

1982

Veterans Bond Act Of 1982

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Veterans Bond Act of 1982

Official Title and Summary Prepared by the Attorney General

FOR THE VETERANS BOND ACT OF 1982.

This act provides for a bond issue of four hundred fifty million dollars (\$450,000,000) to provide farm and home aid for California veterans.

AGAINST THE VETERANS BOND ACT OF 1982.

This act provides for a bond issue of four hundred fifty million dollars (\$450,000,000) to provide farm and home aid for California veterans.

FINAL VOTE CAST BY THE LEGISLATURE ON AB 3571 (PROPOSITION 3)

Assembly—Ayes, 62
Noes, 0

Senate—Ayes, 29
Noes, 1

Analysis by the Legislative Analyst

Background:

In the past, the voters on numerous occasions have authorized the state to sell general obligation bonds for the purpose of financing the veterans' farm and home loan program. (A general obligation bond is backed by the full faith and credit of the state, meaning that, in issuing the bonds, the state pledges to use its taxing power to assure that sufficient funds are available to pay off the bonds.) The total amount of general obligation bond sales authorized by the voters for this program since 1921 is nearly \$4.7 billion.

The proceeds of these bond sales have been used by the Department of Veterans Affairs to purchase farms, homes, and mobilehomes on behalf of qualified California veterans. These properties have then been resold to the veterans. Each participating veteran makes monthly payments designed to (1) reimburse the department for the costs it incurs in purchasing the farm, home, or mobilehome, (2) cover all costs resulting from the sale of the bonds, including interest on the bonds, and (3) cover the costs of operating the loan program. Because the state is able to borrow at interest rates that are well below those charged to individuals, the veteran's monthly payments for the purchase of a farm, home, or mobilehome under this program are less than what he or she would otherwise be required to make.

Under the veterans' loan program, the maximum loan amount is \$55,000 for homes and mobilehomes not situated in a mobilehome park, \$35,000 for mobilehomes in a mobilehome park, and \$180,000 for farms. Existing law permits a \$5,000 increase in these loan amounts for homes equipped with solar energy heating devices. This does not include devices for heating swimming pools, hot tubs, saunas, and spas, except when such facilities can be shown to be medically necessary for a disabled veteran.

Existing law also requires the Department of Veterans Affairs to reserve, for two years, 10 percent of the

proceeds from any bond sale authorized by the voters on or after June 3, 1980, for the construction, purchase, or improvement of homes that are equipped with, or to be improved by, the installation of solar energy heating devices, other than solar energy heating devices for swimming pools, hot tubs, saunas, and spas. Any unused portion of this reserve is to be made available for the regular loan program after the two-year period.

Proposal:

This proposition, the Veterans Bond Act of 1982, would authorize the state to issue and sell \$450 million in bonds to continue the veterans' farm and home loan program. These bonds would be fully backed by the state, in that the state would pledge to the bondholder use of its taxing power, if necessary, to assure that both the amount borrowed and interest on this amount are fully paid. This proposition would allow the state to sell bonds at a discount of up to 6 percent of their face value.

Fiscal Effect:

Under current law the state can sell bonds at any rate of interest up to 11 percent. If the full \$450 million in bonds were sold at the maximum interest rate and paid off over a 25-year period, the total interest cost incurred by the state on the bonds would be about \$720 million. Thus, the cost to the state of paying the principal and interest on the bonds authorized by this measure could total \$1.17 billion. This cost would be less to the extent the bonds were sold at interest rates below 11 percent.

By permitting the state to sell bonds at a discount, the measure could result in less than \$450 million being available for loans to veterans. At the same time, however, selling the bonds at a discount could result in a lower interest rate on the bonds than would otherwise be possible.

The extent to which the state would incur any net costs under this proposition would depend on how much money was received from veterans. If the pay-

ments made by those veterans participating in the farm and home loan program did not cover the costs of the bonds, the state's taxpayers would be required to pay the difference. Throughout its history, however, the loan program has been totally supported by the participating veterans at no direct cost to the taxpayer.

The state and local governments could incur higher costs under other bond finance programs if the bond sales authorized by this measure result in a higher over-

all interest rate on state and local bonds. These additional costs are unknown.

The interest paid by the state on these bonds would be exempt from the state personal income tax. Therefore, to the extent that the bonds are purchased by California taxpayers in lieu of taxable bonds, the state would experience a loss of income tax revenue. It is not possible, however, to estimate what this revenue loss would be.

Text of Proposed Law

This law proposed by Assembly Bill 3571 (Statutes of 1982, Ch. 304) is submitted to the people in accordance with the provisions of Article XVI of the Constitution.

