



For Immediate Release

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George Runner Calls for Debt Sale to Help Close Budget Gap

SACRAMENTO - Board of Equalization Member Senator George Runner today called upon the Governor and legislative leaders to consider selling off a portion of the billions of dollars in debt owed the State of California to help close the state's estimated \$10 billion budget deficit.

"Rather than raise taxes on the hardworking people of California, we ought to sell off debt to raise the cash we need—just like private businesses do," said Runner. "The State of California is currently sitting on billions of dollars of uncollected debt that could be worth hundreds of millions of dollars on private debt markets."

Selling aging debt is a common practice in the private sector and has also been used successfully by many local governments.

Runner added, "Selling debt makes a lot more sense than selling buildings you have to turn around and lease back."

In a letter addressed to Governor Jerry Brown, Senate President Pro-Tem Darrell Steinberg, Senate Republican Leader Bob Dutton, Assembly Speaker John Perez and Assembly Republican Leader Connie Conway, Runner provides details on the State Board of Equalization's outstanding accounts receivable and written-off debt. He suggests that other agencies may have similar or larger amounts available for sale and encourages the state leaders to quickly explore the possibility.

Runner writes, "The sale of these assets could provide much-needed one-time cash. Combined with rising revenues, this revenue could help protect priority programs and eliminate the perceived need to impose higher taxes on struggling Californians."

The State Constitution requires the Legislature to pass a balanced budget by June 15.

Elected in November 2010, George Runner represents more than nine million Californians as a member of the State Board of Equalization. For more information, visit www.boe.ca.gov/Runner.

FULL TEXT OF RUNNER LETTER

June 6, 2011

Dear Governor Brown and Legislative Leaders:

I am writing to suggest monetizing a portion of the billions of dollars in debt owed the State of California as a possible partial solution to our state's budget deficit.

Based on my research to date, I believe a state sale of written-off debt and older accounts receivable could produce hundreds of millions of dollars in revenues for the state as soon as the 2011-12 fiscal year. In a preliminary conversation Mac Taylor, California's Legislative Analyst, indicated to me that the concept is worthy of exploration.

Selling aging debt is a common practice in the private sector and has also been used successfully by many local governments. Although debt sales require a significant discount, a sale can produce much-needed cash that would otherwise be unavailable for the foreseeable future. The alternative approach, keeping old debts on the books at their full-face value, simply serves to create an illusion of value that doesn't reflect reality.

Over the past ten years, with approval of the State Controller's office, the Board of Equalization has written-off nearly \$1.2 billion in debt. Although still lawfully owed, written-off debts are no longer actively pursued for collection.

Furthermore, as of April 30 nearly \$559 million of the Board's \$1.9 billion in outstanding accounts receivable were older than five years. All or a portion of this older debt could also be sold.

Other California tax agencies, including the Employment Development Department and the Franchise Tax Board, have similar, if not larger, written-off debts and aging accounts receivable.

Other non-tax agencies, like the Department of Motor Vehicles and Department of Transportation, also perform revenue collecting functions and are likely owed significant debt, especially if they lack a dedicated collections division. A thorough review should be undertaken to determine what portion of this debt might also be monetized.

The sale of these assets could provide a much-needed one-time cash infusion. Combined with rising revenues, this revenue could help protect priority programs and eliminate the perceived need to impose higher taxes on struggling Californians.

Thank you for your consideration of this matter and your service on behalf of the people of California.

Sincerely,

GEORGE RUNNER
Member, State Board of Equalization

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