

Assembly Bill No. 1506

CHAPTER 468

An act to amend Sections 16430, 16753, 16754, and 16754.3 of the Government Code, relating to state finance.

[Approved by Governor September 23, 1999. Filed
with Secretary of State September 23, 1999.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1506, Florez. State finance.

(1) Existing law specifies the types of securities that are eligible for the investment of surplus state funds, including commercial paper of prime quality that meets certain criteria and negotiable certificates of deposit.

This bill would add alternative criteria that commercial paper of prime quality and negotiable certificates of deposit may meet to be eligible as an investment security for surplus state funds.

(2) The State General Obligation Bond Law requires, with respect to bids on the public sale of state general obligation bonds pursuant to public announcement by the Treasurer, that each bid be in writing and signed by the bidder and sealed, and accompanied by the deposit of a certified check or cashier's check for $\frac{1}{2}$ of 1% of the par value of the bonds offered for sale.

This bill instead would require each bid to be submitted to the Treasurer in the form and by the means specified by the Treasurer by public announcement. The bill would require the Treasurer to require a deposit, as specified, of $\frac{1}{2}$ of 1% of the principal amount of the bonds offered for sale, and to specify the form of the deposit, which may be a cashier's check, a surety bond, or a wire transfer of funds, or a combination thereof. It would also make various conforming changes.

(3) This bill would incorporate additional changes in Section 16754.3 of the Government Code proposed by SB 997, to be operative if SB 997 and this bill are both enacted and become effective on or before January 1, 2000, and this bill is enacted last.

The people of the State of California do enact as follows:

SECTION 1. Section 16430 of the Government Code is amended to read:

16430. Eligible securities for the investment of surplus moneys shall be any of the following:

(a) Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

(b) Bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States.

(c) Bonds and notes of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest.

(d) Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of this state.

(e) Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, in debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, in bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended, and in the bonds of any federal home loan bank established under that act, obligations of the Federal Home Loan Mortgage Corporation, in bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended, and bonds, notes, and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended.

(f) (1) Commercial paper of “prime” quality as defined by a nationally recognized organization that rates these securities. Eligible paper is further limited to issuing corporations or trusts approved by the Pooled Money Investment Board that meet the conditions in either subparagraph (A) or subparagraph (B):

(A) Both of the following:

(i) Organized and operating within the United States.

(ii) Having total assets in excess of five hundred million dollars (\$500,000,000).

(B) Both of the following:

(i) Organized within the United States as a special purpose corporation or trust.

(ii) Having programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.

(2) Purchases of eligible commercial paper may not exceed 180 days’ maturity, represent more than 10 percent of the outstanding



paper of an issuing corporation or trust, nor exceed 30 percent of the resources of an investment program. At the request of the Pooled Money Investment Board, this investment shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment.

(g) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System.

(h) Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits do not come within the provisions of Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600).

(i) The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration.

(j) Bank loans and obligations guaranteed by the Export-Import Bank of the United States.

(k) Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 and following) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2).

(l) Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank of Puerto Rico.

(m) Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision shall be within the top three ratings of a nationally recognized rating service.

SEC. 2. Section 16753 of the Government Code is amended to read:

16753. (a) Each bid shall be submitted to the Treasurer in the form and by the means specified by the Treasurer by public announcement.

(b) The Treasurer shall require that each bidder provide a good faith deposit of one-half of 1 percent of the principal amount of the bonds offered for sale. The Treasurer shall specify the form of the deposit, which may be a cashier's check, a surety bond, a wire transfer of funds, or a combination thereof. The deposit shall not bear interest.



SEC. 3. Section 16754 of the Government Code is amended to read:

16754. The bonds specified in the resolution shall be sold by the Treasurer, at the time fixed by the Treasurer, and upon the notice that the Treasurer may deem advisable, or at the time to which the sale shall have been so continued, at public sale to the bidder whose bid will result in the lowest interest cost on account of those bonds, but the Treasurer shall reject any and all bids for the bonds that shall be below the par value thereof plus the interest that shall have accrued thereon from the date thereof (or, if any past due coupon or coupons have been detached from the bonds prior to the delivery thereof, then from the due date of the latest coupon so detached) to the date of the purchaser's payment for the bond. The method of determining the lowest interest cost bid shall be prescribed in the bond resolution and shall be limited to either the net interest cost method or the present worth basis method, also referred to as the true interest cost, bond book basis, and Canadian interest cost method. The net interest cost of each bid shall be determined by ascertaining the total amount of interest that the state would be required to pay under that bid, from the date of the bonds to the respective maturity dates of the bonds then offered for sale, at the coupon rate or rates specified in the bid, less the total amount of the premium, if any, offered by the bid. The bid under which the amount so ascertained is the least shall be deemed to be the bid resulting in the lowest net interest cost. Under the present worth basis method, the bonds shall be awarded to the bidder submitting the lowest interest rate bid determined by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments to the specified interest computation date and to the price bid. Under either method, the sale shall be for cash, payable upon the delivery of the bonds in definitive form, or if the right to deliver temporary securities has been reserved, then upon the delivery of the temporary securities.

