Summary of House Bill 69 – Local Investments

House Bill 69 amends KRS 66.480 to expand eligible investment options for local governments and school districts to include exchange-traded funds under the same conditions as mutual funds and individual equity securities managed by a professional investment manager who is regulated by a federal regulatory agency. The individual equity securities must be included within the Standard and Poor's 500 index and a single sector shall not exceed 25 percent of the equity allocation. Eligible investments also include funds invested in individual high-quality corporate bonds that are managed by a professional investment manager; issued, assumed or guaranteed by a solvent institution created and existing under the laws of the United States; have a standard maturity of no more than 10 years; and are rated in the three highest rating categories by at least two competent credit rating agencies.

The amount of money invested in individual equity securities, individual high-quality corporate bonds, mutual funds and exchange-traded funds at any one time by a local government, school district or political subdivision is limited by House Bill 69 to no more than 40 percent of the total money invested.

A credit rating agency evaluates the creditworthiness of organizations that issue debt in public markets. A "competent rating agency" is defined to mean a rating agency certified or approved by a national entity to engage in credit rating. The certification or approval process must include but not necessarily be limited to the following: (1) a requirement for the rating agency to register and provide an annual updated filing; (2) record retention requirements; (3) financial reporting requirements; (4) policies for the prevention of misuse of material nonpublic information; (5) policies addressing management of conflicts of interest, including prohibited conflicts; (6) prohibited acts practices; (7) disclosure requirements; (8) any policies, practices and internal controls required by the national entity; and (9) standards of training, experience and competence for credit analysts.

Investments in certificates of deposit or other interest-bearing accounts are required by House Bill 69 to be issued by a bank or savings and loan institution having a physical presence in Kentucky.

House Bill 69 additionally restricts investments in any one issuer to no more than 5 percent of the total amount invested by a local government, school district or political subdivision at the time the investment is made unless: (1) the issuer is the United States government or an agency or instrumentality of the United States government, or an entity www.KLC.org 32 LOCAL GOVERNMENT FINANCE which has its obligations guaranteed by either the United States government or an entity, agency or instrumentality of the United States government; (2) the money is invested in a certificate of deposit or other interest-bearing accounts issued by any bank or savings and loan institution having a physical presence in Kentucky that are insured by the Federal Deposit Insurance Corporation or similar entity; (3) the money is invested in bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; or (4) the money is invested in securities issued by any state or local government, or any instrumentality or agency thereof, in the United States rated in one of the three highest categories by a competent rating agency.