modified collateral requirements by reducing the required value of a FHLB letter of credit that a bank may use as security for a deposit of state funds, from 110% of the amount deposited, to 100% of the amount deposited. This bill fixes a drafting error and extends the reduction of collateral allowed by SB 363 to credit unions and savings and loan associations.

- 4) **Related Legislation.** AB 869 (Bloom) allows the STO to invest PMIA funds in sovereign debt instruments. AB 869 is awaiting action by the Governor.

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