

III. PROPOSED BOND ISSUES AND STATE BONDED DEBT

SUMMARY

There are currently a number of proposals for the financing of state programs through the issuance of bonds. The authorization for \$100 million in bonds to provide housing for the aged passed the Legislature last year. This will be voted upon by the people in 1962. Bond issues are also being requested for state parks and other purposes. Consideration must also be given to additional bond authorization for programs already in operation including veterans' welfare, school building aid and state construction.

The report which follows is a description of the amount and characteristics of the existing State of California bonded debt and the programs which are financed from bond proceeds. A brief analysis is made of the State's credit position. Hypothetical projections to 1971-72 of program requirements, bond service charges and other considerations are included for programs already authorized.

Unless some currently authorized programs—such as the veterans' farm and home purchase program—are able to operate at lower levels during the next 10 years than at present, the authorization of bonds for new programs should tend to increase the State's interest rates on all bonds sold.

CHARACTERISTICS OF EXISTING STATE DEBT

California's existing bonded debt consists of both general obligation bonds and revenue bonds although the latter are a minor part of the total at the present time.

General obligation bonds are secured by pledge of the full faith and credit of the State for payment of principal and interest, subject only to a prior claim for support of the public school system and the University of California.

Revenue bonds are services from specific revenues of a state instrumentality and are not secured by the full faith and credit of the State. Chief use of revenue bonds to date has been by the California Toll Bridge Authority to finance construction of bridges in the San Francisco Bay area with debt service provided by revenues from operation of the toll bridges.

Article XVI, Section 1 of the Constitution provides that general obligation bonds of the State of California can only be issued upon approval of a majority vote of the people after adoption of a bond act by the Legislature and that the bond act must specify the single object or purpose for which the funds are to be used and provide ways and means exclusive of loans for the payment of interest and redemption of principal. The Constitution also limits the maximum term of any bond issue to 50 years. Prior to an amendment adopted November 6, 1956, the maximum term was 75 years.

Existing general obligation bonds of the State of California are of two general categories, self-liquidating and nonself-liquidating. In addition to being secured by pledge of the full faith and credit of the State, the self-liquidating bonds are serviced by certain earmarked receipts other than general tax sources, whereas the nonself-liquidating are not.

Proposed Bond Issues and Bonded Debt

Characteristics of Existing State Debt—Continued

Table 1—General Obligation Bonds, State of California
By Purpose, at November 30, 1961

Purpose	(1) Originally Authorized	(2) Unsold	Outstanding	
			(3) Amount	(4) Percent of Total
Not Self-Liquidating				
State and University Buildings -----	\$14,300,000	—	\$4,240,000	17%
State Building Con- struction Program	400,000,000	\$50,000,000	342,000,000	13.42
California Tenth Olympiad -----	1,000,000	—	250,000	—
State Highway -----	55,000,000	—	4,375,000	17
State School Building Aid -----	1,155,000,000	220,000,000	813,100,000	31.90
Total -----	\$1,625,300,000 *	\$270,000,000	\$1,163,965,000	45.66
Self-Liquidating				
California Water ---	\$1,750,000,000	\$1,750,000,000	—	—
San Francisco Harbor Development -----	80,000,000	28,197,000	\$36,405,000	1.43
Small Craft Harbors	10,000,000	4,000,000	6,000,000	.24
Veterans Housing --	1,755,000,000	160,000,000	1,342,510,000	52.67
Total -----	\$3,595,000,000	\$1,942,197,000	\$1,384,915,000	54.34
Total -----	\$5,220,300,000 **	\$2,212,197,000	\$2,548,880,000	100.0%
Amounts available in sinking funds were as follows at November 30, 1961:				
State and University Buildings-----			\$3,000,000	
California Tenth Olympiad-----			244,129	
San Francisco Harbor-----			423,175	
Total -----			\$3,667,304	

* Includes \$191,335,000 redeemed to November 30, 1961.

** Includes \$459,223,000 redeemed to November 30, 1961.

General Obligation Bonds

Table 1 summarizes the general obligation bonds of the State of California on November 30, 1961. With one exception (Sacramento State Buildings of 1913) all of the issues included have serial maturities. Following is a description of each of the outstanding issues.

State and University Building Bonds

These consist of the following:

Issue	Dates of bonds	Maturity dates	Authorized	Outstanding 11/30/61
Sacramento State Buildings of 1913 -----	1915	1965	\$3,000,000	\$3,000,000
San Francisco State Build- ings of 1913-----	1915	1916-65	1,000,000	80,000
State University Buildings of 1915 -----	1915	1921-65	1,800,000	160,000
State Buildings and Univer- sity Buildings of 1925-----	1927	1932-65	8,500,000	1,000,000
			\$14,300,000	\$4,240,000

Proposed Bond Issues and Bonded Debt

Characteristics of Existing State Debt—Continued

As the names of the issues indicate, these bonds were for construction of buildings. The last issue authorized \$2,500,000 for construction of state buildings in Sacramento and Los Angeles and \$6 million for University of California buildings.

The first issue listed above is the only state issue currently outstanding which does not have serial maturities and is covered by a sinking fund with assets of \$4,114,677 on November 30, 1961.

No bonds were issued to finance construction of buildings between 1927 and 1958.

State Building Construction Program

Two bond issues of \$200 million each were authorized for state building construction, one in 1955 and the other in 1958. All of the first issue was sold in 1958, 1959 and 1960 and matures from 1959 to 1985. Of the second issue, \$150 million was sold during 1961 leaving a balance authorized but unsold of \$50 million.

Proceeds are to be used for site acquisition and building construction for a number of state agencies, including the Department of Education, the University of California and the Department of Corrections.

California Tenth Olympiad

These bonds were issued in 1929 with serial maturities to 1971 and were to provide funds for the Tenth Olympiad in Los Angeles. All debt service costs to date have been met from profits of the games with a sinking fund available containing assets of \$244,129 on November 30, 1961.

State Highway Bonds

At present these consist of the following:

<i>Issue</i>	<i>Dates of bonds</i>	<i>Maturity dates</i>	<i>Authorized</i>	<i>Outstanding 11/30/61</i>
Second Highway of 1915----	1917	1923-62	\$15,000,000	\$375,000
Third Highway of 1919-----	1919-24	1926-65	40,000,000	4,000,000
			<u>\$55,000,000</u>	<u>\$4,375,000</u>

These bonds were for state highway construction purposes and debt service is provided by motor vehicle license fee ("in lieu" tax) revenue.

All highway construction, since these bonds were issued, has been financed out of current revenues.

State School Building Aid

Successive state general obligation bond issues have been authorized for school building aid as follows:

<i>Issue</i>	<i>Amount</i>
State School Building Aid of 1949 -----	\$250,000,000
State School Building Aid of 1952 -----	185,000,000
State School Building Aid of 1954 -----	100,000,000
State School Building Aid of 1956 -----	100,000,000
State School Building Aid of 1958 -----	220,000,000
State School Building Aid of 1960 -----	300,000,000
Total -----	\$1,155,000,000

Proposed Bond Issues and Bonded Debt

Characteristics of Existing State Debt—Continued

Of this amount, \$813,100,000 was outstanding at November 30, 1961 with \$220 million authorized and unsold.

The unsold portion includes \$20 million of the 1952 authorization, the proceeds of which can only be used to repay the money appropriated from the General Fund at the 1952 Second Extraordinary Session for state school building. (Chapter 104, Statutes of 1958, First Extraordinary Session.)

The outstanding bonds have been issued at various times, starting in 1950 with serial maturities running to 1988.

Proceeds from the sale of these bonds are loaned to local school districts for school building construction on the basis of need. Generally speaking, to be eligible for a loan, a school district must have exhausted its bonding capacity and have facilities which are below specific minimums in terms of square feet of space per pupil in average daily attendance.

The loans are repayable to the State in 30 or, in certain cases, 40 annual payments, the amount of each payment being calculated according to a formula set forth in the law (Section 19604 of the Education Code of 1959), which is based on a concept of ability to pay as evidenced by the tax rate required for debt service on the district's outstanding bonds. If this tax rate exceeds 40 cents, no payment is due. If it is less than 40 cents, the repayment is the difference between 40 cents and such tax rate up to a maximum of 30 cents. Amounts remaining unpaid after the expiration of the 30-year or 40-year period, whichever applies, are cancelled so that the program, in effect, is in part a loan of the State's credit and in part an outright grant.

Total payments for debt service are estimated at \$56,683,895 for the 1962-63 fiscal year. Of this total, an estimated \$33,124,395, or 58.4 percent, will be paid from the State General Fund and the remainder by local districts and other financing. In 1956-57, the General Fund proportion was \$8,657,741, or 37.7 percent of the total, but there have been steady annual increases both in percent and in total amount to the present time. This has occurred through the application of the formula mentioned above to new loans and also to some extent to the addition of Section 19615, Statutes of 1959, wherein, under certain circumstances, local districts may defer their annual repayments. These factors are further discussed under the section on Proposed New Issues—State School Building Aid.

Included in each loan is interest calculated at an amount equal to the effective rate paid by the State on its own borrowings, from the proceeds of which the loans were made.

Proposed Bond Issues and Bonded Debt

Characteristics of Existing State Debt—Continued

San Francisco Harbor

These bonds are as follows:

<i>Issue</i>	<i>Bond dates</i>	<i>Maturity dates</i>	<i>Authorized</i>	<i>Unsold</i>	<i>Outstanding 11/30/61</i>
San Francisco Harbor Improvement, 1909—	1911	1951-85	\$9,000,000	--	\$2,758,000
San Francisco Harbor Improvement, 1913—	1915	1951-85	10,000,000	\$550,000	3,762,000
San Francisco Harbor Improvement, 1929—	1946-56	1952-83	10,000,000	--	7,060,000
India Basin of 1909—	1911	1941-85	1,000,000	147,000	325,000
Harbor Development Bond Law of 1958—	1959	1964-83	50,000,000	27,500,000	22,500,000
			<u>\$80,000,000</u>	<u>\$28,197,000</u>	<u>\$36,405,000</u>

Sinking funds with total assets of \$423,175 on November 30, 1961, are available to the first four issues listed above.

All of these bonds are to finance improvements at the San Francisco Harbor and are to be serviced from revenues of the San Francisco Port Authority although they are general obligation bonds of the State.

The Board of State Harbor Commissioners for San Francisco Harbor was created as a state agency in 1863 for the purpose of administering and regulating the operations of the San Francisco Bay waterfront.

The name of the agency was changed by the 1957 Legislature to the San Francisco Port Authority. Its purpose is to promote the facilities and administer the operations of the Port of San Francisco, including the State Belt Line Railroad.

