

Date of Hearing: June 20, 2011

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Mike Eng, Chair

SB 506 (Simitian) – As Amended: May 5, 2011

SENATE VOTE: 39-0

SUBJECT: State Finance: warrants.

SUMMARY: Updates and modernizes existing law pertaining to registered warrants (RWs). Specifically, this bill:

- 1) Revises and recasts current law that authorizes a taxpayer who has a tax liability with the respect to personal income taxes or bank and corporation taxes who is a payee named in a RW to pay the tax liability with the RW.
- 2) Establishes a procedure whereby a RW may be issued for the payment of principal or interest due on a state bond.
- 3) Authorizes the State Controller to promulgate regulations to establish a procedure where a RW may be issued for the payment of principal or interest due on a state bond.

EXISTING LAW

- 1) Authorizes holders of warrants to use RWs to pay state income and corporation tax liabilities, including estimated payments. (Government Code, Section 17280.1)

FISCAL EFFECT: Unknown.

BACKGROUND:

Warrants are the government equivalent of checks, and are issued by the Controller to pay for the state's obligations. There are three types of warrants: RWs, registered reimbursement warrants, and registered refunding warrants.

A registered warrant is a “promise to pay,” with interest, that is issued by the State when there is not enough cash to meet all of the State’s payment obligations. RWs bear interest and are redeemable by the State Treasury only when the General Fund has sufficient money. RWs are presently considered legal investments for all trust funds, insurance funds, saving and loan funds, and funds of all counties, municipal corporations, districts, public corporations, political subdivisions, and state agencies. When available cash falls below liabilities, the Controller pays its creditors with RWs. The controller has not issued RWs since 2009, due to the states lack of cash at that time. This measure would not be triggered unless the Controller had to issue RWs again. This is rare.

According to the Author, existing law is defective because it does not recognize the way bonds are issued today. When the law was enacted, California issued physical bonds to investors. The state now distributes bonds through financial institutions that hold bonds on the investor's behalf.

This has left uncertainty over who the bondholder is. As a result, any tax benefits from state issued warrants would accrue to the financial institution rather than the true investor in California debt.

AB 506 adds clarification that RWs can be offset against the taxes of true investors, rather than those of financial intermediaries. AB 506 has the intention of paving the way for additional investment in California debt if California ever has to issue RWs again.

#### RELATED LEGISLATION

AB 1044 (Butler, 2011 Legislative Session) would require the Board of Equalization to accept RWs from a taxpayer with any tax, surcharge, or fee obligation owed when the RW has been paid directly to that tax, surcharge, or fee payer.

SB 11 (Anderson, 2011 Legislative Session) would prohibit a state entity from assessing a fine, interest, or penalty on a debt owed to the state for the payee of a RW if the debt owed to the state was imposed between January 1, 2006 and December 31, 2009 and would change the due date of a state debt to 30 days after the payable date of RWs.

SB 120 (Anderson, 2011 Legislative Session) would require a state agency to accept a RW, or other similar evidence of indebtedness issued by the state controller, for payment of any state obligation.

#### PREVIOUS LEGISLATION

AB 1506 (Anderson, 2010 Legislative Session) would have required a state agency to accept from a person or entity a RW issued by the State Controller that is endorsed by that payee, at full face value, for the payment of any obligations owed by that payee to that state agency, as specified, until July 1, 2012. This measure was vetoed by Governor.

#### REGISTERED SUPPORT / OPPOSITION:

##### Support

Apple, Inc.  
Cisco Systems, Inc.  
eBay Inc.  
Google Inc.  
Oracle Corporation  
Qualcomm Inc.  
TechAmerica  
TechNet

##### Opposition

None on file.

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