

Agenda Report

To: City Council
Through Legislative Committee (July 2, 2002)

FROM: City Manager

SUBJECT: Support for SB68: Local Agency Investment Fund

July 15, 2002

RECOMMENDATION:

It is recommended that the City Council:

- 1) Support Senate Bill No. 68 (An act to amend Sections 16305.2, 16429.1, and 16480 of, and to add Sections 16305.9 and 16429.4 to, the Government Code, relating to local agency investments);
- 2) Authorize the Mayor to send letters to the appropriate authorities in support of the bill.

BACKGROUND:

Under existing State law, all monies in the possession of or collected by any state agency or department is considered to be State money and therefore subject to the provisions governing its deposits. Existing law also established the Local Agencies Investment Fund ("LAIF"). This law permits local agencies and special districts to regard LAIF as an authorized investment and thus to deposit monies not required for immediate needs with the State. LAIF provides liquidity and easy access to funds, while providing a competitive short-term rate of return on the investment. LAIF is run and managed by the State Treasurer's Office.

In 1998, the Howard Jarvis Taxpayers Association obtained an injunction from the Los Angeles Superior Court against the State Controller that prevented the transfer of LAIF monies as requested by local agencies for one day. The case challenged the constitutionality of the State paying State obligations or transferring funds held by the State when the legislature and the Governor had not approved a budget by June 30th. This case was heard by the Second Appellate Court in Los Angeles on March 21, 2002 and in May 2002 the Appellate Court rendered its decision and affirmed the continuous appropriations.

The effect of SB 68 will be to designate money in the Local Agency investment Fund as non-State money and will require all money in LAIF to be held in Trust in the custody of the State Treasurer. This bill will also require the State Controller to establish a separate trust account for each depositing agency in LAIF and will require an annual audit of these accounts by the Department of Finance. This will ensure that whether because of delays in adopting a budget or because of financial hardships, local agencies will have complete and timely access to their funds in LAIF.

FISCAL IMPACT:

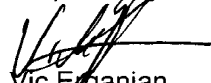
The City of Pasadena has an established account with LAIF and participates in the LAIF program. The proposed bill secures a guarantee to the participants in the LAIF program to withdraw funds upon request even in the absence of a State budget. All monies in LAIF will be managed in the same manner as if it were state money in the State Treasury, and therefore, there will be no negative impact on LAIF earnings.

Respectfully submitted,




Cynthia Kurtz
City manager

Prepared by:



Vic Erganian
City Treasurer

Approved by:



Jay M. Goldstone
Director of Finance