

Date of Hearing: March 28, 2022

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Timothy Grayson, Chair

AB 2332 (Committee on Banking and Finance) – As Amended March 21, 2022

SUBJECT: State funds: investments

SUMMARY: Makes assorted changes to the list of securities eligible for investment by the Pooled Money Investment Account (PMIA). Specifically, **this bill:**

- 1) Authorizes the State Treasurer to invest surplus moneys in the following:
 - a) Bonds, notes, and other obligations of the state of California, rather than bonds, notes, and warrants of the state of California
 - b) Bonds, notes, and other obligations of a local government in California provided those securities are within the top three ratings categories of a nationally recognized statistical rating organization, rather than bonds and revenue warrants of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of the state.
 - c) Obligations issued, assumed, or guaranteed by the European Bank for Reconstruction and Development, or the European Investment Bank.
- 2) Reorganizes the list of eligible securities for the investment of surplus moneys to clarify that the list includes bonds, debentures, or other obligations of: Those issued by federal land banks or federal intermediate credit banks; those issued by the Central Bank for Cooperatives and banks for cooperatives, as specified; The Federal Home Loan Bank; The Federal National Mortgage Association; The Federal Home Loan Mortgage Corporation; Issued by the Tennessee Valley Authority; Those guaranteed by the Commodity Credit Corporation, as specified.
- 3) Specifies that in order for a sovereign debt instrument to be an eligible security, the government of the foreign country issuing the security must submit to the jurisdiction of the federal or state court in the United States, rather than the federal jurisdiction of the courts of the United States and to the state jurisdiction of the California courts.
- 4) Makes other assorted technical changes.

EXISTING LAW:

- 1) Lists eligible securities for the investment of surplus moneys. Eligible securities include (1) U.S. 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. (Gov Code Sec. 16430.)
- 2) Creates the Pooled Money Investment Board, consisting of the Controller, Treasurer, and Director of Finance, to designate at least once a month the amount of money available to

invest in securities or in deposits in banks and savings and loans associations or in loans to the General Fund and the type of investment or deposit. (Gov Code Sec. 16480.1.)

- 3) Authorizes the State Treasurer to invest and reinvest any securities described in Existing Law Number 1 or in loans to General Fund. The State Treasurer may hire or engage the services of an investment analyst to assist in these decisions. (Gov Code Sec. 16480.4.)
- 4) States that it is the intent that money available for investment or deposit be invested in such a way as to realize the maximum return consist with safe and prudent treasury management. (Gov Code Sec. 16480.22.)

FISCAL EFFECT: Unknown. This bill is keyed Fiscal by Legislative Counsel.

COMMENTS:

1) **Purpose.**

This committee bill is sponsored by the State Treasurer, whose letter of support states that AB 2332 is a common-sense measure that will clarify state law regarding securities eligible for investment by the PMIA. The letter also states:

With such changes, the State would reduce the possibility of error and streamline the auditing process for such investment.

In addition, the bill broadens the array of safe, liquid securities eligible for investment, thus modernizing the law to conform to the growing needs of the PMIA portfolio, which exceed \$200 billion for the first time this year.

2) **The 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 (Board), and the PMIA includes General Fund dollars, other state agency funds (the Surplus Money Investment Fund), and the cash from some participating cities (the Local Agency Investment Fund).

By law, PMIA monies can only be invested in certain categories of investments, including: (1) U.S. 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. Typically, the investment strategy is to choose safe investment instruments with short-term maturity schedules. Over time, the average yields on these investments have varied significantly. For example, average yields exceed 10% in the 1980s, but fell to nearly zero following the 2008 crisis.

While PMIA investments typically see small returns, the PMIA's balance has significantly increased as California's cash flow has improved. For example, the average quarterly balance of the PMIA in 2015-16 was \$68.43 billion. By 2019-20, that average grew to \$97.90 billion.

3) **Updating PMIA's investment strategy.**

Over the past decade, the PMIA portfolio has grown significantly while the market for many of the eligible investments has shrunk. Certain types of investments are no longer commonly available (such as Bankers' Acceptances) and many financial institutions that previously were relied on to offer short-term securities are no longer in the market (e.g., General Electric Capital). Recently, the volatility of cash flows has highlighted the need for additional safe, liquid investments for the state to invest its idle cash.

Moreover, previous changes to the allowable investments that the PMIA can purchase has led to variations and inconsistencies in descriptions of eligible securities. Some sections of current law are vague while others are incomplete, which can lead to misinterpretation and confusion.

4) **Major provisions.**

AB 2332 proposes assorted clean-up to statute governing the State Treasurer's management of the PMIA and authorizes additional investment opportunities. Major provisions include:

- a) Clarifying that eligible securities include a category of "other obligations" of the state or eligible California-based local government. "Other obligations" is a term used in other parts of this section of law, and this change provides the State Treasurer additional flexibility.
- b) Allowing the State Treasurer to invest in any California-based local government provided that the securities are within the top three ratings categories of a nationally recognized statistical rating organization. The State Treasurer may already invest in a wide array of local government obligations; the practical impact of this change is to allow the State Treasurer to invest in special districts, if it wishes to do so, and to set a higher rating standard for *any* investment in local government obligations, including ones already authorized under existing law.
- c) Expanding the list of "supranational" obligations. A supranational is an organization formed by two or more central governments to promote economic development for member companies, such as the International Bank for Reconstruction and Development and the Inter-American Development Bank. This bill adds two more of these organizations from which the State Treasurer may purchase obligations: The European Bank for Reconstruction and Development and the European Investment Bank. These are broadly considered safe and reasonable investments, and this change is in align with existing State Treasurer investment practices.

5) **Related legislation.**

AB 869 (Bloom), Chapter 60, Statutes of 2021, authorized the State Treasurer to invest up to one percent of PMIA funds in sovereign debt instruments, as specified

SB 239 (Senate Committee on Banking and Finance), Chapter 635, Statutes of 2021, among some of its provisions, authorized the STO to invest PMIA funds in money market mutual funds, as specified.

REGISTERED SUPPORT / OPPOSITION:

Support

California State Treasurer's Office (Sponsor)

Opposition

None on file.

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