

SB1721



104TH GENERAL ASSEMBLY

State of Illinois

2025 and 2026

SB1721

Introduced 2/5/2025, by Sen. Li Arellano, Jr.

SYNOPSIS AS INTRODUCED:

30 ILCS 235/2

from Ch. 85, par. 902

Amends the Public Funds Investment Act. Provides that any public agency may invest any public funds in broad-based index funds that track the performance of a large group of stocks picked to represent the broader market.

LRB104 08134 RTM 18180 b

A BILL FOR

1 AN ACT concerning finance.

2 **Be it enacted by the People of the State of Illinois,**
3 **represented in the General Assembly:**

4 Section 5. The Public Funds Investment Act is amended by
5 changing Section 2 as follows:

6 (30 ILCS 235/2) (from Ch. 85, par. 902)

7 Sec. 2. Authorized investments.

8 (a) Any public agency may invest any public funds as
9 follows:

10 (1) in bonds, notes, certificates of indebtedness,
11 treasury bills or other securities now or hereafter
12 issued, which are guaranteed by the full faith and credit
13 of the United States of America as to principal and
14 interest;

15 (2) in bonds, notes, debentures, or other similar
16 obligations of the United States of America, its agencies,
17 and its instrumentalities;

18 (3) in interest-bearing savings accounts,
19 interest-bearing certificates of deposit or
20 interest-bearing time deposits or any other investments
21 constituting direct obligations of any bank as defined by
22 the Illinois Banking Act;

23 (4) in short-term obligations of corporations

1 organized in the United States with assets exceeding
2 \$500,000,000 if (i) such obligations are rated at the time
3 of purchase at one of the 3 highest classifications
4 established by at least 2 standard rating services and
5 which mature not later than 270 days from the date of
6 purchase, (ii) such purchases do not exceed 10% of the
7 corporation's outstanding obligations, and (iii) no more
8 than one-third of the public agency's funds may be
9 invested in short-term obligations of corporations under
10 this paragraph (4);

11 (4.5) in obligations of corporations organized in the
12 United States with assets exceeding \$500,000,000 if (i)
13 such obligations are rated at the time of purchase at one
14 of the 3 highest classifications established by at least 2
15 standard rating services and which mature more than 270
16 days but less than 10 years from the date of purchase, (ii)
17 such purchases do not exceed 10% of the corporation's
18 outstanding obligations, and (iii) no more than one-third
19 of the public agency's funds may be invested in
20 obligations of corporations under this paragraph (4.5); ~~or~~

21 (5) in money market mutual funds registered under the
22 Investment Company Act of 1940, provided that the
23 portfolio of any such money market mutual fund is limited
24 to obligations described in paragraph (1) or (2) of this
25 subsection and to agreements to repurchase such
26 obligations; or -

1 (6) in broad-based index funds that track the
2 performance of a large group of stocks picked to represent
3 the broader market.

4 (a-1) In addition to any other investments authorized
5 under this Act, a municipality, park district, forest preserve
6 district, conservation district, county, or other governmental
7 unit may invest its public funds in interest bearing bonds of
8 any county, township, city, village, incorporated town,
9 municipal corporation, or school district, of the State of
10 Illinois, of any other state, or of any political subdivision
11 or agency of the State of Illinois or of any other state,
12 whether the interest earned thereon is taxable or tax-exempt
13 under federal law. The bonds shall be registered in the name of
14 the municipality, park district, forest preserve district,
15 conservation district, county, or other governmental unit, or
16 held under a custodial agreement at a bank. The bonds shall be
17 rated at the time of purchase within the 4 highest general
18 classifications established by a rating service of nationally
19 recognized expertise in rating bonds of states and their
20 political subdivisions.

21 (b) Investments may be made only in banks which are
22 insured by the Federal Deposit Insurance Corporation. Any
23 public agency may invest any public funds in short term
24 discount obligations of the Federal National Mortgage
25 Association or in shares or other forms of securities legally
26 issuable by savings banks or savings and loan associations

1 incorporated under the laws of this State or any other state or
2 under the laws of the United States. Investments may be made
3 only in those savings banks or savings and loan associations
4 the shares, or investment certificates of which are insured by
5 the Federal Deposit Insurance Corporation. Any such securities
6 may be purchased at the offering or market price thereof at the
7 time of such purchase. All such securities so purchased shall
8 mature or be redeemable on a date or dates prior to the time
9 when, in the judgment of such governing authority, the public
10 funds so invested will be required for expenditure by such
11 public agency or its governing authority. The expressed
12 judgment of any such governing authority as to the time when
13 any public funds will be required for expenditure or be
14 redeemable is final and conclusive. Any public agency may
15 invest any public funds in dividend-bearing share accounts,
16 share certificate accounts or class of share accounts of a
17 credit union chartered under the laws of this State or the laws
18 of the United States; provided, however, the principal office
19 of any such credit union must be located within the State of
20 Illinois. Investments may be made only in those credit unions
21 the accounts of which are insured by applicable law.

