

CDIAC

**CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION**

LOCAL AGENCY INVESTMENT GUIDELINES

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2016 Local Agency Investment Fund Conference

LAIIG: Background

- Developed to aid local officials in their efforts to implement new laws pertaining to the investment of public funds.
- First published in October 1996, to assist public agencies in complying with legislation passed in response to the Orange County bankruptcy.
- Updated annually since 2000.

LAIG: Annual Review Process

- CDIAC monitors state legislation pertaining to investment codes.
- CDIAC follows federal actions with potential impact on investments.
- CDIAC reviews technical assistance requests received pertaining to investments.
- CDIAC convenes a working group composed of public- and private-sector professionals to revise and update LAIG.

LAIG: Annual Review Process

- Review begins in October with the end of the Legislative Session/Bill Signing
- Open dialogue about proposed changes to LAIG between working group and CDIAC
- CDIAC provides a summary of legislative changes and identify technical assistance issues received
- Issues agreed to by all are included in the update
- Drafts are reviewed electronically

LAI: Consensus Building

- LAI: describes the issue; identifies minimum compliance requirements; and provides a consensus recommendations.
- The *Consensus Recommendation* represents the best judgement of the professionals involved (public and private).
- Intended as a guide only and LAI recommends a public agency seek legal counsel for legal advice.

LAI: Example of Code Interpretation

- (k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. **Notes eligible for investment under subdivision shall be rated “A” or better by an NRSRO.** Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section.

LAIG: Rating Category Modifiers

- Confusion on the meaning/interpretation of “A” rating in Gov. Code
- NRSROs use ratings modifiers, steps within a letter rating; for example S&P uses A+, A, A- while Moody’s uses A1, A2, A3.
- Gov. Code does not specifically mention rating modifiers
- Auditors questioning whether “A” rating or better meant only the middle A+, **A**, A-
- Most committee members were in agreement “A” rating or better encompassed the steps within the A” rating, **A+**, **A**, **A-**

LAIG: Legislative Intent

- Legislative intent is not easily interpreted.
- Prior to January 1, 2000, medium-term notes were defined in the Gov. Code as: “Notes eligible for investment under this subdivision shall be rated in a rating category of ‘A’ or its equivalent.”
- During the 1999-2000 legislative session, AB 1679 amended (deleted) parts of the code to reflect the current language: “Notes eligible for investment under this subdivision shall be rated ‘A’ or better by a nationally recognized rating service.”

LAIG: 2016 Review

- Issue raised regarding use of Rating Modifiers in meeting statutory rating criteria.
- Several different rating criteria standards contained in 53601.
- Inability to build a consensus on this issue.
- Group identified minor changes that would make rating criteria in 53601 uniform and satisfy all.
- CDIAC worked with legislative staff to have proposed changes included in Senate omnibus bill, SB 974.

LAIG: SB 974

- Signed by Governor, effective January 1, 2017.
- Made minor technical changes to 53601.
- Addressed inconsistencies with rating criteria in 53601.
- Rating criteria specify rating category, which includes those modified with a letter or number in the same rating category, i.e. A category includes A-, A, A+ or equivalent ratings.
- Inclusive by clarifying “equivalent rating of NRSRO”

LAIG: SB 974 Technical Change

- Old version: (k) Medium-term notes...Notes eligible for investment under subdivision **shall be rated “A” or better by an NRSRO.**
- New version: (k) Medium-term notes...Notes eligible for investment under subdivision **shall be rated in a rating category of “A” or its equivalent or better by an NRSRO.**

LAI:G: Legislative Changes

- Legislation is the primary driver of updates
- Each edition of LAIG contains a *Summary of Statutory Changes* for legislation effective January 1st of that year
- Changes can be simple changes like extensions of sunset dates or more substantial that impact portfolio composition (Deposits/Placement Services) or add new permissible investment products (Supranationals)

LAIG: Recent Legislative Changes

- 2013 (session) - broadened use of placement services to include deposits (previously limited to placement of certificates of deposit (CDs) only). Changed deposit portfolio allocation limitations.
- 2014 (session) - Addition of Supranationals as permissible investments.
- 2015 (session) – Extension of use of deposit placement services; changed permissible portfolio allocation for deposits; and increased the maximum deposits that can be placed with a single service.
- **2016 (session) – Clarifies rating criteria.**

LAIG: Q & A



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<http://www.treasurer.ca.gov/cdiac/>