It obtains its revenues from charges to the users of the port facilities in the form of tolls, dockage, demurrage and rental charges, and its transactions are recorded in the San Francisco Harbor Improvement Fund.

The operations of the Authority have been self-supporting since its creation, including related debt service payments.

In addition to the State's general obligation bonds earmarked for harbor improvement, there were outstanding at June 30, 1959, \$5,442,000 of an issue of revenue bonds of the San Francisco Port Authority which were secured only by revenues of the authority and are not general obligations of the State. These bonds have all been retired from the proceeds of the sale in October 1959 of \$7,500,000 bonds authorized by the Harbor Development Bond Law of 1958.

Small Craft Harbors

These bonds are listed below:

<i>Issue</i>	<i>Bond dates</i>	<i>Maturity dates</i>	<i>Authorized</i>	<i>Unsold</i>	<i>Outstanding 11/30/61</i>
Small Craft Harbors—	1960	1965-85	\$10,000,000	\$4,000,000	\$6,000,000

Article XVI, Section 8½ of the Constitution authorizes \$60 million in bonds as provided in the Harbor Development Bond Law of 1956, Chapter 103, Statutes of 1958, First Extraordinary Session.

The latter provides for issuance of \$10 million in bonds by the Small Craft Harbors Commission for loans to cities, counties and districts

Proposed Bond Issues and Bonded Debt

Characteristics of Existing State Debt—Continued

for acquisition, construction or operation of small craft harbors and facilities in connection therewith. These loans are to be repaid, with interest, as provided by Small Craft Harbors Commission rules. Sales to date total \$6 million of which \$3 million were sold on July 17, 1960, and a like amount on June 14, 1961. Interest only is payable the first five years after sale and interest and redemption payments will be made to maturity thereafter.

Veterans' Welfare

These bonds are as follows as of November 30, 1961:

<i>Issue</i>	<i>Authorized</i>	<i>Unsold</i>	<i>Outstanding</i>
Veterans' Welfare of 1943 -----	\$30,000,000	--	\$7,200,000
" " " 1946 -----	100,000,000	--	47,660,000
" " " 1949 -----	100,000,000	--	56,400,000
" " " 1951 -----	150,000,000	--	101,650,000
" " " 1954 -----	175,000,000	--	141,400,000
" " " 1956 -----	500,000,000	--	452,100,000
" " " 1958 -----	300,000,000	--	296,100,000
" " " 1960 -----	400,000,000	\$160,000,000	240,000,000
	<u>\$1,755,000,000</u>	<u>\$160,000,000</u>	<u>\$1,342,510,000</u>

The outstanding bonds mature serially to 1987.

Under the Veterans' Farm and Home Purchase Program, the State issues its general obligation bonds and uses the proceeds to purchase farms and homes for veterans.

Within limitations set forth by law, the Department of Veterans' Affairs may purchase a farm or home and in turn enter into a contract with the veteran for the sale of the property to the veteran. The cost to the department cannot exceed \$15,000 for a home and \$40,000 in the case of a farm. The contract with the veteran provides for monthly payments which include interest currently computed at 4 percent and is usually written for a term of 20 years, sometimes less.

The agency indicates that from 1922 to June 30, 1961, 178,368 homes and 2,221 farms were acquired for resale to veterans at contract values totaling \$1,714,175,801. Included in the total are 129,406 properties financed for World War II veterans and 29,438 for veterans of the Korean emergency. To June 30, 1961, 57,906 contracts have been paid in full.

The Veterans' Farm and Home Purchase Program is the largest program in California where the State, in effect, lends its credit for the benefit of individuals or other political entities. It is also, by a considerable margin, the largest state-administered program of its kind in the United States.

The interest charged the veterans on these loans has been set at a rate calculated to produce sufficient income to pay all costs of administration, all interest charges on the bond issues, and to meet principal payments as the bonds mature. The rates in effect have been as follows:

<i>Period</i>	<i>Rate</i>
1922 to June 30, 1945-----	5%
July 1, 1945, to July 31, 1946-----	4%
August 1, 1946, to October 30, 1957-----	3%
December 1, 1957, to January 1, 1960-----	3½%
February 1, 1960, to date-----	4%

Proposed Bond Issues and Bonded Debt

Characteristics of Existing State Debt—Continued

Revenue Bonds

Although it is the primary purpose of this report to deal with the general obligation, or full faith and credit, debt of the State, authorization has been given by acts of the Legislature for the issuance of revenue bonds in certain specified cases.

These are secured only by revenues of the issuing instrumentality. These instrumentalities include the California Toll Bridge Authority, San Francisco Port Authority, World Trade Center, University of California, State Board of Education in behalf of state colleges and the State Public Works Board for construction of facilities at the new site of the California State Fair.

Table 2 summarizes the revenue bonds authorized, unsold, redeemed and outstanding on June 30, 1961.

The University of California Housing System bonds were issued to finance construction of dormitories and are secured by revenues derived from the operation of the dormitories. The toll bridge construction bonds were issued to finance construction of new toll bridges or the improvement or renovation of existing toll bridges and are secured by revenues derived from the operation of the toll bridges involved.

Table 2
Revenue Bonds, June 30, 1961

<i>Issue</i>	<i>Amount authorized</i>	<i>Amount unsold</i>	<i>Amount redeemed</i>	<i>Amount outstanding</i>
State Fair Construction				
Revenue	\$13,000,000	\$13,000,000	--	--
University of California Housing System				
(Series A)	18,000,000	--	\$250,000	\$17,750,000
(Series B)	8,750,000	8,750,000	--	--
(Series C)	19,625,000	19,625,000	--	--
Parking*	2,843,000	2,843,000	--	--
Student Center	3,700,000	--	90,000	3,610,000
Student Union Building				
UCLA	2,750,000	--	65,000	2,685,000
California Housing System (State College Dormitories)	14,173,000	--	--	14,173,000
Toll Bridge Construction:				
Carquinez Strait Bridges	80,000,000	--	1,547,000	78,453,000
Richmond-San Rafael Bridge	72,000,000	10,000,000	--	62,000,000
San Pedro Terminal Island	7,000,000	2,000,000	--	5,000,000

* Bonds were sold during 1961-62 fiscal year.

PAST TRENDS IN STATE DEBT

In Table 1 there was shown the amount of state general obligation bonded debt outstanding as of November 30, 1961. In Table 3, which follows, there is shown the amount of bonded debt outstanding at the end of each fiscal year for the period 1930 to 1961 by type of issue.

Total general obligation bonds authorized by years from 1950 to 1961 are shown in Table 4 which also distributes the total between bonds outstanding and authorized and unsold. This same material is presented in graphic form in Chart I.

Proposed Bond Issues and Bonded Debt

Past Trends in State Debt—Continued

CHART I
Authorized State Debt
General Obligation Bonds

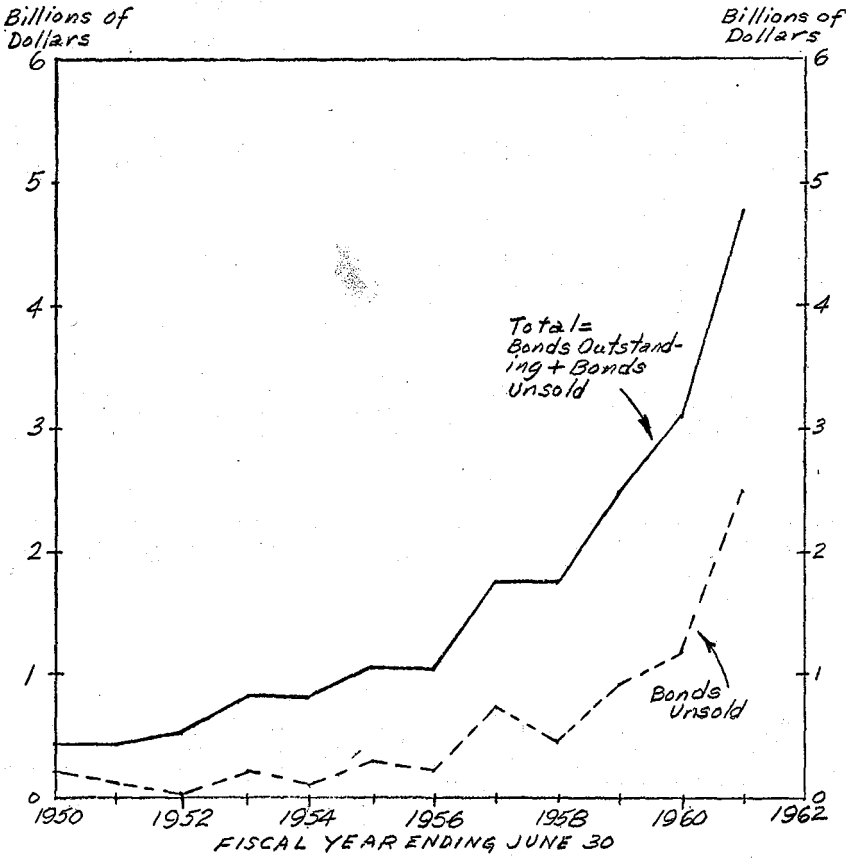


Table 3
State of California General Obligation Bonds Outstanding, 1929-30 to 1960-61
(In thousands)

