Ohio Legislative Service Commission

Bill Analysis

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Sub. S.B. 287*

130th General Assembly
(As Reported by H. Finance and Appropriations)

Sens. Hughes, Eklund, Patton, Sawyer, Seitz

BILL SUMMARY

- Modifies the classifications of obligations in which the Treasurer of State, treasurer or governing body of a political subdivision (other than a county), or treasurer of a board of education may invest or execute transactions with interim moneys and makes changes regarding the types of obligations in which those interim moneys may be invested.
- Modifies the classifications of obligations in which a county investing authority may invest inactive moneys and moneys in the county library fund, as required, and makes changes regarding the types of obligations in which those moneys may be invested.
- Permits the State Board of Deposit to adopt rules necessary to implement the state's Uniform Deposit Act.
- Makes a conforming change to an exemption from investment limits regarding moneys in the Deferred Prizes Trust Fund.

CONTENT AND OPERATION

Investment of state interim funds

The bill makes changes regarding the types of obligations in which the Treasurer of State may invest or execute transactions for state interim funds to include: (1) notes of the state, (2) other obligations of the state (instead of just "direct" obligations as

* This analysis was prepared before the report of the House Finance and Appropriations Committee appeared in the House Journal. Note that the list of co-sponsors and the legislative history may be incomplete.

provided in current law), (3) bonds, notes, and other obligations issued by the Ohio water development authority and the Ohio Turnpike and Infrastructure Commission, and (4) bonds, notes, and other obligations of any state or political subdivision, as long as they are rated in the three highest categories by at least one nationally recognized standard rating service and purchased through a registered securities broker or dealer, provided that the Treasurer is not the sole purchaser of the obligations at original issuance.[1]

The bill also makes the following changes regarding obligations eligible for interim investment:

- Removes the requirement that securities subject to written repurchase agreements in which the Treasurer invests must mature or be redeemable within 10 years from the date of purchase;

- Requires that written repurchase agreements must be with a registered (instead of "recognized" as provided in current law) U.S. government securities dealer;[2]

- Increases the limit on the amount of state interim funds that may be invested in certain forms of commercial paper, from 25% to 40% of the state's total average portfolio;

- Provides that the forms of commercial paper eligible for investment must be issued by an entity organized under U.S. law or the law of a state, instead of corporations incorporated under those laws, and provides that the notes must be rated in the two highest categories by two nationally recognized standard rating services, rather than be rated *at the time of purchase* in the two highest categories by two nationally recognized rating *agencies;*[3]

- Removes the condition that bankers acceptances, to be allowable investments of state interim funds, must be eligible for purchase by the federal reserve system;[4]

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[1] R.C. 135.143(A)(3).

[2] R.C. 135.143(A)(4).

[3] R.C. 135.143(A)(6).

[4] R.C. 135.143(A)(7).

- Modifies the limitation on investment of state interim funds in debt interests, other than commercial paper, as follows:

  --Requires the debt interests to be issued by entities organized under U.S. law or the law of a state, instead of corporations incorporated under those laws;

  --Provides that (1) the debt interests must be rated in the three highest categories by two nationally recognized standard rating services, rather than be rated *at the time of purchase* in the three highest categories by two nationally recognized rating *agencies*, and (2) a debt interest is rated as described in (1) if either the debt interest itself or the issuer of the debt interest is rated, or is implicitly rated, in the three highest categories by two nationally recognized standard services;

  --Provides that investments in debt interests *other than commercial paper* must not exceed in the aggregate 25% of the state's portfolio, rather than all debt interests;

  --Increases the limitation on investments in the debt interests of a single issuer from ½% to 5% of the state's portfolio and specifies that investments in commercial paper are to be included;

  --Removes the 1% limitation on investment of state interim funds in debt interests of a single issuer that is a foreign nation, but retains the overall limitation that investment in debt interests issued by foreign nations cannot exceed in the aggregate 1% of the state's portfolio.[5]

- Permits investment in no-load money market mutual funds rated in the highest category by at least one nationally recognized standard rating service as an alternative to the current law authority to invest in such funds that consist of certain types of U.S. government obligations, certain forms of commercial paper, and repurchase agreements secured by such obligations or commercial paper.[6]

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[5] R.C. 135.143(A)(10).

