

California Senate Bills 1438 and 1439:

A New Structure for Local Agency Investment Law

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Executive Summary

Effective January 1, 2027, the implementation of SB 1438 and 1439 will restructure significant parts of California Government Code (CGC or Code) related to local agency investing. Understanding the new organizational structure in these sections is vital to identifying which references should change in your agency's various policies and other documents so you can stay compliant. These changes will be more intensive than in past years because they require a comprehensive review of all documents that reference CGC. This whitepaper will serve as a resource to navigate the necessary policy revisions. Your investment adviser can also assist you with this process to help your agency understand changes and update your policy to align with the reorganized CGC.

Senate Bill 1438 substantially reorganizes the California Government Code (CGC) provisions governing local agency investments and deposits. The legislation centralizes definitions in Section 53600, retains the statewide-concern finding in Section 53601, consolidates governance requirements in Section 53602, relocates the eligible investment list to Section 53603, and moves deposit-placement services to Section 53604. Most core investment authorities remain intact, but the section numbers and many internal cross-references change. The bill also makes targeted substantive changes.

It expands qualifying commercial paper issuers to include federally or state-chartered banks and federally or state-licensed branches of foreign banks; adds the Inter-American Investment Corporation to the list of qualifying supranational issuers; removes the January 1, 2031 sunset for the higher commercial paper limit applicable to certain local agencies with at least \$100 million in investment assets; and removes the sunset for the exception on zero-interest accruals for certain U.S. government securities during negative-rate periods.

Senate Bill 1439 serves primarily as a companion technical-corrections measure. For local agency investments, it updates and conforms statutory references affected by the SB 1438 reorganization and helps ensure that reporting requirements, cross-references, and related provisions remain consistent with the new statutory structure established by SB 1438, but it does not materially expand or restrict local investment authority. It does include language allowing certain qualifying institutions to use a letter of credit issued through the institution's regional Federal Home Loan Bank.

Accordingly, local agencies should review both SB 1438 and SB 1439 together, as SB 1438 contains the substantive reorganization and policy changes while SB 1439 contains companion conforming amendments necessary to fully implement the new statutory framework.

What changes under SB 1438 and SB 1439?

A reorganized statutory framework

Existing provisions formerly spread across Sections 53600 through 53610 are regrouped by function. This is more than a simple renumbering exercise because policies, delegation resolutions, procedures, reports, contracts, and cross-references may cite sections that are re-sequenced. ***See table 1 on the next page for organization changes.***



Commercial paper authority

Commercial paper authority moves from Section 53601(h) to Section 53603(h) and 53603(r). The issuer framework expands to include an entity organized as a federally or state-chartered bank or a federally or state-licensed branch of a foreign bank. The scheduled 2031 reduction from 40% to 25% for certain local agencies with at least \$100 million in investment assets is now removed. The 2031 start date for allowing investments in commercial paper issued from public banks (as defined in section 57600) was removed and is eligible as of January 1, 2027.

Supranational obligations

The eligible supranational list moves from Section 53601(q) to Section 53603(q) and adds the Inter-American Investment Corporation, subject to the statutory conditions. This is the fourth supranational allowed as an eligible investment.

Zero-interest bond exception

The prohibition and exceptions formerly in Section 53601.6 move to Section 53602(i). The bill removes the January 1, 2031 sunset (now a permanent part of the law) for the exception of zero-interest accruals applicable to qualifying United States government securities during a period of negative market interest rates.

Deposits and collateral

Updates related cross-references and allows certain out-of-state headquartered eligible banks used by pooled public agencies to use a letter of credit drawn on the bank's regional Federal Home Loan Bank, subject to the statute.

The new statutory architecture

There are several changes to CGC because of these new bills, but it is the reorganization and resequencing of CGC that may be the most impactful. Understanding the new organizational structure will be important to understand what references should change in policies and other documents. The primary structure is detailed below; a line-by-line crosswalk is included in the Appendix.

New section	Primary purpose	Selected content
§ 53600	Definitions	Centralizes defined terms, including corporation, counterparty, local agency, repurchase agreement, securities lending agreement, and related terms.
§ 53601	Statewide concern	Retains the legislative finding regarding local-agency solvency, creditworthiness, deposits, and investments.
§ 53602	Governance	Consolidates safety, liquidity, and return objectives; fiduciary and prudent-investor duties; maturity and delivery rules; prohibited investments; delegation; safekeeping; and related administration.
§ 53603	Eligible investments	Houses the consolidated list of authorized investments.
§ 53604	Banking investments	Contains deposit-placement service authority formerly located in Section 53601.8.

