

Date of Hearing: July 6, 2015

ASSEMBLY COMMITTEE ON BANKING AND FINANCE  
Matthew Dababneh, Chair  
SB 797 (Committee on Governmental Organization) – As Amended April 15, 2015

**SENATE VOTE:** 36-0

**SUBJECT:** Government finance.

**SUMMARY:** Expands the eligible securities for the investment of surplus moneys to include commercial paper issued by a federally or state-chartered branch of a foreign bank that is approved by the Pooled Money Investment Board (PMIB). Specifically, **this bill:**

- 1) Prohibits a purchase of commercial paper from exceeding 270 days maturity.
- 2) Deletes obsolete language pertaining to various bond acts.

**EXISTING LAW:**

- 1) Specifies the types of securities that are eligible for the investment of surplus state funds, including commercial paper of "prime" quality as defined by a nationally recognized organization that rates these securities, if the commercial paper is issued by a corporation, trust, or limited liability company that is approved by the PMIB as meeting specified conditions.
  - a) Prohibits a purchase of commercial paper from exceeding 180 days maturity. (Government Code, Section 16430)
- 2) Establishes the County Jail Capital Expenditure Bond Act of 1981 which authorizes the issuance and sale of \$280 million in state general obligation bonds to finance the construction, reconstruction, remodeling, and replacement of county jails and for deferred maintenance. The act established the County Jail Capital Expenditure Finance Committee for the purpose of authorizing the issuance and sale of the bonds authorized by the act.
- 3) Establishes the County Jail Capital Expenditure Bond of 1984 which authorizes the issuance and sale of \$250 million in state general obligation bonds to finance the construction, reconstruction, renovation, and remodeling, and replacement of county jails and for deferred maintenance. The act established the County Jail Capital Expenditure Finance Committee for the purpose of authorizing the issuance and sale of the bonds authorized by the act.
- 4) Establishes the New Prison Construction Bond Act of 1984 which authorized the issuance and sale of \$300 million in state general obligation bonds to finance the construction, renovation, and remodeling of state correctional facilities and for deferred maintenance. The act established the 1984 Prison Construction Committee for the purpose of authorizing the issuance and sale of the bonds authorized by the act.
- 5) Establishes the Cameron-Unruh Beach, Park, Recreational, and Historical Facilities Bond Act of 1964 which authorizes the issuance and sale of \$150 million in state general obligation bonds to finance the acquisition and development of lands for recreational

purposes. The act establishes the State Park and Recreation Finance Committee for the purpose of authorizing the issuance and sale of the bonds authorized by the act.

- 6) Establishes the State Beach, Park, Recreational, and Historical Facilities Bond Act of 1974, also known as the Z'berg-Collier Park Bond Act, which authorizes the issuance and sale of \$250 million in state general obligation bonds to finance the acquisition and development of lands for recreational purposes. The act establishes the State Park and Recreation Finance Committee for the purpose of authorizing the issuance and sale of the bonds authorized by the act.
- 7) Establishes the Recreation and Fish and Wildlife Enhancement Bond Act of 1970 which authorizes the issuance and sale of \$60 million in state general obligation bonds to finance the design and construction of recreation facilities, fish and wildlife enhancement features, and fishing access sites. The act establishes the Recreation and Fish and Wildlife Enhancement Finance Committee for the purpose of authorizing the issuance and sale of the bonds authorized by these provisions.
- 8) Establishes the Clean Water Bond Law of 1970 which authorizes the issuance and sale of \$250 million in state general obligation bonds to finance grants to municipalities for water reclamation projects. The Clean Water Bond Law of 1970 establishes the Clean Water Finance Committee for the purpose of authorizing the issuance and sale of the bonds authorized by these provisions.
- 9) Establishes the Clean Water Bond Law of 1974 which authorizes the issuance and sale of \$250 million in state general obligation bonds to finance grants to municipalities for water reclamation projects. The Clean Water Bond Law of 1974 establishes the Clean Water Finance Committee for the purpose of authorizing the issuance and sale of the bonds authorized by these provisions.

