Date of Hearing: July 2, 2025

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Juan Carrillo, Chair
SB 595 (Choi) – As Amended May 23, 2025

SENATE VOTE: 39-0

SUBJECT: Local government: investments and financial reports.

SUMMARY: Revises local government annual financial reporting deadlines and extends the authority for certain types of local government investments. Specifically, **this bill**:

1) Extends the sunset date of the following local government investment provisions from January 1, 2026, to January 1, 2031:

   a) An increase in the commercial paper limit for local agencies, other than counties, that have more than $100 million in investment assets from 25% to 40% of their total surplus funds.

   b) Authorization for a local agency 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, in the event of, and for the duration of, a period of negative market interest rates, and authorization for a local agency to hold these instruments until their maturity dates.

2) Specify that an officer of a local agency who fails or refuses to make and file their financial transaction report within 10 months after the end of the local agency's fiscal year, instead of 20 days after receipt of a written notice of the failure from the State Controller's Office (SCO), must forfeit specified dollar amounts to the state.

EXISTING LAW:

1) Requires the SCO 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 [Government Code (GC) § 12463].

2) Requires the officer of each local agency who has charge of the financial records shall furnish to the Controller a report of all the financial transactions of the local agency during the preceding fiscal year. The report shall contain underlying data from audited financial statements prepared in accordance with generally accepted accounting principles, if this data is available. The report shall be furnished within seven months after the close of each fiscal year or within the time prescribed by the SCO, whichever is later, and shall be in the form and manner required by the SCO (GC § 53891).

3) Requires a local agency to submit to the SCO information on annual compensation for the previous calendar year no later than April 30th (GC § 53891).

4) Provides that an officer of a local agency who willfully and knowingly submits a false report is guilty of a misdemeanor (GC § 53894).

5) Requires a local officer who fails or refuses to file their report within 20 days after SCO notifies them of their failure or refusal to forfeit to the State a specified amount based on the agency's total revenue (GC § 53895).

6) 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 investments that local governments can make in order to minimize risk (GC §§ 53601-53610).

FISCAL EFFECT: According to the Senate Appropriations Committee:

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

COMMENTS:

1) **Bill Summary.** This bill revises the timeframe for the SCO to impose penalties on local agency officials for failing to file financial transaction reports. Specifically the bill would allow for penalties if a local agency fails to file reports within 10 months of the end of the agency's fiscal year, rather than 20 days after receiving a notice from the SCO of its failure to file. This bill also extends local government investment provisions that sunset January 1, 2026. The author is the sponsor of this bill.

2) **Author's Statement.** 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.

   "SB 595 requires the officer in charge of filing their agency's mandatory financial audit report with the State Controller within ten months of the end of the local agency's fiscal year. If the report is not filed within that timeframe, the individual officer would be required to forfeit up to $5,000 to the state, depending on the total revenue of the local agency. The bill also extends the sunset dates of two provisions that are crucial for cities and counties to manage their finances and investments."

3) **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 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.

4) **Commercial Paper and Medium-Term Notes.** Many local agencies seeking to invest funds, but also maximize liquidity, maintain commercial paper programs. Commercial paper programs offer notes of varying short-term maturities not to exceed 270 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:

   a) General corporations with total assets in excess of $500 million and have debt, other than commercial paper, that is rated "A" or equivalent.

   b) 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.

   Some local agencies may be interested in longer-term investments than commercial paper. 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 long-term investments, which may not mature for decades.

   SB 998 (Moorlach), Chapter 235, Statutes of 2020, increased the commercial paper limits for cities and special districts that have more than $100 million in investment assets from 25% to 40% of their total surplus funds until January 1, 2026. SB 998 also prohibited cities and special districts from investing more than 10% of their commercial paper and medium-term investments in any single issuer.

5) **Zero- or Negative-Interest Rates.** Existing law generally prohibits local agencies from investing surplus funds in securities that could realize zero- or negative-interest. This essentially bars local agencies from investing in securities that would, if held until the maturity date, receive a final payment equal to, or less than, what was initially invested. This prohibition was enacted by the Legislature following Orange County's bankruptcy in 1994. SB 998 authorized, until January 1, 2026, local agencies 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 interest rates, and hold those securities until maturity. The California Association of Treasurers and Tax Collectors proclaims that being able to

invest in these securities lock in yields if the general level of market rates are negative, helping to manage credit risk.

6) **State Controller Reports.** Each city, county, and special district is currently required to provide to the SCO a report of all the financial transactions during the preceding year. The report must contain data from financial statements prepared in accordance with Generally Accepted Accounting Principles, if the data is available. The report must be provided seven months after the close of each fiscal year or within the time prescribed by the SCO, whichever is later, and shall be in the form required by the SCO.

   Once submitted, the SCO must compile, publish, and make publicly available on its website, in a format that can be printed and downloaded, reports on the financial transactions and information on annual compensation of each county, city, and special district. The SCO must publish the reports of the financial transactions on or before November 1 of each year following the end of the annual reporting period. This data is available upon request of the Legislature on or before April 1 of each year.

   In 2014, the Legislature added a requirement for local agencies to report the annual compensation of public officials to the State Controller and to post that information on the local agency's website [AB 2040 (Garcia), Chapter 894, Statutes of 2014]. Local agencies have to submit the information on annual compensation for the previous year no later than April 30th of the current year.

   An officer who willfully and knowingly submits a false report is guilty of a misdemeanor. If an officer of a local agency fails or refuses to make and file their report within 20 days after receipt of a written notice of the failure from the SCO, the local agency must forfeit the following amounts to the state:

   a) $1,000 for a local agency with a total revenue, in the prior year, of less than $100,000.

   b) $2,500 for a local agency with a total revenue, in the prior year, of at least $100,000 but less than $250,000.

   c) $5,000 for a local agency with a total revenue, in the prior year, of at least $250,000.

   If a satisfactory showing of good cause is provided, the SCO may waive the penalties for late filing. Upon request of the SCO, the Attorney General must prosecute an action for the forfeiture of the above funds. According to the SCO, there were 1,206 later filers in the 2022-23 Fiscal Year, and 383 were eventually eligible for forfeiture.

7) **Arguments in Support.** According to the California Association of County Treasurers and Tax Collectors, "As stewards of public assets, local agency treasurers are responsible for investing and protecting taxpayer funds. By extending the sunset date for local agency investment authority in commercial paper from January 1, 2026, to January 1, 2031, this will provide those local agencies authorized under Government Code section 53601(h) continued access to high-quality short-term investment vehicles that offer both strong creditworthiness and market-based returns. Commercial paper plays a strategic role in diversifying investment portfolios and improving portfolio liquidity. 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.

"CACTTC also supports SB 595 because it will extend, until 2031, the ability of all local agencies to invest in securities issued by, or backed by, the United States government that could result in zero interest accrual if held to maturity in the event of, and for the duration of, a period of negative market interest rates. These securities are issued by the most creditworthy and liquid issuers and allow local agencies to lock in yields if the general level of market rates are negative, while also managing credit risk.

"In addition, SB 595 proposes a rational reform to the financial reporting compliance structure. Replacing the current 20-day notice-triggered forfeiture process with a standardized 10-month post-fiscal-year deadline enhances clarity and fairness. It also aligns with local agency audit timelines and removes ambiguity for finance officers working diligently to ensure data accuracy."

8) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of County Treasurers and Tax Collectors

Opposition

None on file

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