



OHIO LEGISLATIVE SERVICE COMMISSION

Bill Analysis

Abby McMahon

S.B. 163

132nd General Assembly

(As Reported by H. Government Accountability and Oversight)

Sens. Wilson, Terhar, Beagle, Williams, Eklund, Huffman, Hackett, Coley, Uecker, Brown, Bacon, Balderson, Burke, Dolan, Gardner, Hite, Hoagland, Hottinger, Jordan, Kunze, Lehner, Manning, Obhof, O'Brien, Oelslager, Schiavoni, Skindell, Tavares, Thomas

Reps. Dever, Hughes, Brenner

BILL SUMMARY

- Expands the categories of domestic corporate and U.S. depository institution bonds in which a county may invest its inactive funds.
- Allows a county to invest in bonds rated in the top three credit rating categories, as opposed to the top two under current law, by at least two credit rating agencies.
- Permits a county to invest in bonds with a maturity date that is no more than three years, as opposed to two years, from the date of purchase.

CONTENT AND OPERATION

The bill expands the categories of domestic corporate and U.S. depository institution bonds in which a county may invest its inactive funds. (Corporations and depository institutions, such as banks, issue these types of bonds to finance their operations or specific projects.) Under continuing law, unchanged by the bill, a county may invest up to 15% of its total average portfolio in these types of bonds.

Under the bill, a county may invest in a bond that is rated in the top three categories, as opposed to the top two categories under current law, by at least two credit rating agencies. A bond's rating indicates the risk that the bond issuer will not meet its financial obligations, as assessed by the agency. To illustrate, the table below shows the top three bond rating categories as designated by the three largest credit rating agencies. In the second and third categories, each agency assigns modifiers such as "1" or "+" to indicate rankings within the categories.

| Category | Moody's ¹ | Standard & Poor's ² | Fitch ³ |
|-------------------------------------|--------------------------------|--|-------------------------------|
| 1 Permitted under continuing law | Aaa Lowest risk | AAA Extremely strong capacity to meet obligations | AAA Lowest risk |
| 2 Permitted under continuing law | Aa1, Aa2, Aa3 Very low risk | AA+, AA, AA- Very strong capacity to meet obligations | AA+, AA, AA- Very low risk |
| 3 Permitted under the bill | A1, A2, A3 Low risk | A+, A, A- Strong capacity to meet obligations | A+, A, A- Low risk |

Additionally, the bill allows a county to invest in bonds that mature no later than three years, as opposed to two years, from the bond's purchase date. A bond's maturity date is the date on which the principal is repaid to investors.⁴ As such, the bill authorizes investment in bonds that take longer to recoup.⁵

HISTORY

| ACTION | DATE |
|---|----------|
| Introduced | 06-13-17 |
| Reported, S. Gov't Oversight & Reform | 09-20-17 |
| Passed Senate (32-0) | 09-20-17 |
| Reported, H. Financial Institutions, Housing, and Urban Development | 11-01-17 |
| Re-referred by H. Rules & Reference | 11-28-17 |
| Reported, H. Gov't Accountability & Oversight | 03-21-18 |

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¹ Moody's Investors Service, *Rating Symbols and Definitions* at 7, available at moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004, accessed October 31, 2017.

² S&P Global Ratings, *RatingsDirect*, "S&P Global Ratings Definitions" at 4, available at img.en25.com/Web/StandardPoorsRatings/RatingsDirect/Commentary/1695715_Sep-13-2016_15_16.pdf, accessed October 31, 2017.

³ Fitch Ratings, *Rating Definitions* at 17-18, available at fitchratings.com/site/dam/jcr:6b03c4cd-611d-47ec-b8f1-183c01b51b08/Rating%20Definitions%20-%20March%2017%202017.pdf, accessed October 31, 2017.

⁴ Investopedia, *Maturity Date*, available at investopedia.com/terms/m/maturitydate.asp, accessed October 31, 2017.

⁵ R.C. 135.35(A)(9).

