

**SUBJECT:** \$500 million in additional bonds for Veterans' Housing Assistance Fund II

**COMMITTEE:** Financial Institutions — committee substitute recommended

**VOTE:** 8 ayes — Marchant, Carona, Elkins, Giddings, Grusendorf, Gutierrez, Patterson, Romo

0 nays

1 absent — Hudson

**WITNESSES:** For — Samuel Bier, Disabled American Veterans, Veterans of Foreign Wars.

Against — None

On — Garry Mauro, Texas land commissioner; David Gloier, Bruce R. Salzer and Jerry Turner, Veterans' Land Board

**BACKGROUND:** Art. 3, sec. 49 of the Texas Constitution prohibits the Legislature from creating state debt. However, voters have approved numerous amendments to sec. 49 to authorize the state to borrow money by issuing general obligation bonds to finance a wide range of projects. Secs. 49-b, 49-b-1, and 49-b-2 authorize bond debt for the Veterans' Land Fund.

The Veterans' Land Board (VLB) and Veterans' Land Fund were created in 1946 to purchase land for resale to veterans of World War II, using money borrowed by the state by issuing general obligation bonds. General obligation bonds are backed by the full faith and credit of the state, and the state guarantees that it will repay its debt to bondholders, with interest, with the first money coming into the state Treasury each fiscal year. Some general obligation debt, like the veterans' land bonds, is paid off with revenues from the programs they support and are thus considered self-supporting.

The constitutionally created land board consists of the commissioner of the General Land Office, who is elected statewide, and two gubernatorial appointees. The board first was authorized to issue up to \$25 million in

bonds for the veterans' program, but the Constitution has been amended numerous times to authorize issuance of additional bonds for the program. Amendments also have extended benefits to veterans of subsequent wars, altered the calculation of bond interest rates and reorganized the membership of the board.

In 1983 the Legislature created the Veterans' Housing Assistance Program (VHAP) to provide low-interest loans to qualified Texas veterans for the purchase of a home. Administered by the Texas Veterans' Land Board, the program is funded by bonds issued under Art. 3, secs. 49-b-1 (Veterans' Housing Assistance Fund) and 49-b-2 (Veterans' Housing Assistance Fund II) of the Texas Constitution. Since the program's inception, voters have authorized sale of \$1.5 billion in general obligation bonds, and \$1.235 billion in bonds have been sold. Mortgage payments by borrowers are used to pay all the board's bond debt and cover all administrative costs; no state funds are used.

The maximum amount of a VHAP loan is \$45,000. Current interest rates for the loans are under 8 percent, and, in some cases, under 7 percent, with no payment of discount points required. The VLB made more than \$354 million in loans to 9,388 veterans in 1994, and in 1993 authorized loans totaling \$154 million. The board has constitutional authority to sell another \$265 million in bonds.

**DIGEST:**

CSHJR 34 would increase by \$500 million the constitutional authorization of the Veterans' Land Board to sell general obligation bonds to finance the Veterans' Housing Assistance Fund II. Guidelines governing previous housing bond sales would apply to the new bonds and, the bonds would be incontestable after execution by the VLB, approval by the attorney general and delivery to the purchaser. The VLB could enter into bond enhancement agreements regarding the bonds.

CSHJR 34 would be submitted to the voters at an election on November 7, 1995. The ballot proposal would read: "The constitutional amendment to increase by \$500 million the amount of general obligation bonds that may be issued to augment the veterans' housing assistance fund II."

**SUPPORTERS  
SAY:**

The demand for veterans' housing loans has increased markedly since 1993, and it appears likely that the Veterans' Land Board will run out of money to lend before the 75th Legislature convenes in 1997. The board needs authority to issue an additional \$500 million in general obligation bonds in order to continue making low-interest housing loans to veterans.

The current bonding authority might have been sufficient if loans made to veterans had remained at the 1993 levels of \$154 million per year. However, the low interest rates that the VHAP can provide, combined with seven increases in the prime lending rate by the Federal Reserve Board in 1994, caused demand for the low-interest loans to more than double, to \$354 million in 1994. The VLB expects the amount of loans to level out as private-loan interest rates stabilize, but in the first two months of 1995, the VHAP has lent nearly \$70 million to qualified veterans.

The many veterans in Texas receive relatively few state benefits for the sacrifices they have made in serving their country. These loans pose almost no financial risk to the state. Principal and interest payments on the loans to veterans are pledged to pay debt service on the bonds. The programs are self-supporting and have never used general revenue.

Veterans' Land Board Programs help veterans and the state as a whole. The General Land Office reports that the VLB has loaned a total of \$2.4 billion since 1949, \$1.7 billion of that amount since 1983. Economists estimate that these loans have generated more than \$14 billion in economic activity for Texas.

The foreclosure rate on veterans' land board loans is very low — only 2.5 to 3 percent on home mortgages, well below national averages. Foreclosed property is sold, and the proceeds remain in the program.

The additional bonds to be issued over the next few years would be a drop in the bucket in the multibillion dollar, nationwide bond market. They would certainly not be enough to distort interest rates on other bonds or materially affect federal tax receipts.

OPPONENTS  
SAY:

The proposed amendment would authorize a large increase in state debt and a greater government intrusion into the capital markets. As of August 1994 the state's outstanding bond debt exceeded \$9.9 billion, of which more than \$4.3 billion was in general obligation bonds. As popular and worthy as the veterans' housing programs may be, Texas voters should be wary of authorizing more state debt.

Texas veterans deserve aid, but they are already eligible for many benefits, including federal Veterans' Administration housing loans, college tuition assistance and hiring preferences for federal and state civil service jobs. Regardless of need or income, veterans can obtain government-subsidized mortgages at interest rates lower than those available to other home buyers.

The last constitutional amendment to increase bond issuance for the land and housing programs was approved in 1993 and authorized \$750 million for both programs. The VHAP more than doubled the amount of loans it made from 1993 to 1994. If this tremendous growth rate continues unchecked, by the turn of the century the annual bond issuance could be more than \$1 billion. The state should be wary of increasing debt to help a special group that already receives generous government benefits.

NOTES:

HJR 34 is a result of a recommendation by the Special Committee on Veterans' Affairs, in its Interim Report, November, 1994.

The committee substitute to HJR 34 changes the placement of the proposed amendment — putting it in Constitution sec. 49-b-3 rather than 49-b-2(q). The committee substitute also adds provisions giving the VLB the same authority over these bonds as in previous authorizations.

SJR 32 by Brown, identical to CSHJR 34, was reported favorably without amendment by the Senate Finance Committee on March 2.