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Recommended policy-review approach

Chandler Asset Management (Chandler) recommends a systematic approach to the potentially time-intensive project of addressing the re-sequenced section numbers. Actions include:

- Creating a complete inventory of citations to Sections 53600 through 53610 in the investment policy statement, delegation resolution, procedures, investment reports, custody documents, and related templates.
- Updating each citation using the consolidated crosswalk in Appendix A rather than relying on a blanket replacement. Several former sections are split among new subdivisions or combined with other provisions and re-using existing code section numbers.
- Separating substantive policy decisions from technical renumbering. The expanded commercial paper and supranational authorities are permissive. A local agency may continue to adopt limits that are more restrictive than CGC.
- Confirming that descriptions, concentration limits, maturity limits, credit standards, eligible issuers, and prohibited-investment language remain internally consistent after the section references change.
- Obtaining legal and compliance review before adoption, particularly when an agency is making substantive authority changes after evaluating step 3 above, rather than only updating statutory citations.

Best practices

An Investment Policy Statement should remain clear enough for staff, governing bodies, auditors, counterparties, and the public to understand the agency's objectives, authorities, limits, and controls. Chandler recommends reviewing the policy at least annually and whenever statutory changes affect eligible investments, governance requirements, reporting, delegation, or cross-references. Agencies should preserve policy restrictions that reflect their own liquidity needs, risk tolerance, and operational capabilities, even when state law permits broader authority.

Article Sources

- California Senate Bill 1438, Chapter 715, Statutes of 2026, chaptered September 27, 2026.
- California Legislative Counsel's Digest and chaptered bill text for SB 1438.

Disclosures

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Appendix A: Consolidated SB 1438 Crosswalk

New subdivision	Current location	Change	Description
§ 53600	§ 53600	Amended; retained	Centralized definitions.
§ 53602(b)	§ 53600.3	Repealed	<u>Prudent-investor</u> and fiduciary provisions.
§ 53602(a)	§ 53600.5	Renumbered	Safety, liquidity, and return objectives.
§ 53601	§ 53600.6	Renumbered	Statewide-concern finding.
§ 53603	§ 53601	Renumbered	Eligible investments; administration principally moves to § 53602.
§ 53603(s)	§ 53601.1	Repealed	Financial futures and options.
§ 53600(a)	§ 53601.2	Repealed	Corporation definition.
§ 53602(h)	§ 53601.5	Repealed	Permissible sources and counterparties.
§ 53602(i)	§ 53601.6	Repealed	Prohibited investments and zero-interest provisions.
§ 53604	§ 53601.8	Renumbered	Deposit-placement services.
§ 53602(j)	§ 53602	Repealed	Savings-bank rule and county exception.
§ 53602(k)	§ 53603	Repealed	Direct-purchase authority.
§ 53602(l)	§ 53604	Repealed	<u>Sale</u> , exchange, and reinvestment.
§ 53602(m)	§ 53605	Repealed	Sale when proceeds are needed.
§ 53602(n)	§ 53606	Repealed	Agency's own bonds.
§ 53602(o)	§ 53607	Repealed	Delegation and monthly reporting.
§ 53602(p)	§ 53608	Repealed	Safekeeping.
§ 53602(q)	§ 53609	Repealed	Deferred compensation.
§ 53600(d); § 53603(t)	§ 53610	Repealed	Proposition 1A definition and authority.

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Appendix B: Line-by-line SB 1438 Crosswalk

Definitions

New subdivision	Current location	Description
§ 53600(a)	§ 53601.2	"Corporation," including a limited liability company
§ 53600(b)	§ 53601 intro	"Counterparty"
§ 53600(c)	§ 53600	"Local agency"
§ 53600(d)	§ 53610(a)	"Proposition 1A receivable"
§ 53600(e)	§ 53601(j)	"Repurchase agreement"
§ 53600(f)	§ 53601(j)	"Reverse repurchase agreement"
§ 53600(g)	§§ 53601 and 53608	"Savings association or federal association"
§ 53600(h)	§ 53601(j)	"Securities" for repurchase purposes
§ 53600(i)	§ 53601(j)	"Securities lending agreement"
§ 53600(j)	§ 53601(j)	"Significant banking relationship"
§ 53600(k)	§ 53601(j)	"Spread"

