



REPORT TO COUNCIL City of Sacramento

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

Staff

July 21, 2009

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

Title: City of Sacramento Investment in State of California Registered Warrants

Location/Council District: Citywide

Recommendation: Adopt a **Resolution** 1) approving the City Treasurer's purchase of up to \$10 million in State of California registered warrants (commonly referred to as IOUs) from City of Sacramento residents and businesses; 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, Senior Investment Officer, (916) 808-8297.

Presenters: Not Applicable

Departments: City Treasurer

Division: Investments

Organization No: 05001011

Description/Analysis

Issue: The delay in the State of California approving a State budget amendment for Fiscal Year 2009/10 has resulted in the State issuing registered warrants, often referred to as IOUs, in lieu of payment to local governments, businesses, and taxpayers. While many banks and credit unions will accept registered warrants from their customers for an indefinite time, each institution's policy is subject to change. If residents and businesses cannot afford to hold the warrants until the October 2, 2009 redemption date and their local financial institution will not accept the warrants, a financial hardship is created that has rippling effects throughout our community. Staff is recommending implementing a City program to purchase State warrants from City residents and businesses that have no other alternative.

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 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.

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 purchase program will only be made available to City residents and businesses that are the named payee on a warrant. 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. Additionally, the warrants offer a 3.75% 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. Purchase of the warrants will be limited to City residents and businesses 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.

The City offered a similar purchase program to residents and businesses when the State issued warrants in 1992. During the 23 days of that program, the City acquired over 1,000 warrants with an aggregate face value of \$2.6 million. Approximately 80% of the warrants were from local businesses.

Financial Considerations: The City Treasurer's Office intends to use short-term investment cash to purchase up to \$10 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 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. Summary of program procedures is provided in Attachment 2.

Emerging Small Business Development (ESBD): Not Applicable

Respectfully Submitted by: 
John Colville
Senior Investment Officer

Recommendation Approved:

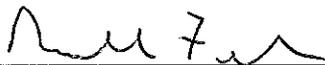

Russell T. Fehr
City Treasurer

Table of Contents:

Report	Pg. 1
Attachments	
1 Resolution	Pg. 4
2 Summary of Program Procedures	Pg. 6

Attachment 1

RESOLUTION NO. 2009-XXXX

Adopted by the Sacramento City Council

July 21, 2009

APPROVING THE CITY TREASURER'S USE OF UP TO \$10 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 amended 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 State will pay an annualized interest rate of 3.75% on the registered warrants and the State Treasurer's Office will redeem the warrants no later than October 2, 2009. The warrants may be redeemed earlier if the State Pooled Money Investment Board determines that sufficient cash is available.
- C. The U.S. Securities and Exchange Commission has determined the registered warrants are securities under federal law.
- D. 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.
- E. Purchase of the warrants will be limited to City residents and businesses 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 \$10 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

DRAFT

**City of Sacramento acceptance of State of California Registered Warrants
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)
- 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 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

