

Investment Policy Statements for California Entities: Updates for 2024 Policies

An Investment Policy Statement (IPS) is the foundation for a local government’s investment program and provides the procedures and parameters of the program to staff, governing boards, and external partners. An important practice for any entity is to review its IPS on an annual basis to ensure it continues to align with California Government Code (CGC) and industry best practices.

Periodically, an “omnibus bill” is passed through the state legislature that, in addition to changes in other parts of CGC, includes clarifications for or changes to portions of CGC that pertain to the investments of local government programs. The Local Government Omnibus Act of 2023 will have a change that may impact an IPS.

Effective January 1, 2024, from Senate Bill 882, Local Government Omnibus Act of 2023

- Pass-through securities backed by Treasuries (subdivision (b) of CGC) or Federal Agencies (subdivision (f) of CGC) will be exempt from the limitations otherwise imposed on those backed by private/corporate securities so long as they meet the specified limitations.¹

The change will pertain to section 53601, subdivision (o) with the bill stating:

This bill would exempt from those limitations imposed on investment in mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond forms of investment those securities issued or guaranteed by specified federal agencies or issuers.²

This change makes a clear distinction in CGC between requirements for pass through securities as described in subdivision (o) that are “issued or guaranteed by an agency or issuer identified in subdivision (b) [which includes US Treasury securities] or (f) [which includes Federal Agency or Government Sponsored Enterprise (GSE) securities]” and those that are not.

Prior changes to CGC which should also be considered at the next review include:

Effective January 1, 2021, from Senate Bill 998³ (summed up in a prior Chandler whitepaper from 2020⁴)

- For Local Agencies with more than \$100,000,000 of investable assets under management concentrations of commercial paper may exceed 25%, and total up to 40%;
- Local Agencies’ (other than a county or a city & county) investments in combined commercial paper and medium-term notes or any single issuer may not exceed 10% of the total portfolio;
- Federally recognized California Indian Tribes may invest in joint powers investment pools; and
- Local Agencies are authorized to invest in securities issued by, or backed by, the United States Government that could result in zero or negative interest accrual if held to maturity (This sunsets January 1, 2026).

Effective January 1, 2023, from Senate Bill 1489⁵

- An investment’s remaining term or remaining maturity is measured from trade settlement date to final maturity;
- The purchase of a security with a forward settlement date exceeding 45 days from the time of investment is now prohibited; and
- An entity now has 45 days following the quarter end to submit a quarterly report to the legislative body of the agency.

In addition to these CGC changes, the Securities and Exchange Commission (SEC) refined their definition of a Qualified Institutional Buyer (QIB) in 2020, “The amendments also add to the list any institutional investors included in the accredited investor definition that are not otherwise enumerated in the definition of ‘qualified institutional buyer,’ provided they satisfy the \$100 million threshold.”⁶ Local governments that meet this threshold now qualify as QIBs and are able to participate in 144a offerings, also known as private placement securities, which provides access to more securities for further diversification opportunities for these entities.

While mirroring CGC as closely as possible is ideal, it is a common practice for local governments to adopt investment policies more restrictive than CGC by incorporating industry best practices and recommendations offered by California Debt and Investment Advisory Commission (CDIAC), Government Finance Officers Association (GFOA), Association of Public Treasurers (APT) and California Municipal Treasurers Association (CMTA). The IPS should not only include specific language within CGC guidelines, but also reflect risk tolerance levels and values of your entity.

Inclusion of other items in an IPS that are important to an entity may include the formulation and description of a Treasury Oversight Committee, as well as incorporating Environmental, Social, Governance (ESG) and/or Sustainably Responsible Investing (SRI) language. If this is something that the governing body would like included, it is pertinent to understand that ESG generally refers to inclusionary practices while SRI generally references an exclusionary approach.

With the many changes to CGC in the last few years, Chandler recommends local governments review their IPS at least annually. The annual review of an IPS is typically completed by staff and presented to the governing body for review and approval. Most professional investment advisors typically review the IPS as part of their regular services to local governments. A well written IPS is perhaps the most important component of your investment program. The document serves as a communication tool for staff, elected officials, the public, rating agencies, and bondholders. Per GFOA best practices, an investment policy statement enhances the quality of decision making and demonstrates a commitment to the fiduciary care of public funds.

Sources:

¹ Senate Committee on Governance and Finance Bill Analysis,

https://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=202320240SB882

² Local Government Omnibus Act of 2023, https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202320240SB882

³ Senate Bill 998, https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200SB998

⁴ Senate Bill No. 998: Updates and Clarification to California Government Code effective January 1st, 2021 by Christopher McCarry of Chandler Asset Management

⁵ Local Government Omnibus Act of 2022, https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB1489

⁶ SEC Modernizes the Accredited Investor Definition, <https://www.sec.gov/news/press-release/2020-191>



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Questions? Please contact Chandler at info@chandlerasset.com, or toll free at 800-317-4747 with any questions or to learn about investment management solutions for public entity investment programs.

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