Date of Hearing: July 16, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 595 (Choi) – As Amended May 23, 2025

Policy Committee: Local Government   Vote: 10 - 0

Urgency: No   State Mandated Local Program: No   Reimbursable: No

SUMMARY:

This bill revises the timeframe for penalizing local agencies that fail to submit to the State Controller's Office (SCO) specified financial reports and extends, to January 1, 2031, local authority for certain types of local government investments.

Specifically, this bill:

1) Specifies that an officer of a local agency who fails or refuses to file their financial transaction report within 10 months of the end of the local agency's fiscal year, instead of 20 days after receiving a written notice of the failure from the SCO, must forfeit specified dollar amounts to the state.

2) Extends the sunset date, from January 1, 2026, to January 1, 2031, on the local government investment provisions enacted by SB 998 (Moorlach), Chapter 235, Statutes of 2020, regarding commercial paper limits and the authorization to hold securities that could result in zero-bor negative-interest accrual during negative market interest rates.

FISCAL EFFECT:

Negligible costs to the SCO, and potential minor General Fund administrative savings, related to the changes to the timelines for the assessment of penalties when a local agency fails to submit financial reports.

COMMENTS:

1) **Purpose.** According to the author:

> Almost every city, county and state in the country is required have an audit of their financial statements performed by an independent Certified Public Accounting firm. It has become the normal industry standard to complete the financial audit within six months of the end of a fiscal year, so that the information can be reported and published in their state's Annual Comprehensive Financial Report. However, there are a handful of municipalities in California that are extremely delinquent in their report submissions, and have not completed audits for the fiscal year ending June 30, 2022.

2) **Background.** ***Local Agency Financial Reporting Penalties.*** Existing law requires local agencies to file annual financial transaction reports with the SCO documenting local agency revenues, expenditures, long-term indebtedness, appropriation limits, and total annual appropriations subject to those limits. Local agencies must submit these reports within seven months of the close of their fiscal year. Local agencies must also report the annual compensation of public officials to the SCO from the previous year by April 30th. The SCO uses local agency reports to prepare and publish annual reports on the financial transactions of cities, counties and special districts, along with any other information deemed to be of public interest.

   If a local agency fails to submit reports within the specified timeframes, the SCO sends notification to that agency. Existing law requires a local officer in charge of financial records who fails or refuses to file their reports within 20 days after receiving written notice from the SCO to forfeit to the state a specified penalty amount, depending on the total revenue of the local agency. The SCO may waive penalties for late filings if the local agency satisfactorily shows good cause, and may refer cases in which a local agency fails to respond to the Attorney General.

   This bill replaces the existing 20-day notice-triggered forfeiture process with a standardized 10-month post-fiscal-year deadline. According to the California Association of County Treasurers and Tax Collectors (CACTTC), this change "enhances clarity and fairness," and "aligns with local agency audit timelines and removes ambiguity for finance officers working diligently to ensure data accuracy."

   Local Agency Investments. Existing law authorizes local officials to invest a portion of a local agency's temporarily idle funds in a variety of financial instruments, but imposes limitations on the types and terms of these investments to minimize risk. For instance, existing law limits a local agency to investing no more than 25 % of surplus funds in short term commercial paper, and generally prohibits a local agency from investing surplus funds in securities that could realize zero- or negative-interest, unless otherwise specified. However, existing law, as enacted by SB 998 (Moorlach), Chapter 235, Statutes of 2020, provided the following exceptions until January 1, 2026:

   a) Increased the commercial paper limit for a city or special district with more than $100 million in investment assets from 25% to 40% of its total surplus funds.

   b) Authorized a local agency to invest in securities the federal government issues or backs that could result in zero- or negative-interest accrual if held to maturity during a period of negative market interest rates, and hold those securities until maturity.

   This bill extends the sunset date on these exceptions by five years, to January 1, 2031.

   According to CACTTC, "In times of economic volatility, flexibility in investment options becomes even more critical, and this bill ensures that local agency treasurers retain the tools necessary to manage funds prudently on behalf of their constituents."

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