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Local Government Concern

New subdivision	Current location	Description
§ 53601	§ 53600.6	Statewide-concern finding concerning local-agency solvency, creditworthiness, deposits, and investments

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Governance

New subdivision	Current location	Description
§ 53602(a)	§ 53600.5	Safety, liquidity, and return objectives
§ 53602(b)	§ 53600.3	Trustee, fiduciary, and prudent-investor standard
§ 53602(c)(1)	§ 53601 intro	Delivery of securities
§ 53602(c)(2)	§ 53601 intro	Book-entry and physical-delivery arrangements
§ 53602(d)	§ 53601 intro	Percentage limits measured at purchase
§ 53602(e)(1)	§ 53601 intro	Maturity measured settlement to final maturity; 45-day forward-settlement limit
§ 53602(e)(2)	§ 53601 intro	Five-year maturity limit and express-authority exception
§ 53602(f)	§ 53601(i)	Credit-union negotiable certificate of deposit conflict restriction
§ 53602(g)	§ 53601(j)	Local-agency pool base value
§ 53602(h)	§ 53601.5	Permissible sources or counterparties
§ 53602(i)(1)	§ 53601.6(a)	Prohibited inverse floaters, range notes, and mortgage-derived interest-only strips
§ 53602(i)(2)	§ 53601.6(b)	Zero-interest restriction and exceptions Change to law: removes 2031 sunset
§ 53602(j)	§ 53602	Savings-bank limitation and county exception
§ 53602(k)	§ 53603	Direct-purchase authority
§ 53602(l)	§ 53604	Sale, exchange, and reinvestment
§ 53602(m)	§ 53605	Sale when proceeds are needed
§ 53602(n)	§ 53606	Agency's own bonds
§ 53602(o)	§ 53607	One-year delegation and monthly reporting
§ 53602(p)	§ 53608	Deposit and safekeeping
§ 53602(q)	§ 53609	Deferred-compensation funds

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Appendix B: Line-by-line SB 1438 Crosswalk (cont.)

Eligible Investments

New subdivision	Current location	Description
§ 53603(a)	§ 53601(a)	Investing agency's bonds
§ 53603(b)	§ 53601(b)	United States Treasury and full-faith-and-credit obligations
§ 53603(c)	§ 53601(c)	California warrants, notes, and bonds
§ 53603(d)	§ 53601(d)	Other-state obligations
§ 53603(e)	§ 53601(e)	California local-agency obligations
§ 53603(f)	§ 53601(f)	Federal agency and government-sponsored enterprise obligations
§ 53603(g)	§ 53601(g)	Bankers' acceptances
§ 53603(h)	§ 53601(h)	Commercial paper; expanded issuers Changes to law: Removes 2031 Sunset, Expanded to federal-chartered, state-chartered, or federally or state licensed branches of foreign banks
§ 53603(i)	§ 53601(i)	Negotiable certificates of deposit
§ 53603(j)	§ 53601(j)	Repurchase, reverse repurchase, and securities-lending agreements
§ 53603(k)	§ 53601(k)	Medium-term notes
§ 53603(l)	§ 53601(l)	Mutual funds and money market mutual funds
§ 53603(m)	Existing § 53601(p)	Qualifying joint powers authority shares
§ 53603(n)	Existing § 53601(m)	Trustee or fiscal-agent investments
§ 53603(o)	Existing § 53601(n)	First-priority collateralized obligations
§ 53603(p)	Existing § 53601(o)	Mortgage pass-through, collateralized mortgage, and asset-backed securities
§ 53603(q)	§ 53601(q)	Supranationals Change to law: Adds Inter-American Investment Corporation to eligible list
§ 53603(r)	§ 53601(r)	Public-bank obligations Change to law: Removes delayed effective date/sunset framework to immediately incorporate public-bank investments.
§ 53603(s)	§ 53601.1	Financial futures and options
§ 53603(t)	§ 53610(b)-(c)	Proposition 1A receivables

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Banking Investments

New subdivision	Current location	Description
§ 53604	§ 53601.8	Deposit-placement services

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Sources and important considerations

- California Senate Bill 1438, Chapter 715, Statutes of 2026, chaptered September 27, 2026.
- California Legislative Counsel's Digest and chaptered bill text for SB 1438.