SEC. 4. Section 16754.3 of the Government Code is amended to read:

16754.3. (a) The bonds specified in the resolution shall be sold by the Treasurer, at the time fixed by the Treasurer, and upon the notice that the Treasurer may deem advisable, or at the time to which the sale shall have been so continued, either at public sale to the bidder whose bid will result in the lowest interest cost on account of those bonds or by negotiated sale if the Treasurer determines it will result in a lower interest cost. With respect to bonds sold by the Treasurer by negotiated sales, the Treasurer shall make a finding on the public record as to why a public sale was not used. The Treasurer may sell the bonds at a price below the par value thereof, but the discount on bonds so sold shall not exceed 3 percent of the par value. The interest,



if any, accrued to the date of delivery of, and payment for, the bonds shall be added to the sale price of the bonds in any case.

(b) The method of determining the lowest interest cost bid shall be prescribed in the bond resolution and shall be limited to either the net interest cost method or the true interest cost method. The net interest cost of each bid shall be determined by ascertaining the total amount of interest that the state would be required to pay under that bid, from the date of the bonds to the respective maturity dates of the bonds then offered for sale, at the interest rate or rates specified in the bid, less the total amount of the premium, if any, or plus the total amount of the discount, if any, offered by the bid. The bid under which the amount so ascertained is the least shall be deemed to be the bid resulting in the lowest net interest cost. Under the true interest cost method, the bonds shall be awarded to the bidder submitting the lowest interest rate bid determined by the nominal interest rate that, when compounded semiannually and used to discount the debt service payments on the bonds to the date of the bonds, results in an amount equal to the price bid for the bonds, excluding interest accrued to the date of delivery. Under either method, the sale shall be for cash, payable upon the delivery of the bonds in definitive form, or if the right to deliver temporary securities has been reserved, then upon the delivery of the temporary securities.

(c) This section shall apply to any bonds authorized at any statewide election held at any time after the effective date of this section. Section 16754 shall apply only to bonds authorized at elections held before the effective date of this section.

SEC. 5. Section 16754.3 of the Government Code is amended to read:

16754.3. (a) The bonds specified in the resolution shall be sold by the Treasurer, at the time fixed by the Treasurer, and upon the notice that the Treasurer may deem advisable, or at the time to which the sale shall have been so continued, either at public sale to the bidder whose bid will result in the lowest interest cost on account of those bonds or by negotiated sale if the Treasurer determines it will result in a lower interest cost. With respect to bonds sold by the Treasurer by negotiated sales, the Treasurer shall make a finding on the public record as to why a public sale was not used. The Treasurer may sell the bonds at a price below the par value thereof, but the discount on bonds so sold shall not exceed 3 percent of the par value. The interest, if any, accrued to the date of delivery of, and payment for, the bonds shall be added to the sale price of the bonds in any case.

(b) The method of determining the lowest interest cost bid shall be prescribed in the bond resolution and shall be limited to either the net interest cost method or the true interest cost method. The net interest cost of each bid shall be determined by ascertaining the total amount of interest that the state would be required to pay under that



bid, from the date of the bonds to the respective maturity dates of the bonds then offered for sale, at the interest rate or rates specified in the bid, less the total amount of the premium, if any, or plus the total amount of the discount, if any, offered by the bid. The bid under which the amount so ascertained is the least shall be deemed to be the bid resulting in the lowest net interest cost. Under the true interest cost method, the bonds shall be awarded to the bidder submitting the lowest interest rate bid determined by the nominal interest rate that, when compounded semiannually and used to discount the debt service payments on the bonds to the date of the bonds, results in an amount equal to the price bid for the bonds, excluding interest accrued to the date of delivery. Under either method the sale shall be for cash, payable upon the delivery of the bonds in definitive form, or if the right to deliver temporary securities has been reserved, then upon the delivery of the temporary securities.

(c) If the resolution prescribes that the bonds may pay a variable interest rate, as specified in subdivision (d) of Section 16731, the Treasurer may sell the bonds either at public sale, upon sealed bids, or by negotiated sales, as prescribed in subdivision (a).

(d) This section shall apply to any bonds authorized at any statewide election held at any time after the effective date of this section. Section 16754 shall apply only to bonds authorized at elections held before the effective date of this section.

SEC. 6. Section 5 of this bill incorporates amendments to Section 16754.3 of the Government Code proposed by both this bill and SB 997. It shall only become operative if (1) both bills are enacted and become effective on or before January 1, 2000, (2) each bill amends Section 16754.3 of the Government Code, and (3) this bill is enacted after SB 997, in which case Section 4 of this bill shall not become operative.