**FISCAL EFFECT:** Unknown.

**COMMENTS:**

*Need for the bill:*

The author contends that the bill is clean up legislation that deletes various bond act language that is no longer necessary.

The author further argues that by adding a federally or state-chartered bank or a state-licensed branch of a foreign bank that is approved by the PMIB, the state would be able to continue to obtain a diverse variety of commercial paper securities on a daily basis. The author further argues that the ability to utilize commercial paper with maturities of as long as 270 days would benefit the Pooled Money Investment Account (PMIA) by giving them more options to use this 180-270 day window.

*PMIA*

The State Treasurer invests taxpayers' money to manage the State's cash flow and strengthen the financial security of local government entities. The Investment Division manages the PMIA on

behalf of the Treasurer. The Investment Division staff invests PMIA funds in a wide range of securities, using more than 100 brokers, dealers, banks and direct issuers of commercial paper and corporate debt. Under current law, PMIA moneys can only be invested in U.S. government securities, securities of federally-sponsored agencies, domestic corporate bonds, interest-bearing time deposits in California banks, savings and loan associations and credit unions, prime-rated commercial paper, repurchase and reverse repurchase agreements, security loans, banker's acceptances, negotiable certificates of deposit and loans to various bond funds.

The Treasurer's Office states that commercial paper has been a very useful tool in the Investment Division's daily cash investments of surplus money. Commercial paper is a short-term, unsecured promissory note issued by entities typically used as a source of working capital, receivable financing, and other short-term financing needs. Because of the ability to issue in short maturities, commercial paper is used to fill short-term, unexpected cash flow needs. In addition, because of the ability of many issuers to adjust their offered issuances to meet the PMIA's cash flow needs, the PMIA has been able to effectively use this type of investment.

For commercial paper, in addition to the "prime" designation of the securities themselves, the law requires that the issuers of these securities be corporations, trusts, or limited liability companies approved by the PMIB. The law goes on to further restrict commercial paper maturities to no longer than 180 days, to restrict the amount purchased by the PMIA to no more than 10% of the outstanding commercial paper of an issuer, and to restrict the concentration of commercial paper to no more than 30% of the PMIA portfolio.

On February 18, 2014, the Federal Reserve Board issued a ruling to strengthen supervision and regulation of large U.S. bank holding companies and foreign bank organizations. Under this ruling, a foreign banking organization that meets or exceeds the threshold for formation of a U.S. intermediate holding company (a U.S. non-branch asset of \$50 billion) on July 1, 2015, is required to organize its U.S. operations such that most of its U.S. subsidiaries are held by a U.S. intermediate holding company by July 1, 2016. By that date, the U.S. intermediate holding company must hold the foreign banking organization's ownership interest in any U.S. bank holding subsidiary and any depository institution subsidiary and in U.S. subsidiaries representing 90% of the foreign banking organization's assets not held by the bank holding company or depository institution. In addition, the ruling provides a foreign banking organization until July 1, 2017 to transfer its ownership interest in any residual U.S. subsidiary to the U.S. intermediate holding company.

The PMIB has recently learned from a number of foreign banks from whom the PMIB purchases commercial paper investments that they plan on restructuring to come into compliance with the new ruling before the 2016 deadline. As a result, based upon a strict interpretation of the law, the PMIB would not be allowed to purchase these investments because the current law allows the PMIB to only purchase commercial paper issued by a corporation, trust, or limited liability company.

*Previous Legislation:*

SB 826 (Committee on Governmental Organization), Chapter 205, Statutes of 2009. The bill made a number of technical changes to the State General Obligation Bond Law to clarify the way the law applies to the negotiated sales of bonds.

SB 28 (Brulte), Chapter 97, Statutes of 2001. The bill updated provisions of State General Obligation Bond Law and facilitated implementation of previously authorized borrowing structures.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

California State Controller  
California State Treasurer

**Opposition**

None on file.

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