



July 2, 2009

## **Bring on the IOUs...**

Today, the Pooled Money Investment Board (PMIB) met to determine the interest rate and maturity date for registered warrants (IOUs) scheduled for issuance starting this afternoon. The PMIB is comprised of the State Controller, the State Treasurer, and the Director of Finance. At today's meeting, representatives of State Treasurer Bill Lockyer and Director of Finance Mike Genest were in attendance, along with State Controller John Chiang. The State Controller's Office (SCO) staff recommendation for setting both the interest rate and maturity date (3.75% and October 2, 2009, respectively) were presented to the Board. (You can view the meeting webcast [here](#).) (Note: The October 2 date is a recent change from our original understanding that the IOUs would mature on October 1. Apparently, there is a relatively large state debt service payment due on October 1, requiring the maturity date to be pushed back.)

After questioning the SCO staff as to their recommendation, particularly focusing on whether the SCO staff considered the condition of the state General Fund when making its recommendation, the Department of Finance representative made a stunning suggestion: an interest rate of 1.5% and maturity date of June 16, 2010. Citing the need for limiting state General Fund costs and conserving cash, the DOF asserted that the savings associated with the lower rate and longer term of maturity were needed to adequately fund state services. State Controller Chiang countered with a motion to approve the SCO staff recommendation, noting that the issuance of IOUs to local governments, taxpayers, and vendors and contractors was a heavy burden for them to bear for such a lengthy period of time. That motion passed 2-1, with the Controller and Treasurer voting in favor.

In related news, Governor Schwarzenegger signed [AB X3 7](#) (Evans) last night, which would authorize the PMIB, with a 10-day notice, to redeem registered warrants earlier than the October 2, 2009 maturity date and with a modified interest rate. Sponsored by State Controller Chiang, the bill is intended to allow the PMIB to redeem the warrants early and at a lower cost, should a comprehensive budget solution be reached.

Also, Bank of America and Wells Fargo Bank have announced today that they will accept state-issued warrants until July 10, 2009. We understand that other smaller, local banks have also indicated a willingness to accept warrants. CSAC encourages counties to work with their banks to determine if and how they will accept state-issued IOUs. Please let CSAC know if we can be of assistance in facilitating those conversations. Also, we encourage counties to work with your auditor and treasurer to address internal cash needs and keep in close contact with your county counsel if you determine a need to conserve cash by cutting back services. Counties do have the authority to issue registered warrants. However, based on conversations with counsel, CSAC believes counties cannot issue registered warrants to recipients of entitlement grants.

A large component of the county payments affected by IOUs and deferrals are for social services programs. The state intends to pay the federal share of these programs, as outlined below. To recap, the following social services payments are anticipated to be paid with IOUs and/or deferred in July 2009:

**Social Services Payments, Deferrals and IOUs**

<b>JULY 2009</b>	<b>Federal Payment</b>	<b>Deferral (45 largest counties)</b>	<b>IOUs (13 smallest counties)</b>
<b>Assistance Payments</b> (CalWORKs, Foster Care, Adoptions)	\$79.8 million	\$315.8 million	\$1.8 million
<b>County Administration Payments</b> (CalWORKs, IHSS, Foster Care, Food Stamps, Child Welfare, Adoptions, Adult Protective Services, Automation)	\$245.6 million	\$98 million	\$9.9 million
<b>July TOTAL</b>	\$325.4 million	\$413.8 million	\$11.7 million
<b>AUGUST 2009</b>			
<b>Assistance Payments</b> (CalWORKs, Foster Care, Adoptions)	\$85.9 million	\$310.8 million	\$1.8 million
<b>County Administration Payments</b> (CalWORKs, IHSS, Foster Care, Food Stamps, Child Welfare, Adoptions, Adult Protective Services, Automation)	\$245.2 million	\$97.6 million	\$9.9 million
<b>August TOTAL</b>	\$331.1 million	\$408.4 million	\$11.7 million

Alcohol and drug treatment payments and mental health services payments are also scheduled for IOUs in July 2009. CSAC has yet to receive detailed information about these IOUs, but will send that information along as soon as we can.

The Assembly and Senate are not officially scheduled to meet over the holiday weekend, but members were cautioned to be within four hours of the state Capitol in case they are needed. We'll be in touch with you when there is news to report...

Paul McIntosh  
 Executive Director  
 California State Association of Counties  
 1100 K Street, Suite 101  
 Sacramento, CA 95814  
 (916) 327-7500 x506  
 (916) 441-5507 - Fax  
[pmcintosh@counties.org](mailto:pmcintosh@counties.org)  
[www.csac.counties.org](http://www.csac.counties.org)