<i>Year ending June 30</i>	<i>Total</i>	<i>Highway</i>	<i>San Francisco Harbor</i>	<i>Buildings</i>	<i>Unemployment relief</i>	<i>Veterans</i>	<i>School building</i>	<i>Parks and 10th Olympiad</i>
1930 -----	\$119,727	\$61,175	\$16,903	\$12,370	--	\$28,029	--	\$1,250
1931 -----	128,953	59,400	17,653	13,560	--	35,537	--	2,803
1932 -----	140,088	57,625	17,653	13,250	--	46,396	--	5,164
1933 -----	138,098	55,850	17,903	12,940	--	45,127	--	6,278
1934 -----	154,930	54,075	17,903	10,880	\$20,000	45,575	--	6,497
1935 -----	180,472	52,300	18,403	9,820	44,000	49,677	--	6,272
1936 -----	186,347	50,525	18,403	12,010	44,000	55,358	--	6,041
1937 -----	191,128	48,750	19,103	11,700	44,000	61,774	--	5,801
1938 -----	188,526	46,975	19,303	11,390	44,000	61,313	--	5,545
1939 -----	182,524	45,200	19,303	11,080	42,000	59,731	--	5,270
1940 -----	171,434	43,425	19,303	10,770	37,600	55,311	--	5,025
1941 -----	160,049	41,650	19,048	10,460	33,200	50,941	--	4,750
1942 -----	148,599	39,875	19,034	10,150	28,800	46,265	--	4,475
1943 -----	137,044	38,100	19,021	9,840	24,400	41,483	--	4,200
1944 -----	125,492	36,325	19,007	9,530	20,000	36,705	--	3,925
1945 -----	113,888	34,550	18,993	9,220	15,600	31,875	--	3,650
1946 -----	135,050	32,775	21,480	8,910	11,200	57,310	--	3,375
1947 -----	134,328	31,000	23,166	8,600	6,800	61,662	--	3,100
1948 -----	132,163	29,225	23,153	8,290	2,400	66,270	--	2,825
1949 -----	177,893	27,450	24,939	7,980	--	114,974	--	2,550
1950 -----	243,400	25,675	24,925	7,670	--	132,855	\$50,000	2,275
1951 -----	385,339	23,900	27,412	7,360	--	174,667	150,000	2,000
1952 -----	492,474	22,125	22,225	7,050	--	215,949	223,400	1,725
1953 -----	625,652	20,350	22,888	6,740	--	305,624	268,600	1,450
1954 -----	704,433	18,575	22,558	6,430	--	344,295	311,400	1,175
1955 -----	767,334	16,800	21,649	6,120	--	389,265	332,600	900
1956 -----	823,251	15,025	17,461	5,810	--	402,130	382,200	625
1957 -----	1,039,762	13,250	16,842	5,500	--	567,220	436,600	350
1958 -----	1,334,837	11,475	16,237	5,190	--	794,010	507,600	325
1959 -----	1,583,571	9,700	15,591	104,880	--	911,000	542,100	300
1960 -----	1,928,705	7,925	22,445	202,970	--	1,070,890	624,200	275
1961 -----	2,281,217	6,150	39,797	246,260	--	1,265,860	722,900	250

Source: State Treasurer.

Proposed Bond Issues and Bonded Debt

Proposed Bond Issues and Bonded Debt

Past Trends in State Debt—Continued

Table 4
Authorized State Debt, General Obligation Bonds
Bonds Outstanding and Bonds Authorized and Unsold

<i>Fiscal year ending June 30</i>	<i>Bonds outstanding</i>	<i>Bonds unsold</i>	<i>Total</i>
1950 -----	\$243,400,000	\$204,697,000	\$448,097,000
1951 -----	325,651,000	128,697,000	454,348,000
1952 -----	490,324,000	27,197,000	517,521,000
1953 -----	621,302,000	211,197,000	832,499,000
1954 -----	695,733,000	111,197,000	806,930,000
1955 -----	767,334,000	296,197,000	1,063,531,000
1956 -----	823,251,000	205,697,000	1,028,948,000
1957 -----	1,039,762,000	735,697,000	1,775,459,000
1958 -----	1,334,837,000	420,697,000	1,755,534,000
1959 -----	1,583,571,000	900,697,000	2,484,268,000
1960 -----	1,928,705,000	1,173,197,000	3,101,902,000
1961 -----	2,281,217,000	2,495,197,000	4,776,414,000

Source: State Treasurer's Reports.

PROPOSED NEW ISSUES

State School Building Aid

Since the first school building aid law in 1949, a total of \$1,155 million of state school bonds has been authorized. A new bond issue of about \$300 million has been mentioned as a possible proposal for 1962. Should the voters approve this amount, California will have made available under this program as state aid to local school districts a total of \$1,455 million.

As of November 30, 1961, \$220 million remained authorized and un-issued, leaving \$813.1 million outstanding.

During 1959, the State Allocation Board approved applications of school districts for which \$144 million of state school building aid was required. The statutory limit on monthly apportionment of funds, however, was only \$8 million, or \$96 million annually. Because of this substantial difference between the approval of state aid and the availability of funds for apportionment, the Legislature during the 1960 special session increased the monthly limit on funds available for apportionment from \$8 million to \$10 million beginning April 5, 1960. This rate was insufficient to meet the demand for state aid funds, and the 1961 Legislature authorized an increase in the annual apportionment rate to \$144 million, or \$12 million a month.

A clear indicator of the progress in providing facilities with state school building aid is the decrease in the number of pupils on half-day sessions. This number has dropped substantially since 1955, both numerically and in percent of the total school enrollment. In 1955, 201,421 pupils were on half-day sessions. This constituted 8.4 percent of the total school enrollment. As of October 31, 1960, 2.8 percent of the total enrollment, or 93,952 pupils were on half-day sessions. Over half of these pupils are in districts which were currently receiving state school building aid. In October 1960, facilities for 54,344 children on half-day sessions were financed with school building aid. Another 10,827 half-day session pupils had formerly been state aided.

Proposed Bond Issues and Bonded Debt

Proposed New Issues—Continued

Since 1953, 18,397 classrooms have been built (to October 1960) with state school building aid loans. These facilities have provided classroom space for a total enrollment of 606,518 pupils.

Local school districts have issued large amounts of bonds to finance their own school construction or to partially pay for schools which received state school building aid. The total school district bonded indebtedness as of June 30, 1960, was \$1,835.1 million. This should be compared with the State's bonded indebtedness for school building aid of \$722.9 million on June 30, 1961. Total state and local bonded indebtedness for school building construction was, therefore, more than \$2.5 billion based on different years.

Selected statistics relative to state school building aid follow.

STATE SCHOOL BUILDING AID

Bonds Authorized (In millions)

1949	-----	\$250
1952	-----	185
1954	-----	100
1956	-----	100
1958	-----	220
1960	-----	300
Total	-----	\$1,155

Bond Sales and Redemptions (In millions)

	Sales	Redemptions	Outstanding
To June 30, 1961	\$835	112.1	\$722.9

Pupils on Half-Day Session (October count each year)

	1955	1956	1957	1958	1959	1960
All districts	201,421	180,489	163,390	113,103	119,045	93,952
Percent of total enrollment	8.4%	7.1%	5.9%	3.8%	3.7%	2.8%
Currently state-aided	(a)	(a)	65,544	55,087	65,283	54,344
(a) Not available						

State Aided Construction Completed

	1953	1954	1955	1956	1957	1958	1959	1960	Total
Pupil capacity	407	19,530	60,211	85,566	102,472	117,379	81,188	139,765	606,518
Number of classrooms	11	590	1,805	2,542	3,059	3,560	2,563	4,267	18,397

Bonded Indebtedness

Total local debt for school construction—June 30, 1960	\$1,835,100,000
Total state debt for school construction—June 30, 1961	\$722,900,000

Table 5, which follows, lists by fiscal year the bond debt service charges and also the distribution of this between school district repayments and state costs. Debt service includes the redemption of the bonds and the interest charges. The school districts which have received state aid repay their loans according to their financial ability. The ability to repay is computed annually by law using the district's tax rate for its own bond redemptions and its assessed valuation as the primary factors. A district repayment is made by reducing the district's state school apportionment by the amount of the computed repayment.

Proposed Bond Issues and Bonded Debt

State School Building Aid—Continued

Table 5
State School Building Aid Bonds
State-local Debt Service Experience

<i>Fiscal year</i>	<i>Debt service total</i>	<i>District repayment and other financing</i>	<i>State General Fund net cost</i>	<i>General Fund cost as percent of total</i>
1950-51 -----	\$1,700,084	\$882,216	\$817,868	48.1
1951-52 -----	4,951,125	2,590,110	2,361,015	47.7
1952-53 -----	9,711,250	4,106,193	5,605,057	57.7
1953-54 -----	13,009,500	6,501,912	6,507,588	50.0
1954-55 -----	15,815,000	8,952,805	6,862,195	43.4
1955-56 -----	18,345,977	9,688,236	8,657,741	47.2
1956-57 -----	19,638,340	12,234,594	7,403,746	37.7
1957-58 -----	24,776,116	14,924,583	9,851,533	39.8
1958-59 -----	28,977,634	15,701,508	13,276,126	45.8
1959-60 -----	33,313,500	17,130,252	16,183,248	48.6
1960-61 -----	39,589,625	19,202,984	20,386,641	51.5
1961-62 estimate -----	47,557,625	20,929,874	26,627,751	56.0
1962-63 estimate -----	56,683,895	23,559,500	33,124,395	58.4

Total debt service on these bonds was \$1,700,084 for the 1950-51 fiscal year. Costs have increased rapidly and it is estimated that the total for 1962-63 is \$56,683,895.

School district repayments have never equalled the total requirements for debt service. The General Fund must contribute this difference between the requirements for debt service and the district repayments.

The difference has shifted greatly from year to year on a relative basis. In 1950-51 the State General Fund contributed 48.1 percent of the total, but in 1956-57 the State's cost was 37.7 percent. Since 1956-57, however, the proportionate share borne by the State has increased steadily each year and is estimated at 58.4 percent of the total cost for 1962-63. This has resulted through the application of the financial ability formula to loans granted local districts and also to an important extent to the liberalization of the law. For instance, Section 19615, Statutes of 1959, of the State Education Code, provides that local districts may defer a portion of annual repayments depending on their meeting criteria set up relative to financial ability to pay. This has affected district repayment schedules to a significant degree as shown in the following table.

<i>Fiscal year</i>	<i>Total deferred payments</i>
1957-58 -----	\$974,524
1958-59 -----	2,787,825
1959-60 -----	5,445,560
1960-61 -----	8,905,004
1961-62 estimate -----	13,022,343
1962-63 estimate -----	17,700,000

The net balance of accruals and payments of these deferred sums in the future on trends in the State's proportionate yearly costs is unclear at present, but increased payments of deferred amounts in the future could possibly reverse the trend shown.

Proposed Bond Issues and Bonded Debt

State School Building Aid—Continued

In dollar amounts the General Fund net cost for this program has increased every year since the \$817,868 expended in 1950-51 to \$33,124,395 estimated for 1962-63. It seems reasonable to expect this trend to continue for some time in the future.

Projected Future Bond Service Charges and Bonding Requirements for State School Building Aid

Total bond service charges and a breakdown between interest and redemption for school building aid bonds from 1962-63 to 1971-72 is shown in Table 6. This includes only bonds sold to the end of 1961 or through Series Z.

Table 6
Schedule of Debt Requirements by Fiscal Years
for General Obligation Bonds
School Building Aid Bonds *

<i>Fiscal year</i>	<i>Interest</i>	<i>Redemption</i>	<i>Total</i>
1962-63 -----	\$24,627,750	\$29,200,000	\$53,827,750
1963-64 -----	23,460,375	32,800,000	56,260,375
1964-65 -----	22,256,375	33,200,000	55,456,375
1965-66 -----	21,080,250	33,800,000	54,880,250
1966-67 -----	19,878,250	34,200,000	54,078,250
1967-68 -----	18,741,875	35,600,000	54,341,875
1968-69 -----	17,671,875	36,400,000	54,071,875
1969-70 -----	16,676,250	36,800,000	53,476,250
1970-71 -----	15,696,250	37,400,000	53,096,250
1971-72 -----	14,696,000	37,800,000	52,496,000

* Includes all bonds sold through Series Z which was sold on August 16, 1961.