[6] R.C. 135.143(A)(11).

Meaning of "political subdivision"

The bill removes a board of education of a school district from the list of entities included in the meaning of "political subdivision" for purposes of the investment of state interim funds. The bill, however, retains a school district as such a subdivision.[7]

Investment of political subdivision interim funds

The bill makes changes regarding the types of investments the treasurer or governing body of a political subdivision (other than a county) may make regarding interim moneys of the subdivision.

Bonds and other obligations of political subdivisions

The bill permits such interim moneys to be invested in the bonds and other obligations of political subdivisions of Ohio. To invest in those bonds or other obligations, all of the following requirements apply:

- The bonds or other obligations must be payable from general revenues of the political subdivision and backed by the full faith and credit of the political subdivision.
- The bonds or other obligations are rated at the time of purchase in the three highest classifications established by at least one nationally recognized standard rating service and purchased through a registered securities broker or dealer.
- The aggregate value of the bonds or other obligations must not exceed 20% of interim moneys available for investment at the time of purchase.
- The treasurer or governing board of the political subdivision is not the sole purchaser of the bonds or other obligations at original issuance.

Prior to making an investment in such bonds or other obligations, the treasurer or governing board of the political subdivision must complete additional training for making this type of investment. The type and amount of additional training must be approved by the Treasurer of State and may be conducted by or provided under the supervision of the Treasurer of State.[8]

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[7] R.C. 135.143(J).

[8] R.C. 135.14(B)(4).

Commercial paper notes or bankers acceptances

The bill increases from 25% to 40% the amount of political subdivision interim moneys available for investment in certain types of commercial paper notes or bankers acceptances. Regarding investment in bankers acceptances, the bill removes the requirement that the obligations must be eligible for purchase by the Federal Reserve system. The bill also modifies the eligible types of commercial paper notes as follows:

- Requires that the notes mature not later than 270 days, rather than 180 days, after purchase;
- Limits the investment in such notes of a single issuer in the aggregate to 5% of interim moneys available for investment at the time of purchase.

The bill also modifies the additional training requirement for a treasurer or governing body of a political subdivision to make investments in commercial paper notes and bankers acceptances by providing that the additional training must be approved by, and conducted by or provided under the supervision of, the Treasurer of State rather than the Auditor of State.[9]

Investment in Student Loan Marketing Association obligations

The bill removes from the list of eligible bonds, notes, debentures, or other obligations or securities for investment, those issued by the Student Loan Marketing Association.[10]

Investments through the Financial Industry Regulatory Authority

The bill provides that investments by the treasurer or governing body of a political subdivision may be made through a member of the Financial Industry Regulatory Authority (FINRA) instead of the National Association of Securities Dealers as provided in current law.[11]

Types of investments permitted without a written investment policy

The bill modifies current law with respect to the limited types of investments the treasurer or governing body of a political subdivision may make if it has not filed with the Auditor of State a written investment policy approved by the treasurer or governing body. Under those circumstances, the bill allows the treasurer or governing board to

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[9] R.C. 135.14(B)(7).

[10] R.C. 135.14(B)(2).

[11] R.C. 135.14(M)(1).

also deposit interim moneys with a public depository for redeposit with other federally insured financial institutions, as specified in existing law, *if* the Treasurer of State approves.[12]

Investment of board of education interim funds

The bill increases from 25% to 40% the amount of interim moneys, available for investment at any one time, that the treasurer of a board of education may invest in certain types of commercial paper notes or bankers acceptances. Regarding investment in bankers acceptances, the bill provides that the bankers acceptances must be of banks that are *insured by* the Federal Deposit Insurance Corporation (FDIC), rather than *members of* the FDIC. Further, the bill removes the requirement that the obligations must be eligible for purchase by the Federal Reserve system.

