Proposition 1
Veterans and Affordable Housing Bond

CALTAX POSITION

The California Taxpayers Association opposes Proposition 1 because the bond measure does not meet CalTax's criteria for sound bond financing.

DIGEST

Authorizes a $4 billion general obligation bond, with $3 billion allocated to finance government housing programs, infill infrastructure and parks and $1 billion to help veterans purchase farms, homes and mobile homes.

MAJOR PROVISIONS

- **$4 Billion General Obligation Bond.** Authorizes a $4 billion general obligation bond for the development of specified government housing projects for targeted to specific populations identified in the proposition.

- **Allocates $1 Billion of Bond Proceeds to Veteran-Owned Housing.** Allocates $1 billion to help veterans purchase homes, farms or mobile homes.

- **Funds "Self-Help" Jurisdictions.** The proposition allocates $600 million split equally between the Affordable Housing Innovation Fund and the Self-Help Housing Fund, which provides grants to local jurisdictions that develop, own, lend or invest in affordable housing or additionally create "innovative programs" to build affordable housing.

- **Legislature May Amend the Proposition.** The Legislature may amend the proposition to reallocate the bond proceeds to promote the development of affordable housing in California.

FISCAL IMPACT

The Legislative Analyst's Office estimates that the cost to taxpayers to repay the bonds authorized by Proposition 1 would average approximately $170 million per year for 35 years. The $3 billion in bonds for state housing programs would cost an estimated $5.9 billion to repay ($3 billion in principal plus $2.9 billion in interest), but the analyst notes that the cost "would depend on various factors – such as the interest rates in effect at the time they are sold, the timing of the bond sales, and the time period over which they are repaid."

The $1 billion in bonds for veterans housing programs would be repaid by veterans participating in the home loan program, via monthly payments to the state. The analyst states that "these payments have always covered the amount owed on the bonds, meaning the program has always operated at no direct cost to the state."

BACKGROUND

Proposition 1 was placed on the ballot by the Legislature through SB 3 (Beall). SB 3 was a part of a legislative package intended to address California's affordable housing crisis. The bonds fund construction of government housing programs for targeted populations such as farmworkers, and the development of transit-oriented high-density housing.

In November 2014, voters passed Proposition 41, which authorized the issuance of $600 million in general obligation bonds for the acquisition, construction, rehabilitation and preservation of affordable multifamily supportive housing, affordable multifamily transitional housing or related facilities for veterans and their families.

CALTAX CRITERIA FOR EVALUATING BONDS

Bonds are an appropriate mechanism that can be used to finance projects at the state and local level of government. Bonds should be consistent with the following criteria:

- The project to be financed is a capital facility or infrastructure project, and the bond funding will pay for land acquisition and capital costs, not for operations, non-construction salaries or wages, or ongoing costs.

- Non-bond financing is not a reasonable option.

- The project costs are appropriately shared by future taxpayers because the project will have a useful life at least as long as the term of the bonds, and future taxpayers will benefit from the facility that is built with the bond proceeds.

- For state bonds, projects funded are of state-level concern and importance. State bonds should not pay for local projects that do not have significant extra-territorial impact.

- Interest rates for indebtedness are not abnormally high, and the overall debt level will not be excessive. Local governments should avoid using capital appreciation bonds.

POLICY CONSIDERATIONS

- **Can California Afford More Debt?** According to the state treasurer's 2017 Fiscal Report, California has $83.24 billion in outstanding general obligation bond debt, with another $38.61 billion in authorized but unissued debt. If all bonds are sold, California would have $121.85 billion in general obligation bond debt – equivalent to 97 percent of the approved 2017-18 general fund budget.

Additionally, the treasurer's report states that among the country's 10 most populous states, California ranks third highest in debt as a percentage of GDP (3.51 percent), debt per capita ($2,217) and debt to personal income (4.2 percent).

In 2018, California will pay $3.7 billion in interest and $2.95 billion in principal debt on current general obligation bond debt. Issuing additional debt may not be the fiscally prudent choice.

- **Budget Priorities** California has record tax revenue and reserves. Rather than issuing bonds to pay for new spending, the Legislature could reprioritize spending in the state budget and use existing funds, thereby avoiding billions of dollars in interest payments.

- **Federal Veteran Programs Provide Veteran Housing.** The U.S. Department of Veterans Affairs operates a number of programs for Americans who served in the armed forces, including a home loan program – commonly known as the VA loan. The VA loan allows veterans to purchase a home with no down payment, limited closing costs, and limited lender-related fees such as appraisal fees and origination fees. Unlike conventional loans and loans from the Federal Housing Administration, VA loans do not require veterans to pay monthly mortgage insurance for homes purchased with less than a 20 percent down payment.