It is noted in the preceding table that interest payments will gradually decline each year over the period while redemption payments will gradually increase. The overall effect is that total payments will decrease from \$53,827,750 in 1962-63 to \$52,496,000 in 1971-72. This projection does not include new bonds which may be issued during this period. These are discussed below.

The 1962-63 Governor's Budget indicates that for 1960-61 a total of \$145 million in bonds were issued. The estimated total for 1961-62 and 1962-63 is \$125 million each year. With the present expenditure authorization level at \$12 million per month, it will require some \$140 million annually to continue the program in its present form. With a backlog of authorized but unsold bonds totaling \$220 million on December 31, 1961 and sales of at least \$100 million anticipated during the early part of 1962, it seems probable that at least an average of \$125 million per year in bond sales would be required over the next 10 years to continue the program at about current levels. This would require the authorization of about \$1,050 million in new bonds by 1971-72.

Projections this far into the future are subject to the effect of many unanticipated factors which could greatly alter the picture. Therefore, the projection of new bond costs is based on the hypothetical assumption that the program will be continued at about current levels. These data are presented in Table 7.

Proposed Bond Issues and Bonded Debt

State School Building Aid—Continued

Table 7

Estimated State School Building Aid Bond Annual Interest and Redemption Charges from 1962-63 to 1971-72

Assumes \$125 Million in New Bonds to Be Issued Annually on the Average

<i>Fiscal year</i>	<i>Bonds presently authorized</i>	<i>Projected new bonds</i>	<i>Total</i>
1962-63 -----	\$53,827,750 **	\$2,856,145	\$56,683,895 *
1963-64 -----	56,260,375	6,917,000	63,177,375
1964-65 -----	55,456,375	15,200,000	70,656,375
1965-66 -----	54,880,250	23,980,000	78,860,250
1966-67 -----	54,078,250	32,560,000	86,638,250
1967-68 -----	54,341,875	40,940,000	95,281,875
1968-69 -----	54,071,875	49,120,000	103,191,875
1969-70 -----	53,476,250	57,480,000	110,956,250
1970-71 -----	53,096,250	65,745,000	121,841,250
1971-72 -----	52,496,000	73,842,000	126,338,000

* 1962-63 Budget estimate.

** Includes all bonds sold through Series Z. (Sold 8/16/1961)

Under the assumptions outlined above, it is noted that debt service charges for new bonds would be higher than for those presently authorized by over \$20 million by 1971-72 and that the total costs would more than double from \$56,683,895 for 1962-63 to about \$126,338,000 for 1971-72. The service charges for 1971-72 would total more than the \$125 million in funds to be made available from the proceeds of bond sales for that year.

The State's share of debt service charges for these bonds is estimated at 58.4 percent of the total for 1962-63. Assuming that the State's share will be 58 percent of the total from 1963-64 to 1971-72, data are developed in Table 8 showing how state General Fund costs may be expected to increase over the next 10 years.

Total state debt service charges as projected, therefore, could expand from about \$33 million in 1962-63 to about \$73 million in 1971-72 under this assumption.

Table 8

Projected Annual General Fund Cost, State School Building Aid Bond Interest and Redemption Charges from 1962-63 to 1971-72

(Assumes General Fund portion of total charges at 58% for 1963-64 and each year following)

<i>Fiscal year</i>	<i>Bonds presently authorized **</i>	<i>Projected new bonds</i>	<i>Total</i>
1962-63 -----	\$31,435,406	\$1,688,989	\$33,124,395*
1963-64 -----	32,631,017	4,011,860	36,642,877
1964-65 -----	32,164,698	8,816,000	40,980,698
1965-66 -----	31,830,545	13,908,400	45,738,945
1966-67 -----	31,365,385	18,884,800	50,250,185
1967-68 -----	31,518,288	23,745,200	55,263,488
1968-69 -----	31,361,688	28,489,600	59,851,288
1969-70 -----	31,016,225	33,338,400	64,354,625
1970-71 -----	30,795,825	38,132,100	68,927,925
1971-72 -----	30,447,680	42,828,360	73,276,040

* 1962-63 Budget estimate = 58.4% of total.

** Includes all bonds sold through Series Z. (Sold 8/16/1961)

Proposed Bond Issues and Bonded Debt

California Water Bonds

Voters of the State in 1960 authorized the issuance of \$1,750 million in State of California general obligation bonds to provide the major portion of financing for the state water plan. (Chapter 1762, Statutes of 1959.) The Act also earmarks \$130 million for use exclusively for loans and grants made by the Department of Water Resources to projects which are locally constructed. Certain interlocking provisions are intended to finance additional water supplies in the Delta and other local projects.

The state water facilities listed in the Act are the Oroville Dam and Reservoir including the Upper Feather River projects; an aqueduct system through the San Joaquin Valley into Southern California including the San Luis Dam and Reservoir; the North and South Bay Aqueducts and the Pacheco Pass Aqueduct; levees and control structures in the San Joaquin-Sacramento Delta; a San Joaquin Valley Drainage System; electric power generation and transmission facilities; and loans and grants to local projects totaling \$130 million under the terms of the Davis-Grunsky Act.

The money provided by the Act is to be expended during a period of approximately 25 years; that is, it finances the State's water program until about 1985.

The proposed issues are anticipated to be self-liquidating similar to veterans' bonds but will, however, also remain a general obligation of the State. Under the Act the maximum term for the bonds is 50 years and it permits interest payments only to be made up to the tenth anniversary after issue. In contrast, current bond sales of major series are for 25- and 26-year terms and redemption charges begin applying within a few months after sale. This longer 50-year maturity period will tend to raise the interest rate on water bonds above that for other general obligation bonds maturing within shorter periods.

There is no way of precisely estimating average interest rates on water bonds. This will be determined by the influence of factors indicated above and especially by bond market conditions at time of sale and rate of sale of other State of California and municipal bonds. At this time the most commonly projected estimate is about four percent. The required average rate of sale and the fiscal year in which sales will begin are as yet unconfirmed; however, sales will be required starting in the 1963-64 fiscal year based upon the present construction schedules. With the construction of Oroville Dam projected to proceed without delay, along with the continuation of San Luis and the aqueduct facilities to Southern California, average rates of sale required will probably be heavy during the 1960's. The accumulated balance in the California Water Fund is estimated to be \$84,292,521 on June 30, 1961, and \$29,328,276 on June 30, 1962.

Proposed Bond Issues and Bonded Debt

California Water Bonds—Continued

Funds received by the State through the settlement of the State's dispute with the City of Long Beach over tidelands oil and gas royalties were originally placed in the Investment Fund. The balances remaining in the Investment Fund were transferred to the California Water Fund upon its creation July 1, 1959. The balance at that time was \$177,125,717. Additional oil, gas and mineral royalties have been accumulated each year in the fund as well as interest on accumulated balances and transfers from the State Lands Act Fund. Expenditures from the fund are made for the water program.

Therefore, assuming an average interest rate of 4 percent and that rates of sale will average at least \$120 million annually and likely \$150 million or more annually starting in 1963-64, the following table shows projected buildup in interest costs to 1971-72. This assumes that redemption charges will not begin until after this period.

Table 9
Estimated Annual Interest Charges* for California Water Bonds
1962-63 to 1971-72

Assumes \$120 or \$150 Million in New Bonds to Be Issued
Annually Beginning in 1963-64

<i>Fiscal year</i>	<i>Estimated interest charges*</i>	
	<i>\$120 million annually</i>	<i>\$150 million annually</i>
1962-63	---	---
1963-64	\$4,800,000	\$6,000,000
1964-65	9,600,000	12,000,000
1965-66	14,400,000	18,000,000
1966-67	19,200,000	24,000,000
1967-68	24,000,000	30,000,000
1968-69	28,800,000	36,000,000
1969-70	33,600,000	42,000,000
1970-71	38,400,000	48,000,000
1971-72	43,200,000	54,000,000

* Assumes interest payments only during the first 10 years of each issue. Therefore, no redemption charges are estimated during this period.

Veterans' Welfare Bonds

There are indications that about \$300 million in new bonds for the Veterans' Farm and Home Program will be proposed for approval by the people during 1962. At the end of 1961 the total of authorized but unsold bonds for this program was \$160 million.

The veterans' program currently provides for lending a maximum of \$15,000 toward the purchase or construction of a home, which is repayable at 4 percent interest by the veteran, on a contract of sale. The program also provides for loans to eligible California veterans for the purchase of farms in the maximum amount of \$40,000, also repayable at 4 percent interest.

There have been 12 separate bond issues authorized since the farm and home purchase program was instituted in 1922 for a total authorization to date of \$1,835 million, of which \$160 million is still available as unsold from the \$400 million Veterans' Bond Act of 1960.

Proposed Bond Issues and Bonded Debt

Veterans' Welfare Bonds—Continued

The date and amount of these authorizations is shown in the table which follows.

Veterans' Bond Authorizations	
<i>Authorized by</i>	<i>Amount</i>
Chapter 578, Statutes of 1921-----	\$10,000,000
Chapter 430, Statutes of 1925-----	20,000,000
Chapter 659, Statutes of 1929-----	20,000,000
Chapter 686, Statutes of 1933-----	30,000,000
Chapter 585, Statutes of 1943-----	30,000,000
Chapter 18, Statutes of 1946-----	100,000,000
Chapter 1267, Statutes of 1949-----	100,000,000
Chapter 1086, Statutes of 1951-----	150,000,000
Chapter 28, Statutes of 1954-----	175,000,000
Chapter 38, Statutes of 1956-----	500,000,000
Chapter 93, Statutes of 1958-----	300,000,000
Chapter 50, Statutes of 1960-----	400,000,000
Total -----	\$1,835,000,000

Although the bonds are a general obligation of the State, the program has been entirely self-liquidating to date.

As of June 30, 1961, the total effective interest rate on the outstanding bonds was 3.33 percent which is arrived at by averaging the interest rates of the respective individual sales of the outstanding bonds.

The 4 percent interest currently charged the veteran allows 0.33 percent to cover the costs of administering the program, leaving 0.34 percent as a reserve for meeting unforeseen contingencies. This has allowed about \$20 million to accrue as of June 30, 1961.

