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Funding Alternatives for a **Veterans' Bonus Program**

The legislature can choose whether or not to recognize the wartime service of Minnesota's military veterans. Historically, the legislature has recognized veterans' service in major wars (e.g., WWI, WWII, and the Korean and Vietnam Wars), but not in the smaller-scale military conflicts (e.g., the North Russia Expedition 1918-19; Nicaragua 1927-32; the Dominican Republic 1956-66; the Mayaguez-Cambodia Incident 1975; Lebanon 1982-84; and Panama 1989-90). If the current legislature chooses to recognize military service, it can choose whether that recognition will be financial or nonfinancial, or both. This information brief describes the possible funding alternatives for financial recognition. The Appendices summarize historical actions on Veterans' bonuses.

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Financial or Nonfinancial Recognition of Veterans' Wartime Service

Financial Recognition

Options for financial recognition include such possibilities as a bonus payment, a tax credit, and other programs offering financial benefits (e.g., a tuition-reduction program or a below-market-interest-rate home mortgage program).

Nonfinancial Recognition

This might include such possibilities as a special medal, special vehicle license plates, an honorary memorial resolution, or a certificate of appreciation.

Financing a Veterans' Bonus Program: Appropriation versus Bonding

If the legislature chooses to pay a monetary bonus to the veterans of a particular war, it has **two principal options for financing the bonus payment**—through an **appropriation** or through **bonding** (i.e., borrowing).

Appropriation

As with any other program the legislature creates, it can opt to fund a veterans' bonus program through a direct appropriation from the general fund. To date, this has not been done in Minnesota. However, the Korean War bonus program was funded by an appropriation from the veterans' compensation fund, which contained funds left over from the World War II bonus program (which itself was funded through the sale of state bonds).

Bonding

Raising funds by selling state bonds is a form of long-term borrowing. Past legislatures chose this method to finance veterans' bonus programs for veterans of World War I, World War II, and the Vietnam War. This type of financing spreads the cost of the program out over a period of up to 20 years so it cushions the effect on the state budget in any single budgetary period.

Bonding Authority via a Constitutional Amendment

Bonding is the principal means by which the state borrows money on a long-term basis. Article XI, section 4 of the Minnesota Constitution permits the state to contract public debt for which its full faith, credit and taxing powers may be pledged as authorized in law, but only for the purposes and subject to the conditions stated in section 5 of that same article.

Article XI, section 5, of the Minnesota Constitution specifies the permissible purposes for incurring public debt. These include acquisition of and capital improvements to public property and buildings; repelling invasion or suppressing insurrection; building and maintaining highways, airports and railroads; developing agricultural resources by providing land financing; developing and protecting forests; refinancing outstanding state bonds; issuing short-term certificates of indebtedness; and a few other purposes **including any other purpose authorized by the constitution.**

A veterans' bonus program, **if financed through bonding**, involves incurring public debt for the purpose of making payments to individuals. **This is not a purpose explicitly or implicitly authorized by the Minnesota Constitution, article XI, section 5. Thus, in order to authorize state bonding (long-term borrowing) for the purpose of funding a veterans' bonus program, a constitutional amendment is required.**

The Form of a Constitutional Amendment Bill

In recent years, a number of legislative bills have been introduced to amend the Minnesota Constitution to authorize state bonding for purposes of funding a bonus program for veterans who served during the Gulf War. **These bills typically propose to amend article XIII, section 8, of the Minnesota Constitution—which currently authorizes payment of adjusted compensation (i.e., a bonus) to Vietnam War era veterans—by extending this provision to include veterans who served during the Persian Gulf War.**

Any such proposed constitutional amendment, of course, is contingent upon approval by a majority of the voters participating in the next statewide general election (held in November of each even-numbered year). **Thus, such a bill also must pose, verbatim, the constitutional question that must be placed on the ballot.**

Ultimately, for bonuses to be paid, a bonus program (i.e., the "enabling" legislation) must also be enacted into law. However, since the details of such a program must be specified in law, rather than in the constitution itself, **it is optional whether to include the program details in the same bill proposing the constitutional amendment.** Doing so can be regarded as a form of disclosure to the voters since it provides them with detailed information about the bonuses that, barring subsequent amendment by the legislature, will be paid provided that the constitutional amendment is approved. However, for practical reasons, most of the veterans' bonus bills have posed only the constitutional amendment and have not included the bonus program details.¹

¹An example of a bill that contains both the constitutional question and the enabling legislation was H.F. 2196 (1990), which proposed to create a court of compensation appeals. The bill was not enacted.

