

California Won't Accept Its Own IOUs

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SAN FRANCISCO (CN) - Small businesses that received \$682 million in IOUs from the state say California expects them to pay taxes on the worthless scraps of paper, but refuses to accept its own IOUs to pay debts or taxes. The vendors' federal class action claims the state is trying to balance its budget on their backs.

Lead plaintiff Nancy Baird filled her contract with California to provide embroidered polo shirts to a youth camp run by the National Guard, but never was paid the \$27,000 she was owed. She says California "paid" her with an IOU that two banks refused to accept - yet she had to pay California sales tax on the so-called "sale" of the uniforms.

The class consists mostly of small business owners, many of whom rely on income from government contracts to keep afloat. They say California has used them as "suckers" as it looks for a way to bankroll its operations while avoiding its own financial obligations.

"Instead of seeking funds through proper channels, the State has created a nightmare," the class says. "Many of these businesses will not survive if they are required to wait until October 2009 to have these forced IOUs redeemed by the State."

The class claims the state is violating the Fifth and Fourteenth Amendments. It demands that California be ordered to honor its own IOUs, plus interest. They are represented by William Audet. 

http://www.courthousenews.com/2009/08/04/California_Won_t_Accept_Its_Own_IOUs.htm