The average home loan being approved currently approximates \$13,500 with \$15,000 being the maximum loan allowable and \$25,000 the maximum allowable market valuation. A total of \$220,230,000 was invested in properties for 16,464 veterans in 1960-61.

With interest rates on World War II and Korean veterans' loans currently running at 5½ percent, and with FHA loans running at 5½ percent plus one-half percent for the insurance premium, and conventional loans ranging from 6½ percent to 10 percent, there seems to be ample evidence available to support the belief that the "Cal-Vet" farm and home loan program will remain popular with eligible veterans.

The Department of Finance indicates that "the 1962-63 Budget is based on the assumption that funds for farm and home purchases will continue at the current level of availability."

Property purchases by the Department of Veterans' Affairs for resale to veterans are currently (fall 1961) at a rate of approximately 1,350 per month. Past year purchases were at an average rate of 1,372 per month.

Table 10 shows the debt service charges from 1962-63 to 1971-72 for all veterans' bonds issued and outstanding as of the end of 1961. The total annual charges are expected to decrease from over \$101 million in 1962-63 to about \$90 million in 1971-72. This will be effected through reductions in annual interest payments which will more than offset gradually increasing redemptions.

Proposed Bond Issues and Bonded Debt

Veterans' Welfare Bonds—Continued

Table 10
Schedule of Annual Debt Requirements by Fiscal Years
for General Obligation Bonds
Veterans Farm and Home Bonds *

<i>Fiscal year</i>	<i>Interest</i>	<i>Redemption</i>	<i>Total</i>
1962-63 -----	\$42,813,171	\$58,580,000	\$101,393,171
1963-64 -----	40,817,883	59,730,000	100,547,883
1964-65 -----	38,809,908	60,980,000	99,789,908
1965-66 -----	36,779,183	62,880,000	99,659,183
1966-67 -----	34,698,646	62,680,000	97,378,646
1967-68 -----	32,601,921	63,880,000	96,481,921
1968-69 -----	30,591,321	64,600,000	95,191,321
1969-70 -----	28,615,946	64,300,000	92,915,946
1970-71 -----	26,750,696	64,000,000	90,750,696
1971-72 -----	24,916,171	64,600,000	89,516,171

* Includes all bonds sold through Series BB. (Sold 9/13/1961)

As of the end of 1961 there was a total of \$160 million in authorized but unsold bonds from the \$400 million authorized in 1960. Bond sales for the veterans' program have been running \$200 million or more per year the last few years. It is possible that such a rate may be required during the next 10 years, but it is also alternatively possible that about \$100 million per year in bond sales on the average for the next 10 years will be sufficient to support the program.

This alternative projection that an average of about \$100 million in bonds per year, or approximately \$1 billion over the next 10 years, is based on data developed by the Department of Veterans' Affairs as the result of a study made for the department by Price Waterhouse and Company, November 1, 1961, entitled "A Program to Forecast Cash Flow From Veterans' Loans."

The anticipated reduction in bond requirements is mainly based on the assumption that additional funds to be used for new loans will be generated through prepayments of loans outstanding. This anticipation that loans will be paid before they are due is based on past experience, according to the department, and on what can be expected in the future with reference to the Price Waterhouse study which relates prepayment rates with the home availability index (index of surplus homes) as a forecasting tool.

The department estimates that total prepayments for 1961-62 will be \$55,725,000 and that for the 10-year period starting 1961-62 and ending 1970-71 the total will be \$798,420,000. If this estimate is borne out it is evident that prepayments will become an important factor in the future in this program and can possibly result in a significant reduction in bond requirements.

Taking these two hypothetical alternatives and projecting interest and redemption charges to 1971-72 under each in Table 11 shows total annual debt service charges to be over \$207 million at the \$200 million per year rate, and to be over \$148 million at the \$100 million per year rate for 1971-72.

State Building Construction Bonds

To date a total of \$400 million in bonds has been authorized for this program. This consisted of a \$200 million issue in 1955 and a like

Table 11
Estimated State Veterans Bond Service Charges from 1962-63 to 1971-72

Assumes \$100 Million or \$200 Million in New Bonds
on the Average to be Sold Annually From 1962-63 to 1971-72

<i>Fiscal year</i>	<i>Bonds presently authorized*</i>	<i>Assumes \$100 million in new bonds to be sold annually from 1962-63 to 1971-72</i>		<i>Assumes \$200 million in new bonds to be sold annually from 1962-63 to 1971-72</i>	
		<i>Projected new bonds</i>	<i>Total</i>	<i>Projected new bonds</i>	<i>Total</i>
1962-63 -----	\$101,393,171	\$1,958,500	\$103,351,671	\$3,917,000	\$105,310,171
1963-64 -----	100,547,883	5,875,500	106,423,383	11,751,000	112,298,883
1964-65 -----	99,789,908	12,912,500	112,702,408	25,825,000	125,614,908
1965-66 -----	99,659,183	19,789,500	119,448,683	39,579,000	139,238,183
1966-67 -----	97,378,646	26,506,500	123,885,146	53,013,000	150,391,646
1967-68 -----	96,481,921	33,063,500	129,545,421	66,127,000	162,608,921
1968-69 -----	95,191,321	39,460,500	134,651,821	78,921,000	174,112,321
1969-70 -----	92,915,946	46,087,500	139,003,446	92,175,000	185,090,946
1970-71 -----	90,750,696	52,561,500	143,312,196	105,123,000	195,873,696
1971-72 -----	89,516,171	58,909,500	148,425,671	117,819,000	207,335,171

* Includes all bonds sold through Series BB. (Sold 9/13/1961)

Proposed Bond Issues and Bonded Debt

State Building Construction Bonds—Continued

amount in 1958. First bond sales were made in December 1958, consisting of \$50 million. In 1959 and 1960 further sales of \$50 million and \$100 million were made. Sales increased to \$150 million in 1961 bringing the total amount sold to the end of 1961 to \$350 million. This leaves a total of \$50 million bonds authorized but unsold.

The program supports site acquisition and construction of state buildings including those for Higher Education, Corrections, Mental Hygiene and others. Interest and redemption charges for these bonds are a general obligation of the State and fully payable from the General Fund.

The governor's budget for 1962-63 shows estimated total expenditures from the State Construction Program Fund of \$110,653,630 for 1961-62 and \$141,151,191 for 1962-63. At these levels of expenditure new issues of these bonds will need to be authorized to finance the program during 1962-63 as only \$50 million will be left in bonds authorized but unsold at the end of 1961-62. A minimum estimate for proposed new bonds to be approved by the people during 1962 is \$200 million and the proposal may go as high as \$300 million.

Debt service charges to 1971-72 on those bonds outstanding as of the end of 1961 (through Series F) are shown in Table 12 which follows.

Table 12
Schedule of Annual Debt Requirements by Fiscal Years
for General Obligation Bonds

State Construction Program Bonds *

<i>Fiscal year</i>	<i>Interest</i>	<i>Redemption</i>	<i>Total</i>
1962-63	\$14,185,828	\$8,000,000	\$22,185,828
1963-64	12,418,600	11,200,000	23,618,600
1964-65	11,853,600	11,400,000	23,253,600
1965-66	11,289,850	12,000,000	23,289,850
1966-67	10,725,850	12,000,000	22,725,850
1967-68	10,183,850	12,200,000	22,383,850
1968-69	9,674,100	12,600,000	22,274,100
1969-70	9,180,100	12,800,000	21,980,100
1970-71	8,679,350	13,400,000	22,079,350
1971-72	8,160,850	13,400,000	21,560,850

* Includes all bonds sold through Series F. (Sold 10/18/1961)

It is noted in the preceding table that total debt service charges will remain fairly constant over the 10-year period with \$22,185,828 estimated for 1962-63 and \$21,560,850 for 1971-72.

Future annual rates of expenditure from these bond proceeds will vary to the extent that offsetting General Fund sources are available for financing the State Capital Outlay Program. Requests in this area are increasing so that the overall level of the program may be expected to trend upward. This may also increase annual bond requirements.

Table 13 shows projected total debt service charges to 1971-72 under the assumption that on the average \$100 million in new bonds will be issued annually. This seems to be a minimum estimate unless the State's financial picture should materially improve during these 10 years thereby allowing more General Fund financing.

Proposed Bond Issues and Bonded Debt

State Building Construction Bonds—Continued

Table 13
Estimated Annual Interest and Redemption Charges
for State Construction Program Bonds
 Assumes \$100 Million on the Average in New Bonds to Be Issued
 Annually from 1962-63 to 1971-72

<i>Fiscal year</i>	<i>Service ON currently authorized bonds</i>	<i>Service ON new issues</i>	<i>Total</i>
1962-63-----	\$22,185,828 *	\$958,500	\$23,144,328
1963-64-----	23,618,600	5,875,500	29,494,100
1964-65-----	23,253,600	12,912,500	36,166,100
1965-66-----	23,289,850	19,789,500	43,079,350
1966-67-----	22,725,850	26,506,500	49,232,350
1967-68-----	22,383,850	33,063,500	55,447,350
1968-69-----	22,274,100	39,460,500	61,734,600
1969-70-----	21,980,100	46,087,500	68,067,600
1970-71-----	22,079,350	52,561,500	74,640,850
1971-72-----	21,560,850	58,909,500	80,470,350

* Includes all bonds sold through Series F. (Sold 10/18/1961)

The preceding table indicates that total debt service charges will increase more than threefold from an estimated \$23 million for 1962-63 to over \$80 million by 1971-72. These charges are fully payable from the General Fund.

If the program is continued after 1971-72 on the basis assumed above, redemption and interest payments could overtake new bond proceeds within a few years after 1971-72. The State would thus be in the position at that time of expending as much or more for past debts as is obtained for new construction funds from bond proceeds.

PROJECTIONS AND IMPLICATIONS OF TOTAL STATE DEBT

Future Interest and Redemption Requirements on Current Debt

Table 14 contains a schedule of interest and redemption and total debt requirements for all general obligation bonds outstanding as of June 30, 1961. The relationship between interest and redemption requirements is also shown in Chart II which follows. It will be noted that all issues of existing outstanding bonds will be redeemed by 1991 with the highest interest requirements between the years 1962 and 1966, and the highest redemption requirements between the years 1968 and 1974. This schedule of debt requirements will, of course, be changed with each new issue of bonds to be sold, which will increase the amount of the requirements and extend the over-all period of redemption. With the issuance primarily of 25-year serial bonds, the relationship as shown in the chart will continue with much the same characteristics; however, this will be materially changed as water bonds are sold. These will have 50-year maturities and interest payments only may be made during the first 10 years.