This proposed law expressly adds sections to the Military and Veterans Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Article 5q (commencing with Section 998.052) is added to Chapter 6 of Division 4 of the Military and Veterans Code, to read:

Article 5q. Veterans Bond Act of 1982

998.052. This article may be cited as the Veterans Bond Act of 1982.

998.053. The State General Obligation Bond Law, except as otherwise provided herein, is adopted for the purpose of the issuance, sale, and repayment of, and otherwise providing with respect to, the bonds authorized to be issued by this article, and the provisions of that law are included in this article as though set out in full in this article. All references in this article to "herein" shall be deemed to refer both to this article and such law.

998.054. As used in this article and for the purposes of this article as used in the State General Obligation Bond Law, Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code, the following words shall have the following meanings:

(a) "Bond" means veterans bond, a state general obligation bond issued pursuant to this article adopting the provisions of the State General Obligation Bond Law.

(b) "Committee" means the Veterans' Finance Committee of 1943, created by Section 991.

(c) "Board" means the Department of Veterans Affairs.

(d) "Fund" means the Veterans' Farm and Home Building Fund of 1943, created by Section 988.

(e) "Bond act" means this article authorizing the issuance of state general obligation bonds and adopting Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code by reference.

998.055. For the purpose of creating a fund to provide farm and home aid for veterans in accordance with the provisions of the Veterans' Farm and Home Purchase Act of 1974 and of all acts amendatory thereof and supplemental thereto, the Veterans' Finance Committee of 1943, created by Section 991, shall be and hereby is authorized and empowered to create a debt or debts, liability or liabilities, of the State of California, in the aggregate amount of four hundred fifty million dollars (\$450,000,000) in the manner provided herein, but not otherwise, nor in excess thereof.

998.056. All bonds herein authorized, which shall have been duly sold and delivered as herein provided, shall constitute valid and legally binding general obligations of the State of California, and the full faith credit of the State of California is hereby pledged for the punctual payment of both principal and interest thereof.

There shall be collected annually in the same manner and at the same time as other state revenue is collected such a sum, in addition to the ordinary revenues of the state, as shall be required to pay the principal and interest on such bonds as herein provided, and it is hereby made the duty of all officers charged by law with any duty in regard to the collections of such revenue, to do and perform each and every act which shall be necessary to collect such additional sum.

On the several dates on which funds are remitted pursuant to Section 16676 of the Government Code for the payment of the then maturing principal and interest of the bonds in each fiscal year, there shall be returned into the General Fund in the State Treasury, all of the money in the Veterans' Farm and Home Building Fund of 1943, not in excess of the principal of, and interest on, such bonds then due

and payable, except as hereinafter provided for the prior redemption of such bonds, and, in the event such money so returned on said remittance dates is less than such principal and interest then due and payable, then the balance remaining unpaid shall be returned into the General Fund in the State Treasury out of the Veterans' Farm and Home Building Fund of 1943 as soon thereafter as it shall become available, together with interest thereon from such dates of maturity until so returned at the same rate as borne by such bonds, compounded semiannually.

998.057. There is hereby appropriated from the General Fund in the State Treasury for the purpose of this article such an amount as will equal the following:

(a) Such sum annually as will be necessary to pay the principal of, and the interest on, the bonds issued and sold pursuant to the provisions of this article, as such principal and interest become due and payable.

(b) Such sum as is necessary to carry out the provisions of Section 998.058, which sum is appropriated without regard to fiscal years.

998.058. For the purposes of carrying out the provisions of this article, the Director of Finance may, by executive order, authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of the unsold bonds which have been authorized to be sold for the purpose of carrying out this article. Any amounts withdrawn shall be deposited in the Veterans' Farm and Home Building Fund of 1943. Any moneys made available under this article to the board shall be returned by the board to the General Fund from moneys received from the sale of bonds sold for the purpose of carrying out this article, together with interest at the rate of interest fixed in the bonds so sold.

998.059. Upon request of the Department of Veterans Affairs, supported by a statement of the plans and projects of such department with respect thereto, and approved by the Governor, the Veterans' Finance Committee of 1943 shall determine whether or not it is necessary or desirable to issue any bonds authorized under this article in order to carry such plans and projects into execution, and, if so, the amount of bonds then to be issued and sold. Successive issues of bonds may be authorized and sold to carry out said plans and projects progressively, and it shall not be necessary that all the bonds herein authorized to be issued shall be sold at any one time.

998.060. So long as any bonds authorized under this article may be outstanding, the Director of Veterans Affairs shall cause to be made at the close of each fiscal year, a survey of the financial condition of the Division of Farm and Home Purchases, together with a projection of the division's operations, such survey to be made by an independent public accountant of recognized standing. The results of such surveys and projections shall be set forth in written reports, and such independent public accountant shall forward copies of such reports to the Director of Veterans Affairs, the members of the California Veterans Board, and to the members of the Veterans' Finance Committee of 1943. The Division of Farm and Home Purchases shall reimburse such independent public accountant for his services out of any funds which such division may have available on deposit with the Treasurer of the State of California.

998.061. The committee may authorize the State Treasurer to sell all or any part of the bonds herein authorized at such time or times as may be fixed by the State Treasurer.

