
CONSENT

Bill No: SB 1438
Author: Committee on Local Government
Amended: 4/13/26
Vote: 21

SENATE LOCAL GOVERNMENT COMMITTEE: 7-0, 4/22/26
AYES: Durazo, Choi, Arreguín, Ashby, Cervantes, Laird, Seyarto

SUBJECT: Local government: investments and deposits

SOURCE: Author

DIGEST: This bill makes various changes to local government investment laws.

ANALYSIS:

Existing law:

- 1) Limits the percentage that local agencies can invest in many types of investments.
- 2) Allows local agencies to invest in commercial paper programs offer notes of varying short-term maturities not to exceed 270 days, but typically between one to 90 days. In addition to the maximum maturity of 270 days, state law includes additional safeguards to ensure that commercial paper programs operate effectively. Commercial paper must have the highest ranking or the highest letter and number rate as provided by a nationally recognized statistical rating organization. Entities issuing commercial paper must either be (1) general corporations with total assets in excess of \$500 million and have debt, other than commercial paper, that is rated “A” or equivalent; or (2) special purpose corporations, trusts, or limited liability companies that have program-wide credit enhancements, such as overcollateralization, letters of credit, or surety bonds, and have commercial paper rated “A-1” or higher.
- 3) Allows local agencies to invest in medium-term notes are securities with a maximum remaining maturity of five years or less. Local agencies may invest

up to 30% of their surplus funds in medium term notes, which must be issued by corporations or depository institutions licensed in the United States, with at least an “A” rating. Medium-term investments provide greater liquidity compared to longer-term investments, which may not mature for decades.

This bill:

- 1) Makes various changes to local government investment laws to recast and reorganize provisions authorizing local agencies to invest their surplus funds, among other changes.
- 2) Clarifies that cities, counties, and local agencies may purchase commercial paper issued by a federally or state-licensed branch of a foreign bank and a federally or state-chartered bank.
- 3) Allows local agencies to invest in obligations issued by the Inter-American Development Bank (IDB) Invest, allowing agencies to invest in the full range of issuances offered by the Inter-American Development Bank Group.
- 4) Allows counties and the City of Los Angeles to accept letters of credit that are drawn on accept letters of credit from a bank’s own regional Federal Home Loan Banks (FHLB).
- 5) Removes the January 1, 2031, sunset date on some of the provisions authorizing additional local agency investments.

Background

Since 1913, state law has authorized local officials to invest a portion of local agencies’ temporarily idle funds in a variety of financial instruments. Originally, state law limited the instruments to government bonds, but over time the laws governing local agency investments have been amended to keep pace with changing investment opportunities and current market offerings. California law allows local officials to deposit money in state or national banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in the State of California.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, state law outlines local agencies’ investment objectives, also known as the prudent investor standard. The primary objective is to safeguard the principal of the funds under its control. The secondary objective is to meet the liquidity needs of the depositor. The final objective is to achieve a return on the funds under its control.

State law limits the percentage that local agencies can invest in many types of investments. This encourages local agencies to diversify their investment portfolios, which limits the risk to the local agency if any investment does not have the expected return. Local agencies make investments with different maturity dates, which refer to the date when the borrower must make the final payment due on an investment. To limit risk, the Government Code places limitations on the types and terms of investments that local governments can make, including to limit the term to maturity for certain types of investments.

Comments

Purpose of this bill. Local agencies' ability to invest their temporarily idle funds helps local agencies manage their cash flow, maintain liquidity necessary to pay their bills, and make sound investments that provide a return but protect taxpayer funds. Many of the statutes authorizing local agencies to invest their surplus funds have been in place since at least 1949, some were updated in 1995, but many remain untouched. They reflect outdated drafting practices that comingled definitions, powers, and procedures. This can lead to confusion over local government investment powers and procedures and can lead to local agency investment portfolios falling out of compliance, which can put taxpayer dollars at risk. The only substantive policy changes reflected in the measure are also included in the Committee on Local Government's Annual Omnibus bill, SB 1439 of the current legislative session. To the extent both measures move forward, these changes will remain only in SB 1438 to avoid chaptering issues. To avoid confusion associated with provisions having multiple operative dates, the measure also removes a January 1, 2031, sunset on certain local agency investment tools. This measure is not intended to expand, contract, or change investment tools. It is intended to make investment practices clearer so that taxpayer dollars remain protected.

FISCAL EFFECT: Appropriation: No Fiscal Com.: No Local: No

SUPPORT: (Verified 4/23/26)

California Association of County Treasurers and Tax Collectors

OPPOSITION: (Verified 4/23/26)

None received

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