

SENATE THIRD READING

SB 239 (Committee on Banking and Financial Institutions)

As Amended August 19, 2021

Majority vote

SUMMARY

Authorizes the State Treasurer to invest Pooled Money Investment Account (PMIA) funds in money market mutual funds under specified conditions, and modifies certain collateralization requirements related to a Federal Home Loan Bank (FHLB) letter of credit.

Major Provisions

- 1) Authorizes the State Treasurer to invest surplus state and local funds held in the PMIA in money market mutual funds that invest exclusively in specified securities and obligations in which the Treasurer is already authorized to invest. Imposes additional requirements on the investment of surplus state and local funds in money market mutual funds, including:
 - a) The financial institution issuing shares of the money market mutual fund must have at least five years of experience investing in the types of securities and obligations being purchased by the state and must have assets under management in the money market fund in excess of \$10 billion.
 - b) The state may not purchase more than 10% of a money market mutual fund's total assets and may not invest more than 10% of the pool's funds in any single money market mutual fund.
- 2) Reduces, from 110% of the amount deposited, to 100% of the amount deposited, the required value of a FHLB letter of credit that a credit union or a savings and loan association may use as security for a deposit of state funds by the State Treasurer into that credit union or savings and loan association.

COMMENTS

The Pooled Money Investment Account (PMIA). The PMIA is the account through which the State Treasurer invests cash surpluses to manage the state's cash flow. The PMIA is governed by the Pooled Money Investment Board, and the PMIA includes General Fund dollars, other state agency funds, and the cash from some participating cities.

By law, PMIA monies can only be invested in certain categories of investments, including: 1) United States Government securities; 2) securities of federally sponsored agencies; 3) domestic corporate bonds; 4) interest-bearing time deposits in California banks, savings and loan associations and credit unions; and 5) prime-rated commercial paper.

This bill allows the State Treasurer's Office (STO) to invest PMIA funds into money market mutual funds. A money market mutual fund invests in liquid and short-term instruments such as cash equivalent securities and United States Treasurers with short-term maturity. Generally, these funds are considered low risk. This bill also contains some limitations on these investments, including that the financial institution issuing shares has at least five years of experience and has assets under management in excess of \$10 billion and does not impose a commission on the purchase or sale of fund shares by the state.

State Collateral. Generally, any California institution that accepts a deposit of state funds must pledge collateral in order to protect taxpayer money. The STO's staff calculate the collateral requirement for each participating financial institutions and makes sure the funds on deposit are collateralized appropriately.

Collateralization requirements are detailed in state law, and over time the Legislature has modified these requirements in response to feedback from the STO and industry partners. In 2017, SB 363 (Banking and Financial Institutions Committee), Chapter 516, Statutes of 2017, modified the collateral requirements by reducing, from 110% of the amount deposited, to 100% of the amount deposited, the required value of a FHLB letter of credit that a bank may use as security for demand and time deposits made by the STO. FHLB letters of credit have high credit quality, maintain face values that do not fluctuate with the market, can be paid quickly and directly to beneficiaries on presentment, and are not subject to call provisions. Many public entities prefer letters of credit to direct issue securities because the value of the former does not fluctuate with the market, while the value of the latter is more volatile. However, SB 363 inadvertently failed to amend a parallel code section applicable to credit unions and savings and loan associations. Thus, these depositories are still subject to the 110% requirement when they use FHLB letters of credit to collateralize deposits of state funds. This bill corrects that error.

According to the Author

This bill provides the State Treasurer with additional flexibility to manage the state's tax receipts in a manner that aligns with the Treasurer's mandate to safeguard funds, maintain adequate liquidity, and earn a yield on investments.

Arguments in Support

This bill is sponsored by California State Treasurer Fiona Ma, who argues:

Allowing my office to invest in money market funds that are exclusively invested eligible securities will expand the pool of investment options available to my office without diminishing the safety and soundness of those investments. These highly liquid money market mutual funds would also help my office manage the large swings in cash flow that have come with being one of the largest economics in the world.

Arguments in Opposition

No opposition on file.

FISCAL COMMENTS

According to the Assembly Appropriations Committee, minimal and absorbable cost pressure to the STO.

VOTES

SENATE FLOOR: 38-0-2

YES: Allen, Archuleta, Atkins, Bates, Becker, Borgeas, Bradford, Caballero, Cortese, Dahle, Dodd, Durazo, Eggman, Glazer, Gonzalez, Grove, Hertzberg, Hueso, Hurtado, Jones, Kamlager, Laird, Leyva, McGuire, Melendez, Min, Newman, Nielsen, Ochoa Bogh, Pan, Portantino, Roth, Rubio, Skinner, Umberg, Wieckowski, Wiener, Wilk

ABS, ABST OR NV: Limón, Stern

ASM BANKING AND FINANCE: 12-0-0

YES: Grayson, Chen, Bauer-Kahan, Burke, Cervantes, Choi, Gabriel, Cristina Garcia, Nguyen, Petrie-Norris, Stone, Wicks

ASM APPROPRIATIONS: 13-0-3

YES: Lorena Gonzalez, Bigelow, Bryan, Calderon, Carrillo, Chau, Megan Dahle, Davies, Fong, Gabriel, Stone, Quirk, Akilah Weber

ABS, ABST OR NV: Eduardo Garcia, Robert Rivas, McCarty

UPDATED

VERSION: August 19, 2021

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FN: 0001091