22 (c) For purposes of this Section, the term "agencies of
23 the United States of America" includes: (i) the federal land
24 banks, federal intermediate credit banks, banks for
25 cooperative, federal farm credit banks, or any other entity
26 authorized to issue debt obligations under the Farm Credit Act

1 of 1971 (12 U.S.C. 2001 et seq.) and Acts amendatory thereto;
2 (ii) the federal home loan banks and the federal home loan
3 mortgage corporation; and (iii) any other agency created by
4 Act of Congress.

5 (d) Except for pecuniary interests permitted under
6 subsection (f) of Section 3-14-4 of the Illinois Municipal
7 Code or under Section 3.2 of the Public Officer Prohibited
8 Practices Act, no person acting as treasurer or financial
9 officer or who is employed in any similar capacity by or for a
10 public agency may do any of the following:

11 (1) have any interest, directly or indirectly, in any
12 investments in which the agency is authorized to invest.

13 (2) have any interest, directly or indirectly, in the
14 sellers, sponsors, or managers of those investments.

15 (3) receive, in any manner, compensation of any kind
16 from any investments in which the agency is authorized to
17 invest.

18 (e) Any public agency may also invest any public funds in a
19 Public Treasurers' Investment Pool created under Section 17 of
20 the State Treasurer Act. Any public agency may also invest any
21 public funds in a fund managed, operated, and administered by
22 a bank, subsidiary of a bank, or subsidiary of a bank holding
23 company or use the services of such an entity to hold and
24 invest or advise regarding the investment of any public funds.

25 (f) To the extent a public agency has custody of funds not
26 owned by it or another public agency and does not otherwise

1 have authority to invest such funds, the public agency may
2 invest such funds as if they were its own. Such funds must be
3 released to the appropriate person at the earliest reasonable
4 time, but in no case exceeding 31 days, after the private
5 person becomes entitled to the receipt of them. All earnings
6 accruing on any investments or deposits made pursuant to the
7 provisions of this Act shall be credited to the public agency
8 by or for which such investments or deposits were made, except
9 as provided otherwise in Section 4.1 of the State Finance Act
10 or the Local Governmental Tax Collection Act, and except where
11 by specific statutory provisions such earnings are directed to
12 be credited to and paid to a particular fund.

13 (g) A public agency may purchase or invest in repurchase
14 agreements of government securities having the meaning set out
15 in the Government Securities Act of 1986, as now or hereafter
16 amended or succeeded, subject to the provisions of said Act
17 and the regulations issued thereunder. The government
18 securities, unless registered or inscribed in the name of the
19 public agency, shall be purchased through banks or trust
20 companies authorized to do business in the State of Illinois.

21 (h) Except for repurchase agreements of government
22 securities which are subject to the Government Securities Act
23 of 1986, as now or hereafter amended or succeeded, no public
24 agency may purchase or invest in instruments which constitute
25 repurchase agreements, and no financial institution may enter
26 into such an agreement with or on behalf of any public agency

1 unless the instrument and the transaction meet the following
2 requirements:

3 (1) The securities, unless registered or inscribed in
4 the name of the public agency, are purchased through banks
5 or trust companies authorized to do business in the State
6 of Illinois.

7 (2) An authorized public officer after ascertaining
8 which firm will give the most favorable rate of interest,
9 directs the custodial bank to "purchase" specified
10 securities from a designated institution. The "custodial
11 bank" is the bank or trust company, or agency of
12 government, which acts for the public agency in connection
13 with repurchase agreements involving the investment of
14 funds by the public agency. The State Treasurer may act as
15 custodial bank for public agencies executing repurchase
16 agreements. To the extent the Treasurer acts in this
17 capacity, he is hereby authorized to pass through to such
18 public agencies any charges assessed by the Federal
19 Reserve Bank.

