

“SHOW ME THE MONEY”: California’s Registered Warrants

**Presented by: Ted Teruo Kitada
Senior Company Counsel
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June 29, 2009



California's Budget Meltdown-Sources of funds

- Cash.
- Borrowables.
- Revenue Anticipation Notes and Revenue Anticipation Warrants.
- The governor and legislature.
- Payment deferrals.
- IOUs (registered warrants).



California's Budget Meltdown-Sources of funds

- Cash. The State has been out of cash since July 12, 2007.



California's Budget Meltdown-Sources of funds

- Borrowables. Of 1,100 special funds, the State can borrow against 700 thereof. As of June 12, 2009, the State has borrowed \$20 billion. On and after July 28, 2009, the State will not be able to borrow any further.



California's Budget Meltdown-Sources of funds

- Revenue Anticipation Notes (“RANs,” payable within a fiscal year) and Revenue Anticipation Warrants (“RAWs,” payable within a year). On June 12, 2009, the governor under an order prohibited any further RAWs. RANs are not an option due to the \$24.3 billion budget shortfall.



California's Budget Meltdown-Sources of funds

- The governor and legislature. The governor and legislature have not demonstrated an ability to resolve their differences and address the global budget issues.



California's Budget Meltdown-Sources of funds

- Payment deferrals. While a rolling 30-day payment deferral program was implemented as of February 1, 2009, that option is no longer available, as revenue is needed after the 30-day period. No revenue at this time.



California's Budget Meltdown-Sources of funds

- IOUs. On June 23, 2009, the Pooled Money Investment Board placed on its agenda for the July 2, 2009, meeting the setting of the interest rate on registered warrants. May be 3.4% to 3.5%, statutory maximum of 5%.
- The Controller announced on June 24, that registered warrants will be issued on or after July 2, 2009.



Registered Warrant's History.

- Issued in 1992 for about a two month period (1.6 million totaling \$3.8 billion).
- Issued under California Government Code section 17221.
- The State Treasurer may announce that they are redeemable within 365 days of the issue date.
- Alternatively, the Controller may issue with maturity date (October 1, 2009, approved).
- Interest is established by the Pooled Money Investment Board; the rate may not exceed 5%. Government Code section 17222.

Sample of a Registered Warrant (Front)

THE BACK OF THIS DOCUMENT CONTAINS AN ARTIFICIAL WATERMARK - VIEW AT AN ANGLE

STATE OF CALIFORNIA WARRANT NUMBER **93-000043**

THE TREASURER OF THE STATE WILL PAY OUT OF THE IDENTIFICATION NO. **141992** FUND NO. **0001** FUND NAME **GENERAL FUND**

0250 90-4507/1211

This REGISTERED WARRANT will be honored on or after **10/01/2009**

ISSUE DATE **93000043**

TO: **000043**

--- **CURTIS H. CABLE**

--- **883 CASTRO STREET**

--- **P.M.B. 654**

--- **SAN FRANCISCO CA 94114**

MO.	DAY	YR.	DOLLARS	CENTS
06	25	2009	****2456	46

VOID

PROFABLE IN SUCH COIN OR CURRENCY OF THE U.S.A. AS AT TIME OF PAYMENT IS LEGAL TENDER FOR PAYMENT OF PUBLIC & PRIVATE DEBTS.

John Chiang
JOHN CHIANG
CALIFORNIA STATE CONTROLLER

FORM CD-85(06-09) CONTROLLERS REGISTERED WARRANT

⑆ 1 2 1 1 4 5 0 7 7 ⑆ 9 3 0 0 0 0 1 . 3 8 ⑆

Sample of Registered Warrant (Back)

This warrant is payable from the General Fund. This warrant, presented to and registered under Government Code section 17221 on the date shown on the face of this warrant, is not paid for want of funds. If a maturity date is indorsed on the face of this warrant, this warrant bears interest at a rate per annum fixed pursuant to Gov. Code section 17221 from the date of registration of this warrant to and including that maturity date, and this warrant is payable upon presentation on the maturity date and shall cease to bear interest on that date if on that maturity date unapplied money or the proceeds of refunding warrants are available for its payment. If on that maturity date there is no money available for such payment, this warrant shall continue to bear interest at a rate per annum fixed pursuant to Gov. Code section 17222 from that maturity date to and including the date fixed for redemption by the Controller, which shall be at least three days following the first date upon which the State Treasurer advertises that this warrant is payable upon presentation. If no maturity date is indorsed on the face of this warrant, the Controller has determined that this warrant will be redeemable within one year from the date of issuance and registration, and this warrant bears interest at a rate per annum fixed pursuant to Gov. Code section 17222 from that date of registration to and including the date fixed for redemption by the Controller, which shall be at least three days following the first date upon which the State Treasurer advertises that this warrant is payable upon presentation. This warrant shall cease to bear interest on the date so fixed for redemption by the Controller.

Indorsed: California State Treasurer

Regulatory and other issues

- Regulation CC.
- Check 21.
- Interest waiver.
- Maturity date on registered warrants.



Regulatory and other issues

- Forged and altered warrants are subject to return within three years of presentment of the registered warrant to the financial institution. Gov. Code 17403.
- New RTN: Fractional Form: 90-4507/1211; MICR Format: 121145077
- On-us field algorithm using “mod-9” for check validation: Add the first eight digits; divide by 9; subtract remainder from 9; the result in the check validation digit, the final digit.
- Algorithm also applies to regular warrants.

Regulatory and other issues

- Registered warrant an “item” for Article Four? UCC 4104(9), comment 8; UCC 4205.
- Not eligible as BOC through Automated Clearing House, similarly to regular warrants.
- Will fed accept registered warrants?
- Registered warrants are investments.
- Correspondent banking relationships. Accept registered warrants from respondent banks?
- Multiple portals of entry: night depository, lockbox, cash vault, paper and electronic cash letters, remote deposit capture, ATM, and bank by mail.

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