

Official Title and Summary Prepared by the Attorney General**VETERANS' BOND ACT OF 2000.**

- This act provides for a bond issue of five hundred million dollars (\$500,000,000) to provide farm and home aid for California veterans.
- Appropriates money from state General Fund to pay off bonds, if costs not offset by payments from participating veterans.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Costs of about \$858 million to pay off both the principal (\$500 million) and interest (about \$358 million) on the bonds; costs paid by participating veterans.
- Average payment for principal and interest of about \$34 million per year for 25 years.

Final Votes Cast by the Legislature on AB 2305 (Proposition 32)

Assembly:	Ayes 76	Noes 0
Senate:	Ayes 36	Noes 0

BACKGROUND

Since 1921, the voters have approved a total of about \$7.9 billion of general obligation bond sales to finance the veterans' farm and home purchase (Cal-Vet) program. As of July 2000, there was about \$270 million remaining from these funds.

The money from these bond sales is used by the Department of Veterans Affairs to purchase farms, homes, and mobile homes which are then resold to California veterans. Each participating veteran makes monthly payments to the department. These payments are in an amount sufficient to (1) reimburse the department for its costs in purchasing the farm, home, or mobile home; (2) cover all costs resulting from the sale of the bonds, including interest on the bonds; and (3) cover the costs of operating the program.

PROPOSAL

This measure authorizes the state to sell \$500 million in general obligation bonds for the Cal-Vet program. These bonds would provide sufficient funds for at least 2,500 additional veterans to receive loans.

FISCAL EFFECT

The bonds authorized by this measure would be paid off over a period of about 25 years. If the \$500 million in bonds were sold at an interest rate of 5.5 percent, the cost would be about \$858 million to pay off both the principal (\$500 million) and the interest (\$358 million). The average payment for principal and interest would be about \$34 million per year.

Throughout its history, the Cal-Vet program has been totally supported by the participating veterans, at no direct cost to the taxpayer. However, because general obligation bonds are backed by the state, if the payments made by those veterans participating in the program do not fully cover the amount owed on the bonds, the state's taxpayers would pay the difference.

For text of Proposition 32 see page 54.

Argument in Favor of Proposition 32

The Cal-Vet Farm and Home Loan Program was established after World War I to help veterans in establishing livelihoods and homes following active military service to their country. Since then, more than 400,000 wartime veterans have been assisted by this self-supporting Program. The Program, which has earned the consistent support of voters for 79 years, is a working memorial to the veterans of California.

Voter-approved general obligation bonds finance the Program and are repaid by the veterans. Veteran loan holders are charged interest on their loans at the lowest rates that will cover all costs, including redemption of general obligation bonds, debt service, and all program administrative charges. The Program is operated entirely without cost to the California taxpayer.

To ensure that deserving California veterans receive the best possible service under the Cal-Vet Program, the Legislature recently directed the Department of Veterans Affairs, which administers the Program, to establish all systems, procedures, technologies and guidelines necessary to achieve efficient loan processing at a pace

competitive with private-sector services. The Governor, the Legislature, the Treasurer, and the California Veterans Board all actively oversee the Program.

The last Cal-Vet bond measure appeared on the 1996 ballot and received strong voter support. Proposition 32 is needed now to ensure that the Cal-Vet Program will be able to meet the future needs of veterans. The Legislature placed this act on the ballot, at the request of Governor Davis, with no negative votes, sending the measure to voters with a vote of 76–0 in the Assembly and 36–0 in the Senate.

We urge you to vote *FOR* Proposition 32, the Veterans' Bond Act of 2000. The success of this measure will enable California's wartime veterans to purchase farms and homes here with low interest rates and at no cost to you. Our veterans deserve no less.

ASSEMBLYMAN JOHN A. DUTRA, *Chair*
Assembly Committee on Veterans Affairs
SENATOR K. MAURICE JOHANNESSEN, *Chair*
Senate Committee on Veterans Affairs

Rebuttal to Argument in Favor of Proposition 32

PROPONENTS' CLAIM that the Cal-Vet loan program operates "*entirely without cost to the California taxpayer*" IS NOT TRUE.

