



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

Staff
August 17, 2010

**Honorable Mayor and
Members of the City Council**

Title: City of Sacramento State IOU Purchase Program

Location/Council District: Citywide

Recommendation: Adopt a **Resolution** 1) approving the City Treasurer's purchase of up to \$20 million in State of California registered warrants (commonly referred to as IOUs) from City of Sacramento residents and businesses and non-profits organizations, as well as local businesses that employ city residents; and 2) authorizing an administrative fee of up to \$2.00 per transaction to offset the cost processing the purchase.

Contact: Russell T. Fehr, City Treasurer, (916) 808-5832, John Colville, Chief Investment Officer, (916) 808-8297.

Presenters: Not Applicable

Departments: City Treasurer

Division: Investments

Organization No: 05001011

Description/Analysis

Issue: We anticipate that the delay in the State of California approving a State Budget for Fiscal Year 2010/11 will result in the State needing to issue registered warrants, often referred to as IOUs, in lieu of payment to local governments, businesses, and individual taxpayers. While many banks and credit unions have accepted registered warrants in the past from their customers for an indefinite time, each institution's policy is subject to change. If residents and businesses are unable to hold the warrants until the redemption date and their local financial institutions will not accept the warrants, a financial hardship is created that has rippling effects throughout the State and much of it focused in Sacramento given its concentration of State offices. Staff recommends the implementation of a City program to purchase State warrants from City residents and businesses. Such purchases will assist City residents and businesses in meeting their current

funding needs and increase the circulation of money in the local economy prior to the redemption date.

Policy Considerations: The U.S. Securities and Exchange Commission has determined registered warrants are securities under federal law. Purchase of the State warrants is both prudent and permissible under State law applicable to City investments (Government Code section 53601(c)) and the City's Investment Policy. As with all investments there is risk; with the State's on-going budget crisis there is an implied risk of default. However, the State is precluded from adjusting or voiding its obligations as permitted under federal bankruptcy laws and the subject registered warrants have priority over all expenses of the State, except its obligations to fund primary education, voter-approved general obligation bonds and Proposition 1A property tax borrowing.

Since the available funding and the duration of the time in which the State will issue IOUs are uncertain, and to best address the potential economic impacts of the IOUs to the City and local economy, the IOU purchase program will only be made available to City residents who are the named payee on a warrant, and non-profit organizations and private businesses, named as payee, that are located within the City or conduct a substantial amount of its business within the City and/or employ a significant number of City residents. Due to the limited amount of short-term investment funds available and to ensure direct benefit to our residents and businesses, IOUs from government-related entities will not be purchased under this program.

Environmental Considerations: Not Applicable

California Environmental Quality Act (CEQA): This action is not subject to the CEQA because it is not a "project" as defined in section 15378 of the CEQA Guidelines.

Sustainability Considerations: None

Commission/Committee Action: None

Rationale for Recommendation: Purchase of the warrants will provide another option to City residents and businesses to mitigate hardships that may be created as a result of receiving an IOU instead of cash payment from the State. Additionally, we anticipate that the warrants will offer an annual interest rate upon redemption, which is more favorable than benchmark money market investments currently available in the market. Investment of State warrants provides direct financial benefit to the City through higher interest earnings and indirect benefit by providing important cash flow options to our residents and businesses.

The City offered a similar purchase program to residents and businesses when the State issued warrants in 1992 and, most recently, last year. During last

year's program, the City acquired 338 warrants with an aggregate face value of \$6.9 million.

Financial Considerations: The City Treasurer's Office intends to use short-term investment cash to purchase up to \$20 million of State issued warrants from City residents and businesses. These funds would otherwise be placed in other lower-yielding short-term investments. To help offset the cost of each purchase, staff is recommending that the Treasurer be authorized to charge an administrative a fee of up to \$2 per transaction. The Treasurer will charge a reduced bulk-rate fee for multiple purchases from a single person or business.

While warrants will be purchased at face value, less the administration fee, no cash or checks will be disbursed to the seller. Working with its bank, Bank of America, the City will deposit all purchase amounts overnight into the sellers' personal or business accounts. A summary of the program procedures is provided in Attachment 2.

Emerging Small Business Development (ESBD): Not Applicable

Respectfully Submitted by:



John Colville
Chief Investment Officer

Recommendation Approved:



Russell T. Fehr
City Treasurer

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Attachment 1

RESOLUTION NO. 2010-XXXX

Adopted by the Sacramento City Council
August 17, 2010

APPROVING THE CITY TREASURER'S USE OF UP TO \$20 MILLION TO PURCHASE STATE OF CALIFORNIA REGISTERED WARRANTS FROM CITY OF SACRAMENTO RESIDENTS AND BUSINESSES AND AUTHORIZING AN ADMINISTRATIVE FEE OF UP TO \$2.00 PER TRANSACTION

BACKGROUND

- A. The California Legislature has not yet approved the State budget for Fiscal Year 2009/10. This delay has forced the State to issue registered warrants (commonly referred to as IOUs) instead of payment for obligations or services rendered.
- B. The U.S. Securities and Exchange Commission has determined the registered warrants are securities under federal law.
- C. Purchase of the warrants is permissible and prudent under State law applicable to City investments and under the City's Investment Policy as a short-term investment for the City's Pool A, paying an interest rate greater than other similar duration instruments. As with all investments there is risk; with the State's on-going budget crisis there is an implied risk of default.
- D. Purchase of the warrants will be limited to City residents and non-profit organizations and private businesses that are located within the City or conduct a substantial amount of its business within the City and/or employ a significant number of City residents, to best assist in mitigating the financial and economic impacts to the City and its residents and businesses from the State's issuance of these IOUs.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. City Council hereby approves the City Treasurer's purchase, as an investment, of up to \$20 million in State of California registered warrants from City residents and businesses.
- Section 2. The City Treasurer is hereby authorized to charge an administrative fee of up to \$2.00 per transaction to offset the cost of processing the investment purchase. In addition, the City Treasurer is hereby authorized, but not required to charge a reduced bulk-rate fee for multiple purchases from a single person or business.

Attachment 2

**City of Sacramento State IOU Purchase Program
Summary of Program**

Program is for City of Sacramento Residents and Businesses

Due to the limited amount of short-term investment funds available and to ensure direct benefit to our residents and businesses, IOUs from government related entities will not be purchased under this program.

What the Warrant holder needs to do – Bring the following to:

Office of the City Treasurer
Historic City Hall
915 I Street, 3rd Floor

Hours warrants are accepted: (9:00 a.m. to 12:00 p.m.)

- Bring a State Warrant made out to you or your business
 - You must be the primary endorsee on the warrant, and
 - The address on the warrant must be a city address (verified by zip code). In the case of a non-profit or business payee not located in the city, you must provide proof, satisfactory to the City Treasurer, that you do a substantial amount of business within the city and/or employ a significant number of city residents.
- Bring a voided check from your personal or business account in which the funds are to be deposited (this contains the routing information for your bank)
- Bring your CA driver's license or CA photo identification card
- Bring your social security number or, in the case of a business, the EIN
- Sign an Authorization Agreement for Direct Deposits (ACH Credits) (1 page document allowing direct deposit of funds to seller account)
- Sign a form of agreement and bill of sale

What The City will Do:

- Provide a receipt (copy of your warrant, signed transfer, deposit slip and identification)
- Deposit the face value of your warrant (less transaction fee) in your bank account overnight

WE WILL NOT GIVE CASH OR DISBURSE CHECKS FROM THIS OFFICE