Notwithstanding Section 16754 of the Government Code, the committee may, whenever it deems it necessary to an effective sale, authorize the State Treasurer to sell any issue of bonds at less than the par value thereof. However, the discount on the bonds so sold shall not exceed 6 percent of the par value thereof.

998.062. Whenever bonds are sold, out of the first money realized from their sale, there shall be redeposited in the General Obligation Bond Expense Revolving Fund established by Section 16724.5 of the Government Code such sums as have been expended for the purposes specified in Section 16724.5 of the Government Code, which may be used for the same purpose and repaid in the same manner whenever additional sales are made.

Argument in Favor of Proposition 3

The Veterans Bond Act of 1982 will cost taxpayers nothing. Passage of this proposition will enable the entirely self-supporting Cal-Vet program to make over 8,500 new farm and home loans to worthy veterans.

Since 1921, through 19 previous bond propositions, the people of California have recognized a special debt of honor to fellow Californians who have served our country in the armed forces. This recognition has been expressed in the Cal-Vet loan program, which enables California veterans to qualify for low-interest loans to purchase or improve homes, mobilehomes, and farms.

There are 3.4 million California veterans in the state. Of these, 80,000 are women. These veterans served us in World War I, World War II, Korea, and Vietnam. While some states have given their veterans cash bonuses, California instead has long provided a loan program of more lasting benefit.

Voter-approved general obligation bonds to finance the Cal-Vet program are repaid, as are all administrative costs, from the loan payments made by veterans holding loans. Financially, the program has proved to be unfailingly safe and sound. Not a dime of General Fund money supports this program.

Along with assisting veterans in their efforts to rejoin the "mainstream" of California life, the Cal-Vet pro-

gram benefits the entire state economy. Directly and indirectly, Cal-Vet farm and home loans generate thousands of California jobs, millions of dollars in payroll, and economic opportunities for all industries and businesses, professions, and trades connected with or serving the housing market.

More than 375,000 California veterans have become farm and home owners through this successful program during the past 60 years. Approximately 67 percent of these loans have already been paid off.

Loan applications by qualified veterans are in great demand, particularly during the currently tight housing market. This is an era of scarce housing at high prices. Your "YES" vote on Proposition 3 will stimulate jobs in the real estate, construction, and insurance industries by enabling more of our veterans to buy farms and homes in California at NO COST TO THE TAX-PAYER.

RICHARD ALATORRE
Member of the Assembly, 55th District

JOSEPH MONTOYA
State Senator, 26th District

RICHARD KEITH
Chairman, California Veterans Board

Rebuttal to Argument in Favor of Proposition 3

All the benefits of the proposed bill are pale in comparison with their adverse effect on THE SINGLE GREATEST ISSUE OF OUR TIME: the vanishing value of our currency.

Printing press money is one of the signs of a civilization near collapse, like our own.

The authors of this bill are kind enough to raise the issues of cost to the taxpayers, our indebtedness to California veterans, other states' methods of rewarding their veterans, the role of General Fund money, the effect on California's economy, and how good past loans have been.

The bill would cost taxpayers everything: the value of their dollar.

California's indebtedness to our veterans is being repaid by a loan program of everlasting deficit.

Since so inflationary, the Cal-Vet program would be a burden on the entire state economy, which eliminates

millions of jobs in the private sector. It would generate millions of printing press dollars without promoting productivity. It would help only the public sector of our economy.

Already more than 100,000 of these loans are still outstanding. But the General Fund would have unlimited liability for the success of this program by guaranteeing repayment to bondholders of only 450 million dollars plus interest. So, not "not a dime," but rather a half billion dollars of General Fund money, would be tied up by the proposed program.

Now let's really give our future boys something to fight for, while protecting the investment of our current veterans, by collecting those unpaid loans and by voting NO on Proposition 3.

DAVID EDWARD SILVERSTONE

Argument Against Proposition 3

There is only one issue here: the high cost of money.

At a critical time, when demand for money is at an all-time high, this bill proposes to request only 450 million dollars more from California taxpayers, just to fund farm and home aid for California veterans.

California veterans are embarrassed and angry at being coerced into participation in this assault on the value of the dollar!

DAVID EDWARD SILVERSTONE

Rebuttal to Argument Against Proposition 3

The Veterans Bond Act of 1982 will cost taxpayers nothing! Throughout the 60-year life of this successful program it has been entirely self-supporting. To state otherwise is a misrepresentation of fact.

The Cal-Vet Loan Program has enabled many thousands of California veterans to qualify for low-interest loans. All program costs are recovered through loan payments which are made under contract.

California veterans' organizations are enthusiastically endorsing this proposition, because they realize it is self-supporting, vitally needed, and will have a highly positive impact on California's economy.

RICHARD ALATORRE
Member of the Assembly, 55th District

Remember to Vote

Tuesday, November 2, 1982