The bill also modifies the eligible types of commercial paper notes in which a board treasurer may invest as follows:

- Clarifies that the rating services that rate the notes must be nationally recognized;
- Requires that the notes mature not later than 270 days, rather than 180 days, after purchase;
- Limits the investment in such notes of a single issuer in the aggregate to 5% of interim moneys available for investment at the time of purchase.

The bill also modifies the additional training requirement for a treasurer of a board of education to make these kinds of investments by providing that the training must be approved by, and may be conducted by or provided under the supervision of, the Treasurer of State rather than the Auditor of State.

Finally, the bill clarifies that a board of education (that has an agreement with the Treasurer of State for the purchase by the Treasurer of certain board obligations) may invest interim moneys in certain debt interests rated in the two highest rating classifications by at least two nationally recognized *standard* rating *services* instead of two nationally recognized rating agencies.[13]

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[12] R.C. 135.14(O)(2); R.C. 135.145, not in the bill.

[13] R.C. 135.142.

Investment of county inactive or county public library funds

The bill makes changes regarding a county investing authority's investment of the county's inactive moneys and county public library fund moneys in securities and obligations.

Investment in money market mutual funds

Existing law permits a county investing authority to invest in no-load money market mutual funds that (1) are rated in the highest category at the time of purchase by at least one nationally recognized standard rating service **and** (2) consist exclusively of certain types of U.S. government or U.S. government agency obligations and certain forms of commercial paper. The bill permits the investing authority to invest in mutual funds that meet *either* the requirement in (1) or (2).[14]

Investment in bankers acceptances

Regarding investment in bankers acceptances by a county investing authority, the bill removes the requirement that the obligations must be eligible for purchase by the Federal Reserve system.[15]

Training for investment in commercial paper notes and bankers acceptances

The bill modifies the training requirement for a county investing authority to make investments in commercial paper notes and bankers acceptances by providing that the training must be approved by, and may be conducted by or provided under the supervision of, the Treasurer of State rather than the Auditor of State.[16]

Investments through the Financial Industry Regulatory Authority

The bill provides that certain investments by a county investing authority may be made through a member of the Financial Industry Regulatory Authority (FINRA) instead of the National Association of Securities Dealers as provided in current law.[17]

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[14] R.C. 135.35(A)(5) and (10).

[15] R.C. 135.35(A)(8)(b).

[16] R.C. 135.35(A)(8).

[17] R.C. 135.35(J)(1).

Investment in Student Loan Marketing Association obligations

The bill removes from the list of eligible bonds, notes, debentures, or other obligations or securities for investment, those issued by the Student Loan Marketing Association.[18]

State Board of Deposit rulemaking

The bill authorizes the State Board of Deposit to adopt rules in accordance with R.C. 111.15 that are necessary to implement the state's Uniform Depository Act (R.C. Chapter 135.).[19]

Exemption from limitations on investment of moneys in Deferred Prizes Trust Fund

The bill makes a conforming change to an exemption in current law that investments made by the Treasurer of State of moneys in the Deferred Prizes Trust Fund are not subject to certain limitations generally applicable to state investments of interim funds. To reflect the changes made by the bill to R.C. 135.143(A)(10) (discussed above under "**Investment of state interim funds**"), the bill provides that the investment of moneys in the Deferred Prizes Trust Fund is not subject to the general limitation that not more than 25% of the state's investment portfolio may be invested in debt interests *other than commercial paper* and not more than 5% of the amount that may be invested in debt interests *including commercial paper*, may be invested with a single issuer. Under current law, the exemption applies to all debt interests and the limit that may be invested with a single issuer is 0.5% of the state's portfolio.[20]

HISTORY

ACTION	DATE
Introduced	02-25-14
Reported, S. Finance	05-14-14
Passed Senate (30-0)	05-14-14
Reported, H. Finance & Appropriations	---

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[18] R.C. 135.35(A)(2).

[19] R.C. 135.48.

[20] R.C. 3770.06(C).