Raising money by selling tax-free bonds results in a loss of revenue (from income on other possible investments that would be taxed) to both the *state* treasury and the *federal* treasury. This is explained in the main argument against Proposition 32 on the opposite page.

The question is whether continuing the Cal-Vet program is worth its high cost.

On this point, PROPONENTS' CLAIM that the program has assisted "*wartime veterans*" IS MISLEADING.

Most California veterans have not been able to obtain assistance through the Cal-Vet loan program precisely because the program is not limited to war "time" veterans, or persons who served in actual combat, or veterans who became disabled by serving in the military.

Even someone who stayed at home in the National Guard is a qualified "*veteran*" under the Cal-Vet loan program.

Presidential candidate *George W. Bush* of Texas, who joined in his state's "*Air*" National Guard instead of going to fight the War in Vietnam, is technically a "*veteran*." But would he deserve a subsidized home loan for such service?

Instead of funding another half-billion dollars in low-interest loans for the purchase of "*homes and farms*" for a relatively small number of persons in the broad category of "*veterans*," let's spend money on programs limited to the most deserving and needy people—such as persons who became disabled in military combat.

MELVIN L. EMERICH
Attorney at Law

Argument Against Proposition 32

In this measure, state legislators are proposing that the State of California sell a *half billion dollars* in bonds to be used by the Cal-Vet Home Loan Program.

While it is true that the lucky home buyers repay the bonds—principal and interest—the *program costs everyone else hundreds of millions of dollars in a way proponents never talk about.*

You see, government bonds are purchased by investors even though they yield a low rate of interest only because the interest earned is tax-free under both federal and state law.

When investors buy tax-free bonds instead of making tax-producing investments in the private sector, the federal and state governments lose money that would have been collected on taxable investment returns.

The amount lost approximates the difference between the rate of interest on government bonds and the rate of interest on secure, taxable investments.

So, the Cal-Vet Home Loan Program is actually quite expensive. If it were “free” as proponents have claimed

in the past, everyone could receive low interest loans from the government! We could have a “Cal-Resident Home Loan Program” for everyone. But, it does not work that way.

Now that you know how *the Cal-Vet Home Loan Program costs YOU hundreds of millions of dollars*, the question is whether the program is justified.

Here are the biggest problems we see:

(1) The program is not limited to veterans who served in combat.

Any California veteran may apply.

(2) Bureaucrats then decide which veterans get the homes and which do not.

Relatively few veterans end up benefiting from the program.

MELVIN L. EMERICH, *Co-chair*

Voter Information Alliance

GARY B. WESLEY, *Co-chair*

Voter Information Alliance

Rebuttal to Argument Against Proposition 32

The Cal-Vet Home Loan Program is California’s means of keeping the promise to honor those who served. Veterans using the Program are not simply “lucky home buyers”; they are individuals who have made sacrifices for State and Country.

The Cal-Vet Home Loan Program has no direct cost to taxpayers. It is true that the program is funded by the sale of tax-exempt bonds, but the investors purchase these bonds as a part of their tax-exempt strategies. If they did not purchase these bonds, which are used to benefit veterans and in turn to bolster California’s real estate industry, purchasers would find other tax-exempt investments that might not benefit California, or our veterans.

Contrary to the arguments against the Veterans Bond Act, the Program is fully justified:

1. The bonds in question are General Obligation Bonds. *These bonds can be used only by veterans who have wartime service and are purchasing homes in California.*

2. State and federal laws determine the use of tax-exempt bonds. Loans are underwritten, according to common industry practice, by the staff of the California Department of Veterans Affairs. More than 412,000 veterans have benefited from the Program since its inception in 1921.

HONORABLE GRAY DAVIS

Governor

ASSEMBLYMAN JOHN A. DUTRA, *Chair*

Assembly Committee on Veterans Affairs

SENATOR K. MAURICE JOHANNESSEN, *Chair*

Senate Committee on Veterans Affairs