These projections are based only on those bonds outstanding on June 30, 1961. Not included are the three issues of \$100 million each which were sold during the last half of 1961. The projections of school bonds, state construction bonds, and veterans' bonds shown in other sections of this report includes interest and redemption charges on the three issues cited above.

Proposed Bond Issues and Bonded Debt

Projections and Implications of Total State Debt—Continued

Table 14
Schedule of Debt Requirements by Fiscal Years
for General Obligation Bonds
June 30, 1961

<i>Fiscal year ending June 30</i>	<i>Interest</i>	<i>Principal</i>	<i>Total</i>
1962 -----	\$73,875,509.75	\$83,509,000.00	\$157,384,509.75
1963 -----	70,324,551.25	95,560,000.00	165,884,551.25
1964 -----	66,883,813.75	96,734,000.00	163,617,813.75
1965 -----	63,467,241.25	98,960,000.00	162,427,241.25
1966 -----	60,023,853.75	105,099,000.00	165,122,853.75
1967 -----	56,421,743.75	101,280,000.00	157,701,743.75
1968 -----	53,041,150.00	104,079,000.00	157,120,150.00
1969 -----	49,868,815.00	105,000,000.00	154,868,815.00
1970 -----	46,824,790.00	105,299,000.00	152,123,790.00
1971 -----	43,872,805.00	106,200,000.00	150,072,805.00
1972 -----	40,863,647.50	106,974,000.00	147,837,647.50
1973 -----	37,828,106.25	107,025,000.00	144,853,106.25
1974 -----	34,723,362.50	106,924,000.00	141,647,362.50
1975 -----	31,585,833.75	104,075,000.00	135,660,833.75
1976 -----	28,443,646.25	103,469,000.00	131,912,646.25
1977 -----	25,343,018.75	99,770,000.00	125,113,018.75
1978 -----	22,191,168.75	93,169,000.00	115,360,168.75
1979 -----	19,238,108.75	75,770,000.00	95,008,108.75
1980 -----	16,678,002.50	74,529,000.00	91,207,002.50
1981 -----	14,027,417.50	75,130,000.00	89,157,417.50
1982 -----	11,358,055.00	76,104,000.00	87,462,055.00
1983 -----	8,700,345.00	74,002,000.00	82,702,345.00
1984 -----	5,983,345.00	73,665,000.00	79,648,345.00
1985 -----	3,654,545.00	53,690,000.00	57,344,545.00
1986 -----	1,740,445.00	33,201,000.00	34,941,445.00
1987 -----	531,175.00	19,310,000.00	19,841,175.00
1988 -----	53,725.00	710,000.00	763,725.00
1989 -----	28,775.00	710,000.00	738,775.00
1990 -----	11,025.00	695,000.00	706,025.00
1991 -----	2,875.00	575,000.00	577,875.00
Totals -----	\$887,590,896.00	\$2,281,217,000.00	\$3,168,807,896.00

Source: Statement of Bonded Debt of the State of California, Treasurer of the State of California, June 30, 1961

Interest and Redemption Charges on Projected New Bonds

Bond requirements will probably vary greatly from year to year in the future as has been the case in the past. However, it is estimated that between \$500 million and \$600 million in new bond sales will be required per year on the average during the next 10 years to maintain the trend of requirements in presently authorized bonding programs. These include bonds for School Building Aid, State Construction program, Water program, Veterans, and Harbors.

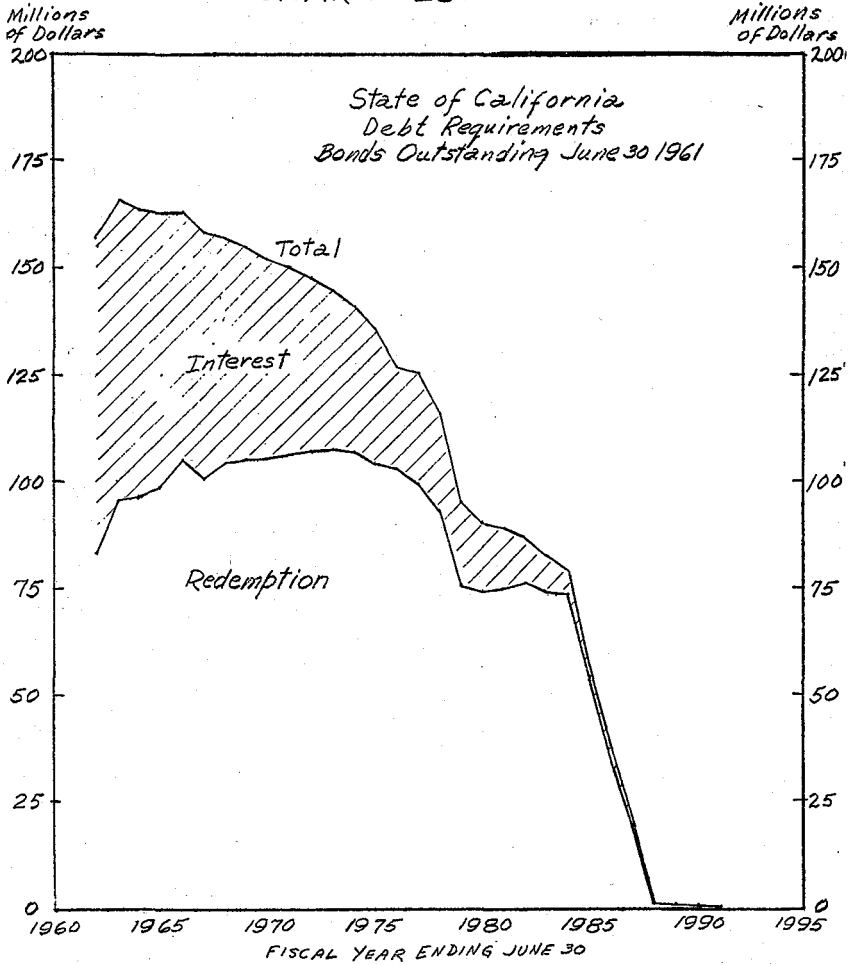
Table 15 and Chart III project total debt service charges to 1971-72 on the hypothetical assumption that new bond sales will average \$545 million per year. An average interest rate of about 3.75 percent is assumed on all new issues except water bonds for which a rate of four percent is projected. The example assumes \$425 annual total bond sales for all series other than water bonds. The projection rate for water bonds is \$120 million per year, which is considered minimal and could

Proposed Bond Issues and Bonded Debt

Projections and Implications of Total State Debt—Continued

be above \$150 million per year if construction is accelerated on Oroville Dam.

CHART II



Proposed Bond Issues and Bonded Debt

Projections and Implications of Total State Debt—Continued

Table 15

Estimated Annual Bond Interest and Redemption Charges 1962-63 to 1971-72
for all General Obligation Bonds Currently Outstanding
and Projected New Bond Issues *

<i>Fiscal year</i>	<i>Currently authorized bonds **</i>	<i>Projected new bonds *</i>	<i>Total</i>
1962-63	\$181,605,575	\$7,731,500	\$189,337,075
1963-64	184,161,610	29,343,500	213,505,110
1964-65	182,521,037	63,537,500	246,058,537
1965-66	185,166,650	97,748,500	282,915,150
1966-67	177,421,040	131,279,500	308,700,540
1967-68	176,360,446	164,130,500	340,490,946
1968-69	174,610,111	196,301,500	370,911,611
1969-70	171,363,086	229,342,500	400,705,586
1970-71	168,839,351	261,829,500	430,668,851
1971-72	166,391,293	293,770,500	460,161,793

* Based on projected average new bond sales of \$545 million per year.

** Includes \$300 million in bonds sold for schools, veterans and state construction in August, September and October 1961. These are not included in Table 14.

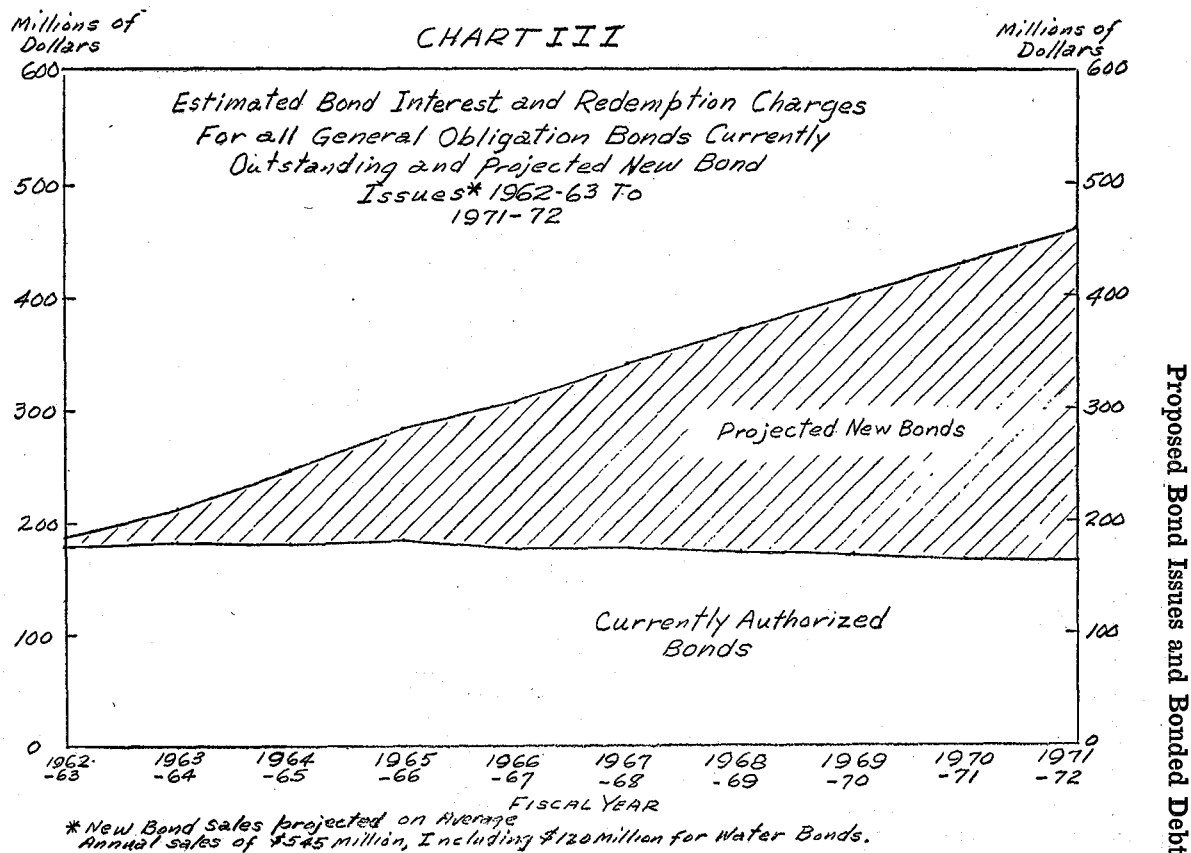
It is noted that total debt service charges would approximate \$460 million annually by 1971-72 should the programs progress as outlined. The major part is in areas in which the bonds are self-liquidating and thus are not anticipated to require General Fund financing for debt service. The General Fund portion of such total debt service is estimated for this 10-year period under the assumption that all state construction bonds, 58 percent of debt service for school building aid bonds, and miscellaneous other bonds issued between 1913 and 1930 also come under this classification.