20 (3) A custodial bank must be a member bank of the
21 Federal Reserve System or maintain accounts with member
22 banks. All transfers of book-entry securities must be
23 accomplished on a Reserve Bank's computer records through
24 a member bank of the Federal Reserve System. These
25 securities must be credited to the public agency on the
26 records of the custodial bank and the transaction must be

1 confirmed in writing to the public agency by the custodial
2 bank.

3 (4) Trading partners shall be limited to banks or
4 trust companies authorized to do business in the State of
5 Illinois or to registered primary reporting dealers.

6 (5) The security interest must be perfected.

7 (6) The public agency enters into a written master
8 repurchase agreement which outlines the basic
9 responsibilities and liabilities of both buyer and seller.

10 (7) Agreements shall be for periods of 330 days or
11 less.

12 (8) The authorized public officer of the public agency
13 informs the custodial bank in writing of the maturity
14 details of the repurchase agreement.

15 (9) The custodial bank must take delivery of and
16 maintain the securities in its custody for the account of
17 the public agency and confirm the transaction in writing
18 to the public agency. The Custodial Undertaking shall
19 provide that the custodian takes possession of the
20 securities exclusively for the public agency; that the
21 securities are free of any claims against the trading
22 partner; and any claims by the custodian are subordinate
23 to the public agency's claims to rights to those
24 securities.

25 (10) The obligations purchased by a public agency may
26 only be sold or presented for redemption or payment by the

1 fiscal agent bank or trust company holding the obligations
2 upon the written instruction of the public agency or
3 officer authorized to make such investments.

4 (11) The custodial bank shall be liable to the public
5 agency for any monetary loss suffered by the public agency
6 due to the failure of the custodial bank to take and
7 maintain possession of such securities.

8 (i) Notwithstanding the foregoing restrictions on
9 investment in instruments constituting repurchase agreements
10 the Illinois Housing Development Authority may invest in, and
11 any financial institution with capital of at least
12 \$250,000,000 may act as custodian for, instruments that
13 constitute repurchase agreements, provided that the Illinois
14 Housing Development Authority, in making each such investment,
15 complies with the safety and soundness guidelines for engaging
16 in repurchase transactions applicable to federally insured
17 banks, savings banks, savings and loan associations or other
18 depository institutions as set forth in the Federal Financial
19 Institutions Examination Council Policy Statement Regarding
20 Repurchase Agreements and any regulations issued, or which may
21 be issued by the supervisory federal authority pertaining
22 thereto and any amendments thereto; provided further that the
23 securities shall be either (i) direct general obligations of,
24 or obligations the payment of the principal of and/or interest
25 on which are unconditionally guaranteed by, the United States
26 of America or (ii) any obligations of any agency, corporation

1 or subsidiary thereof controlled or supervised by and acting
2 as an instrumentality of the United States Government pursuant
3 to authority granted by the Congress of the United States and
4 provided further that the security interest must be perfected
5 by either the Illinois Housing Development Authority, its
6 custodian or its agent receiving possession of the securities
7 either physically or transferred through a nationally
8 recognized book entry system.

9 (j) In addition to all other investments authorized under
10 this Section, a community college district may invest public
11 funds in any mutual funds that invest primarily in corporate
12 investment grade or global government short term bonds.
13 Purchases of mutual funds that invest primarily in global
14 government short term bonds shall be limited to funds with
15 assets of at least \$100 million and that are rated at the time
16 of purchase as one of the 10 highest classifications
17 established by a recognized rating service. The investments
18 shall be subject to approval by the local community college
19 board of trustees. Each community college board of trustees
20 shall develop a policy regarding the percentage of the
21 college's investment portfolio that can be invested in such
22 funds.

23 (k) In addition to all other investments authorized under
24 this Section, a public agency may adopt an ordinance or
25 resolution to allow for investment of public funds in other
26 instruments not specifically listed in this Section provided

1 that those investments comply with (i) any other law that
2 authorizes public agencies to invest funds and (ii) the
3 investment policy adopted by the public agency under Section
4 2.5 of this Act.

5 Nothing in this Section shall be construed to authorize an
6 intergovernmental risk management entity to accept the deposit
7 of public funds except for risk management purposes.

8 (Source: P.A. 102-285, eff. 8-6-21; 103-880, eff. 1-1-25.)