

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Anderson Analyst: Janet Jennings Bill Number: SB 120  
Related Bills: See Legislative History Telephone: 845-3495 Introduced Date: January 24, 2011  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** State Agencies Accept Registered Warrants Issued By Controller For Payment Of Any State Obligation

### SUMMARY

This bill would require a state agency to accept a registered warrant for payment of any state obligation.

### PURPOSE OF THE BILL

It appears that the purpose of this bill is to mitigate cash liquidity problems of individuals or entities that owe an obligation to the state while holding a state registered warrant.

### EFFECTIVE/OPERATIVE DATE

As an urgency statute, this bill would be effective and operative immediately upon enactment. This bill specifies that the provisions would become inoperative on July 1, 2012, and would be repealed on January 1, 2013.

### POSITION

Pending.

### ANALYSIS

#### STATE LAW

Generally, under state law, the Controller is responsible for issuing warrants drawn from the General Fund for payment of obligations of the state. In instances where the amount payable out of the General Fund is in excess of the balance remaining in the General Fund after deducting amounts earmarked or reserved for payment by law, the Controller can issue a "registered warrant."

A registered warrant is a warrant that carries a promise to pay the bearer the amount shown on the warrant plus interest, by a date prescribed on the warrant, usually within one year of the date of issuance. Interest accumulates at the rate determined by the Pooled Money Investment Account.

#### Board Position:

\_\_\_\_\_ S      \_\_\_\_\_ NA      \_\_\_\_\_ NP  
\_\_\_\_\_ SA      \_\_\_\_\_ O      \_\_\_\_\_ NAR  
\_\_\_\_\_ N      \_\_\_\_\_ OUA        X   PENDING

#### Department Director

#### Date

Selvi Stanislaus

02/04/11

Under state law, if a taxpayer has a Personal Income or Corporate tax liability and is a payee named in a registered warrant, the taxpayer may pay any tax liability, in whole or in part, either by submitting the warrant to the tax agency, or by a check in an amount not to exceed the amount of the registered warrant. State law provides that the check may not be presented for payment by the state or paid by the bank until the registered warrant is payable upon its presentation to the Treasurer. These provisions apply only if the check is presented with a copy of the registered warrant.

During 2009, the Franchise Tax Board (FTB) accepted registered warrants at face value as satisfaction of tax liabilities if the warrant was presented before the redemption date and at face value plus accrued interest if the warrant was presented after the redemption date.

### THIS BILL

This bill would require a state agency to accept from any person or entity a registered warrant issued by the Controller endorsed by the payee, at full face value, for payment of any obligation owed by that payee to that state agency if the Controller determines that all of the following conditions are met:

1. The acceptance of registered warrants will not jeopardize the ability of the state to issue regular warrants for reduction programs, debt service, state payroll, pensions, In-Home Supportive Services, medical providers, or any other payment required by federal law, the California Constitution, or a court order; and
2. The acceptance of registered warrants will not result in a net cost to the state.

The provisions of this bill would not apply to an obligation owed by a payee for payments subject to the immediate deposit standard contained in the Federal Unemployment Tax Act or the federal Social Security Act.

The bill would require that the Controller submit a report to the Joint Legislative Budget Committee on or before September 1 following the conclusion of a fiscal year in which a state agency is required to accept registered warrants. The report would be required to contain the following information:

- The amount of warrants received by state agencies;
- The effect of the acceptance of these warrants on the state's cash flow and financial well being including any net costs or savings as specified; and
- The impacts on state payments required by federal law, the California Constitution, or court order.

The bill would become specifically inoperative on July 1, 2012, and as of January 1, 2013, would be repealed unless a later enacted statute deletes or extends that date.

## IMPLEMENTATION CONSIDERATIONS

This bill would not impact the FTB because, notwithstanding any other provision of law, Government Code section 17280.1 already specifically requires the department to accept registered warrants as payment for tax liabilities.

## **LEGISLATIVE HISTORY**

SB 11 (Anderson 2011/2012) would prohibit a state entity from assessing a fine, interest, or penalty on a debt owed to the state for the payee of a registered warrant 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 registered warrants. This bill has been referred to the Senate Policy Committee.

AB 1506 (Anderson, 2009/2010) contained the same provisions as this bill. AB 1506 was vetoed by Governor Schwarzenegger on September 30, 2010. The full veto message can be found in Appendix A.

## **OTHER STATES' INFORMATION**

A comparison with other states would not be meaningful as this bill pertains to administrative procedures that are specific to California.

## **FISCAL IMPACT**

No departmental costs are associated with this bill because, notwithstanding any other provision of law, Government Code section 17280.1 already specifically requires the department to accept registered warrants as payment for tax liabilities.

## **ECONOMIC IMPACT**

There would be no impact on personal income or corporation tax revenues.

## **LEGISLATIVE STAFF CONTACT**

Legislative Analyst

Janet Jennings

(916) 845-3495

[janet.jennings@ftb.ca.gov](mailto:janet.jennings@ftb.ca.gov)

Revenue Manager

Monica Trefz

(916) 845-4002

[monica.trefz@ftb.ca.gov](mailto:monica.trefz@ftb.ca.gov)

Asst. Legislative Director

Patrice Gau-Johnson

(916) 845-5521

[patrice.gau-johnson@ftb.ca.gov](mailto:patrice.gau-johnson@ftb.ca.gov)

## Appendix A

BILL NUMBER: AB 1506  
VETOED DATE: 09/30/2010

To the Members of the California State Assembly:

I am returning Assembly Bill 1506 without my signature.

This measure would require all state departments, upon a specified determination made by the State Controller's Office, to accept registered warrants, also known as IOUs, in lieu of cash payments. The issuance of IOUs represents an embarrassing failure on the part of the state to manage its finances. Unfortunately, if the Legislature does not pass a balanced budget soon, the possibility that the Controller will be forced to issue IOUs this year becomes all too real. I sympathize with businesses that were issued IOUs last year and those businesses that may receive them this year. IOUs place enormous financial strains on recipients who are unable to use them to pay their own obligations, including debts owed to the state. However, requiring state departments to accept IOUs in lieu of cash payments defeats the purpose of issuing IOUs in the first place. It would exacerbate the state's cash crisis and would accelerate the possibility of the state defaulting on its debt service and payroll obligations.

Since IOUs could be avoided if the Legislature passed a balanced budget, I am unable to sign this bill.

Sincerely,

Arnold Schwarzenegger