Estimated Total General Fund Interest and Redemption Costs 1962-63 to 1971-72

1962-63	\$56,818,658
1963-64	67,637,000
1964-65	78,647,000
1965-66	88,818,000
1966-67	99,483,000
1967-68	110,711,000
1968-69	121,586,000
1969-70	132,422,000
1970-71	143,569,000
1971-72	153,746,000

Of course, the actual debt service charges on the General Fund during this period could vary widely from the schedule depending on, among other factors, which programs are given most impetus. The actual allocation between state and school district debt service for school building aid bonds in the years ahead is subject to a great many variables. The possibility also exists that General Fund moneys may be required to some extent to help finance debt service on self-liquidating bonds.

It is estimated that if the state bonding program proceeds approximately on the basis of average sales of around \$545 to \$550 million in new bonds per year for the next 10 years, the total general obligation debt outstanding of the State will approximate \$7 billion in 1971-72.



Proposed Bond Issues and Bonded Debt

Projections and Implications of Total State Debt—Continued

This estimate accounts for redemption payments on currently outstanding and on assumed new bonds to be issued during the period.

Proposed New Bond Programs

One authorization for a new bond program has been approved by the Legislature and will appear on the ballot in November 1962. This is for \$100 million to be used for loans for housing of the aged. Whether other new bond programs will be placed on the ballot this year is a matter of speculation at this time. Various other proposals have been made recently to provide bond financing for other purposes including state parks for which \$75 million to \$150 million may be requested.

It is very likely that new bond issues will be proposed for ongoing programs. This will be necessary if these are to be continued at present operating rates. Various sources have indicated that new issues will be proposed and estimates of amounts which appear most probable at this time are as follows:

	<i>Probable proposal (millions)</i>	<i>Unsold bonds 11/30/61 (millions)</i>
Veterans' farm and home.....	\$200-\$300	\$160
School building aid.....	200- 300	220
State construction program.....	At least \$200	50

Effect of Bond Marketings on the State's Credit Position

The ability of the State to market general obligation bonds is predicated upon the interplay of a great many variable factors. For example, better interest terms can be obtained on offerings in small amounts than on large offerings of \$100 million or more, other things being equal. It is generally easier to market larger quantities of state bonds at more favorable rates in recession years than in boom years. Offerings of bonds by local jurisdictions within the State affect the market for state bonds.

With projected offerings of state bonds for purposes already approved at the \$500 million to \$600 million per year level and with other bonds being proposed for new programs, the question of marketability of state bonds becomes an important consideration.

The State's experience in marketing bonds since 1950 is presented on a comparative basis in Table 16 which relates state interest cost for each issue of bonds sold with the bond buyers' 20-bond index of interest rates in effect at that time.

Table 16
Comparative Cost, Data on California Bonds Issued
Between 1950 and 1961

<i>Date sold</i>	<i>Purpose of issue</i>	<i>Principal amount (000)</i>	<i>State net interest cost</i>	<i>Bond buyer's 20-bond index</i>
2- 1-50	Veterans	\$25,000	1.699%	2.05%
5- 3-50	Schools	50,000	1.7413	2.03
9- 7-50	Veterans	50,000	1.6632	1.83
9- 7-50	Schools	50,000	1.8978	1.83
1950 Total		\$175,000		

Proposed Bond Issues and Bonded Debt

Projections and Implications of Total State Debt—Continued

Table 16—Continued
Comparative Cost, Data on California Bonds Issued
Between 1950 and 1961

<i>Date sold</i>	<i>Purpose of issue</i>	<i>Principal amount (000)</i>	<i>State net interest cost</i>	<i>Bond buyer's 20-bond index</i>
4- 4-51	Schools -----	\$50,000	1.8978	1.82
7-11-51	Veterans -----	25,000	1.8902	2.23
	1951 Total -----	\$75,000		
1- 9-52	Schools -----	\$25,000	1.8034	2.09
1- 9-52	Veterans -----	25,000	1.726	2.09
6- 4-52	Schools -----	50,000	1.869	2.06
10-20-52	Schools -----	25,000	2.0934	2.39
	1952 Total -----	\$125,000		
2- 3-53	Veterans -----	\$100,000	2.4159	2.13
6-24-53	Schools -----	25,000	3.0128	3.02
	1953 Total -----	\$125,000		
1-13-54	Veterans -----	\$50,000	1.9328	2.54
4-21-54	Schools -----	50,000	2.1941	2.49
	1954 Total -----	\$100,000		
1- 5-55	Veterans -----	\$60,000	2.0297	2.38
4-27-55	Schools -----	30,000	2.0519	2.40
11- 2-55	Schools -----	30,000	2.2122	2.50
11- 2-55	Veterans -----	30,000	2.137	2.50
	1955 Total -----	\$150,000		
2-29-56	Schools -----	\$30,000	2.338	2.42
6-13-56	Veterans -----	50,000	2.2955	2.53
10- 3-56	Veterans -----	35,000	2.795	2.90
	1956 Total -----	\$115,000		
1-16-57	Schools -----	\$35,000	3.3499	3.24
1-16-57	Veterans -----	50,000	3.3004	3.24
4-24-57	Schools -----	30,000	3.4592	3.16
4-24-57	Veterans -----	50,000	3.4258	3.16
7-24-57	Veterans -----	50,000	3.5791	3.38
10-23-57	Veterans -----	50,000	3.6501	3.41
10-23-57	Schools -----	35,000	3.6758	3.41
	1957 Total -----	\$300,000		
1-22-58	Veterans -----	\$100,000	3.0723	2.87
4-23-58	Schools -----	50,000	2.9592	2.96
4-23-58	Veterans -----	50,000	2.9616	2.96
7-23-58	Veterans -----	100,000	3.2276	3.10
12- 3-58	Schools -----	50,000	3.6135	3.30
12- 3-58	Construction -----	50,000	3.5786	3.30
	1958 Total -----	\$400,000		

Proposed Bond Issues and Bonded Debt

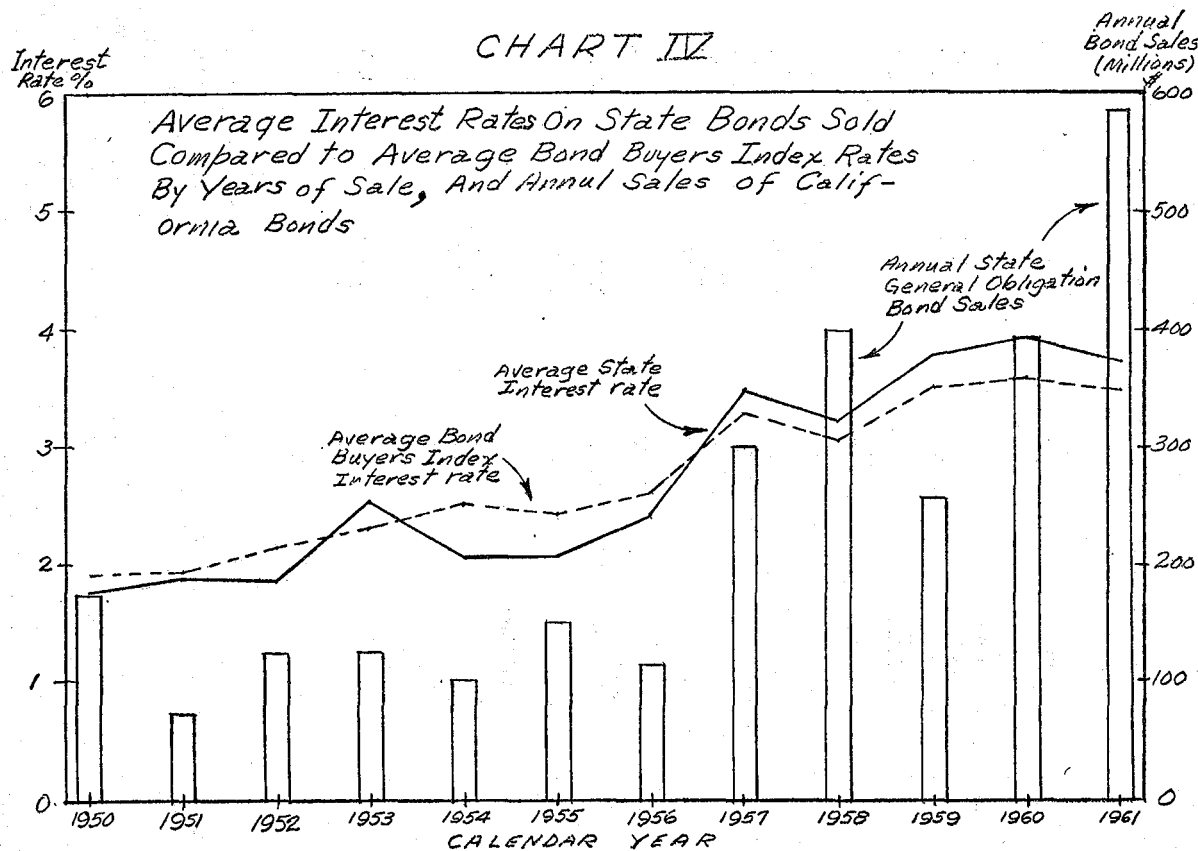
Projections and Implications of Total State Debt—Continued

Table 16—Continued
Comparative Cost, Data on California Bonds Issued
Between 1950 and 1961

