

Date of Hearing: June 17, 2026

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

SB 1438 (Committee on Local Government) – As Amended June 1, 2026

SENATE VOTE: 36-0

SUBJECT: Local government: investments and deposits.

SUMMARY: Makes numerous changes to local government investment laws.

FISCAL EFFECT: None.

COMMENTS:

- 1) **Local Agency Investments.** 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 the local agency's 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 the agency's 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 limiting the term to maturity for certain types of investments.

- 2) **Bill Summary.** This bill makes numerous changes to local government investment laws including a major restructuring of the statutes and the necessary conforming changes. This bill also makes the following amendments to existing law:
 - a) Current law allows the State Treasurer to purchase commercial paper issued by a federally or state-chartered bank or a state-licensed branch of a foreign bank. State law allows cities, counties, and other local agencies to purchase commercial paper. The California Association of County Treasurers and Tax Collectors notes that it is unclear if cities, counties, and local agencies can purchase commercial paper issued by state- or federally-licensed branches of foreign banks. **This bill** 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.

- b) Current law allows local agencies to invest in obligations issued or guaranteed by several supranational organizations, including the International Bank for Reconstruction and Development, the International Finance Corporation, and the Inter-American Development Bank (IDB), so long as they have a AA rating and meet other requirements. The California Association of County Treasurers and Tax Collectors notes that the universe of liquid AAA and AA bond issuers available to local agencies has significantly diminished. As a result, government investment officers are seeking alternative investment options that maintain safety and offer portfolio diversification for managed investment pools. They further note the Inter-American Investment Corporation (IDB Invest) is a high-credit-quality entity within the same financial group as the IDB. **This bill** allows local agencies to invest in obligations issued by IDB Invest, allowing agencies to invest in the full range of issuances offered by the Inter-American Development Bank Group.
 - c) Current law allows the State Treasurer to accept letters of credit from any of the 11 regional Federal Home Loan Banks (FHLB) to secure state deposits held in banks headquartered outside of California. State law allows counties and the City of Los Angeles to accept letters of credit, but restricts eligible letters of credit to those issued solely by the FHLB of San Francisco. The California Association of County Treasurers and Tax Collectors notes that 57 of California's 58 counties maintain primary banking relationships with large national institutions headquartered outside the San Francisco FHLB district. They note that the current restriction forces these banks into more expensive collateralization methods, ultimately reducing the interest yields available to local agencies. **This bill** allows counties and the City of Los Angeles to accept letters of credit that are drawn on a bank's own regional FHLB.
 - d) **This bill** also removes the January 1, 2031, sunset date on some of the provisions authorizing additional local agency investments.
- 3) **Purpose of the Bill.** According to the Senate Local Government Committee, "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. 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."

- 4) **Arguments in Support.** According to the California Association of County Treasurers and Tax Collectors, “SB 1438 undertakes a significant restructuring of existing code sections relied upon daily by county treasurer-tax collectors and their investment staff. By consolidating, reorganizing, and streamlining these provisions, the bill will make the law more logical, accessible, and easier to interpret and apply. Importantly, this effort is largely technical in nature and preserves the core policy framework, while reducing confusion and improving usability for those responsible for safeguarding and investing public funds.

“County treasurer-tax collectors play a critical role in managing public funds on behalf of counties, schools, and numerous local agencies. Clear and well-organized statutes are essential to ensuring consistent interpretation, sound investment practices, and strong fiduciary oversight. SB 1438 will enhance transparency and operational efficiency, ultimately supporting better outcomes for the public entities and communities that rely on these funds.”

- 5) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of Treasurers and Tax Collectors

Opposition

None on file

Analysis Prepared by: Jimmy MacDonald / L. GOV. / (916) 319-3958