<i>Date sold</i>	<i>Purpose of issue</i>	<i>Principal amount (000)</i>	<i>State net interest cost</i>	<i>Bond buyer's 20-bond index</i>
3-11-59	Veterans -----	\$50,000	3.5544	3.26
3-11-59	Construction -----	50,000	3.536	3.26
6-10-59	Veterans -----	100,000	3.9446	3.64
9-10-59	Schools -----	50,000	4.0089	3.72
10-21-59	San Francisco Harbor -----	7,500	3.5747	3.60
	1959 Total -----	\$257,500		
1-13-60	Veterans -----	\$50,000	4.0191	3.78
1-13-60	Construction -----	50,000	4.0182	3.78
3- 9-60	Veterans -----	50,000	3.9524	3.65
3- 9-60	Construction -----	50,000	3.9447	3.65
4-19-60	Schools -----	25,000	3.8355	3.55
6-28-60	Veterans -----	50,000	3.9534	3.52
6-28-60	Schools -----	25,000	3.926	3.52
7-18-60	Small Craft Harbors -----	3,000	3.5733	3.52
8-17-60	San Francisco Harbor -----	15,000	3.3091	3.27
9-28-60	Veterans -----	50,000	3.8157	3.46
9-28-60	Schools -----	25,000	3.791	3.46
	1960 Total -----	\$393,000		
1-11-61	Schools -----	\$95,000	3.6838	3.39
4- 5-61	Veterans -----	140,000	3.8723	3.51
4- 5-61	Construction -----	50,000	3.8474	3.51
6-14-61	Harbors -----	3,000	3.4134	3.52
8-16-61	Schools -----	100,000	3.7544	3.53
9-13-61	Veterans -----	100,000	3.7596	3.55
10-18-61	Construction -----	100,000	3.4610	3.45
	1961 Total -----	\$588,000		

Although the comparisons made in the preceding table are perhaps in some respects not fully equivalent, it appears evident that the State enjoyed generally more favorable terms on borrowings, as shown by lower interest rates, than the index before 1957, with the exception of 1953 when the first \$100 million issue was sold. Starting with 1957, however, the State's relationship has been adverse in that, on the average, a higher interest rate than the index rate has been paid. It is also noteworthy in this respect that bond sales were much heavier in 1957 and have continued at a higher rate compared to the earlier period. These relationships are illustrated in Chart IV which also shows total annual sales of California bonds for comparison of the effects of increased sales on the average interest rates for the State relative to the bond buyers' index.

The average state interest rate was about 0.3 percentage points higher than the average bond buyers' index rate for 1959 and 1960. In 1961 the average state rate was about 0.24 percentage points higher.



Proposed Bond Issues and Bonded Debt

Projections and Implications of Total State Debt—Continued

These rather small differences may convey the misleading impression that total state interest costs are thus only slightly above the index average. On a \$100 million bond issue, if the state rate is 0.25 percentage points higher than the index rate, the resultant increase in total interest costs over the life of that issue is between \$4 million and \$5 million. With future bond sales being contemplated in billions, over a period of time, the importance of this factor can be appreciated.

The ability of the bond market itself to absorb bonds in lots of \$100 million or more appears to be strained at times especially if sales are made at too frequent intervals. Additional data in this respect on the state bond market situation is contained in Table 17 which shows the average deviation by which the state interest rate differs from the bond buyers' index by type of bonds, size of issue and by year.

Table 17
Net Interest Rates for California State Bond Issues
In Relationship to Bond Buyers Index *

<i>By type of bond</i>	<i>Average interest differential</i>
Harbor Bonds	—0183
Veterans Bonds	.0399
School Bonds	.0399
Construction Bonds	.2390
<i>By size of issue (millions)</i>	
25 and under	—0486
50	.1084
95-140	.2246
<i>By year</i>	
1950	—1609
1951	—0614
1952	—2658
1953	.2273
1954	—4515
1955	—3399
1956	—1881
1957	.2013
1958	.1566
1959	.2844
1960	.3040
1961	.2384

* Expressed in terms of amount by which average net interest rate for state bond sales exceeds Bond Buyers Index rate on day of sale. Negative numbers indicate state sales at below Bond Buyers Index.

The preceding table shows harbor bonds as the type of bond having the most favorable relationship, being .0183 under the bond buyers' index rate. This is probably due largely to the fact that these bonds are sold in small amounts rather than due to the type of issue. This fact is given weight by the more favorable terms shown for bonds sold in amounts of \$25 million and under, which is .0483 under the index rate, while larger issues are above the index.

The fact that state construction bonds are above the index to a greater extent than any other type (being .2390 above the index) probably does not indicate a lower degree of marketability for these bonds, but rather the fact that this is a comparatively new program. Sales have been made only since 1958 during which period the general state

Proposed Bond Issues and Bonded Debt

Projections and Implications of Total State Debt—Continued

rate has been higher than the bond buyers' index and thus does not have the benefit of the weight of sales before 1957 when the state rate was more favorable. There does not generally appear to be any evidence that self-liquidating general obligation bonds get more favorable market recognition than those general obligation bonds which are not self-liquidating.

The level of sales from 1957 to 1961 should provide some indication of the amounts and terms on which the State can expect to market future bonds. By calendar year total state bond sales since 1957 have been as follows:

1957	-----	\$300 (million)
1958	-----	400
1959	-----	257.5
1960	-----	393
1961	-----	588

On the basis of these rates it appears that average yearly sales of between \$500 million and \$600 million during the next 10 years including water bonds would be the maximum amounts that could be sold without a noticeable increase in the State's interest cost relative to the bond buyers' index.

The study prepared by the firm of Dillon, Reed and Company relative to the financial aspects of the state water program, dated October 26, 1960, makes the following comments, generally relative to this subject:

"In order to promote the successful marketing of the Water Bonds, as well as the State's general obligation bond issues for other purposes, it is important that the State refrain from an expansion of the present level (taken at approximately \$400 million annually) of these bond issues for other purposes—at least during the next ten years, which is the period of the heaviest projected sales of water bonds." Page (33).

"California's borrowings, both State and local have been absorbing about one-eighth of the nation's flow of capital funds into State and local bonds in recent years. This is in excess of the ratio of California's population to that of the United States." Page (33).

"California's (bond) sales are currently exceeding any other state's sales of general obligation bonds, and the rate of increase of California's sales has also been exceptional, both dollar-wise and percentage-wise. In view of the large amounts of unsold bonds of the State which have been authorized (\$1,030 million), and the State's population growth and continuing needs, the continuation of a high level of borrowings by the State must be expected." Page (32).

A projected rate of \$500 million to \$600 million in bond sales per year on the average over the next ten years would appear to provide for the demands, at present levels of expenditure, of programs already in operation, and to support the state water program.

Proposed Bond Issues and Bonded Debt

Projections and Implications of Total State Debt—Continued

Total debt outstanding, debt per capita, and state taxes per capita for leading industrial states, based upon the latest available comparative statistics of the Department of Commerce are shown in the table which follows.

Table 18

	<i>Total debt outstanding (in millions)</i>	<i>Debt outstanding per capita</i>	<i>State taxes per capita</i>
California -----	\$2,087	\$132.84	\$135.16
Illinois -----	675	67.01	82.96
Indiana -----	408	87.62	85.66
Massachusetts -----	1,289	250.53	95.39
Michigan -----	775	99.16	116.82
New Jersey -----	914	150.81	60.20
New York -----	2,902	172.92	116.85
Ohio -----	910	93.84	89.91
Pennsylvania -----	1,446	127.81	91.25
Texas -----	324	33.90	82.76

SOURCE: United States Department of Commerce, Compendium of State Government Finances in 1960.

Proposed 1962 Bond Issues

The specific amounts of proposed new bond issues to be considered by the Legislature for presentation to the people in 1962 were not available at the time previous sections of this report were written, except for the \$100 million proposed for housing for the aged. In lieu of this information we indicated estimated amounts based on the most reliable information available as to needs. These additional data are now available showing the amounts which will be proposed as new bond authorizations in the Governor's 1962-63 Budget for the various categories as listed below:

<i>Program</i>	<i>Millions</i>
State Construction Program -----	\$270
Veterans Farm and Home -----	250
State School Building Aid -----	200
Beaches and Parks -----	100
Total for 1962 Session -----	\$820
Housing for the Aged—Enacted 1961 Session -----	100
Total Proposed to be Voted on in 1962 -----	\$920

The addition of this information does not change the assumptions as to projected bond service and other fiscal considerations indicated in previous sections which are based mainly on projected average yearly sales at present program levels with alternative adjustments made where it appears that program requirements may be materially changed in the future as in the case of the veterans program.

Table 19, which follows, recapitulates the total currently authorized state debt (as of November 30, 1961) and also shows the additional effect of the proposed \$920 million in new bonds on total authorized state debt should these bonds be approved by the people.

Proposed Bond Issues and Bonded Debt

Projections and Implications of Total State Debt—Continued

It is noted in Table 19 that currently authorized¹ state general obligation bond debt, as of November 30, 1961, was \$4,761,077,000, of which \$2,212,197,000 was unsold and \$2,548,880 was outstanding. If the proposed new issues are superimposed on the current debt structure as shown in the table, the total is \$5,681,077,000.

¹ The use of the term "current authorization" is for the purpose of excluding from total authorizations the amounts subsequently redeemed.

Table 19
General Obligation Bonds, State of California at November 30, 1961, and
New Bond Issues Proposed in the 1962-63 Governor's Budget

<i>Purpose</i>	<i>Total-Proposed Plus Currently Authorized</i>	<i>Proposed New Bonds</i>	<i>Total Currently Authorized</i>	<i>Unsold</i>	<i>Outstanding</i>
<i>Not Self-Liquidating</i>					
State and University Buildings-----	\$4,240,000	---	\$4,240,000	---	\$4,240,000
State Building Construction Program-----	662,000,000	\$270,000,000	392,000,000	\$50,000,000	342,000,000
California Tenth Olympiad-----	250,000	---	250,000	---	250,000
State Highway-----	4,375,000	---	4,375,000	---	4,375,000
State School Building Aid-----	1,233,100,000	200,000,000	1,033,100,000	220,000,000	813,100,000
Beaches and Parks-----	100,000,000	100,000,000	---	---	---
Total -----	\$2,003,965,000	\$570,000,000	\$1,433,965,000	\$270,000,000	\$1,163,965,000
<i>Self-Liquidating</i>					
California Water -----	\$1,750,000,000	---	\$1,750,000,000	\$1,750,000,000	---
San Francisco Harbor Development-----	64,602,000	---	64,602,000	28,197,000	\$36,405,000
Small Craft Harbors-----	10,000,000	---	10,000,000	4,000,000	6,000,000
Veterans Farm and Home-----	1,752,510,000	\$250,000,000	1,502,510,000	160,000,000	1,342,510,000
Housing for Aged-----	100,000,000	100,000,000	---	---	---
Total -----	\$3,677,112,000	\$350,000,000	\$3,327,112,000	\$1,942,197,000	\$1,384,915,000
GRAND TOTAL -----	\$5,681,077,000	\$920,000,000	\$4,761,077,000	\$2,212,197,000	\$2,548,880,000