The Timing of Bonus Payments

If a bonus program were to be funded through a direct appropriation from the general fund, payments of bonuses could begin shortly after the beginning of the following fiscal year, following some delay for rule development by the Minnesota Department of Veterans Affairs (MDVA).

If a bonus program were to be funded through bonding, on the other hand, a significantly greater delay would result from the need to submit the constitutional question to the voters, particularly since a statewide general election is held only in even-numbered years.

And if the legislation proposing the constitutional question did not contain language establishing the bonus program, a further delay would result from having to subsequently enact such enabling legislation. For example, if legislation proposing only the constitutional question were enacted in the 1996 session, the following scenario is possible.

Spring 1996	Legislature enacts legislation proposing constitutional question
November 1996	Voters ratify the constitutional question
Spring 1997	Legislature enacts the "enabling" legislation establishing the bonus program
July-September 1997	Department of Veterans Affairs (DVA) develops rules for the program
Fall 1997 or Spring 1988	Department of Finance sells the state bonds to finance the program
Fall 1997	DVA accepts applications
Spring 1998	Bonus payments to veterans start

Please note Appendices follow on next page.

Appendices: Minnesota Veterans' Bonuses

Appendix A: World War I

Constitutional Amendment - none was proposed

Critics during that era asserted that the undertaking of public debt to finance this program may have exceeded constitutional authority. As a consequence, subsequent legislatures have proposed constitutional amendments to authorize subsequent bonuses financed by borrowing (i.e., by issuing bonds or certificates of indebtedness); namely, those for veterans of World War II and the Vietnam War.

Program Enactment - 1919

Laws of Minnesota 1919, chapter 49, extra session

Financing - \$23 million total

\$20 million certificates of indebtedness, 12 year maturation; with statewide property tax levy authorized to retire the certificates (Laws 1919, chapter 49, extra session)

\$2 million appropriation (as a loan) from the general fund, with property tax levy to retire debt (Laws 1921, chapter 51)

\$1 million certificates of indebtedness, six and seven year maturations (Laws 1921, chapter 53)

Bonus Structure

Qualifying period of military service: April 6, 1917 to November 11, 1919

Requirements include Minnesota residency at time of induction, honorable discharge, and service in United States or Allied Armed Forces during WWI.

\$15 per month of qualifying service, less tuition received (under Laws 1919, chapter 338)
\$50 Minimum; no maximum (but effectively \$480 maximum: \$15 x 32 months)

If veteran is deceased, the veteran's bonus is paid to his widow if widow is still single. No other beneficiary arrangement is authorized.

No separate reference to POW/MIAs

Citations

Laws of Minnesota 1919, chapter 49, extra session (program establishment)
Laws of Minnesota 1921, chapter 51 (additional appropriation \$2 million)
Laws of Minnesota 1921, chapter 53 (additional bond authorization \$1 million)
Laws of Minnesota 1919, chapter 338 (tuition program, deducted from bonus)

Appendix B: World War II

Constitutional Amendment - Proposed 1947 (Laws 1947, chapter 642)

Shall the Constitution of the State of Minnesota be amended by adding thereto a new article authorizing the state at any time to pay an adjusted compensation to persons who have served in the armed forces of the United States during the period from and including September 16, 1940, through December 30, 1946, to levy taxes and appropriate monies for such purpose; to expend monies, contract (sic.) debts, issue and negotiate bonds or certificates of indebtedness or both, and to pledge the public credit if and whenever authorized and in such amounts and on such terms as may be fixed by the legislature, and repealing inconsistent provisions of the constitution?

Yes ___
No ___

Constitutional Amendment - Adopted 1948 general election

Results of the 1948 general election

664,703 Yes (53 percent of all voters)
420,518 No (33 percent of all voters)

1,257,804 Total voters

Program Enactment - 1949 (Laws 1949, chapter 642)

Financing - \$84 million

\$84 million bonds and/or certificates of indebtedness authorized.

To retire the program debt, the enabling legislation created a number of taxes including: 1) a five percent surtax applying to individual incomes, estates, and trusts, as well as to incomes of banks and corporations; 2) a flat annual tax of five dollars on all banks and corporations, as well as all persons required to file an income tax return; 3) a one percent additional mineral occupation and royalty tax; and 4) a ten percent surtax on intoxicating liquors and other alcoholic beverages. In addition, it authorized the levy of a statewide property tax sufficient to cover the amount of any deficit that might happen to develop in the bond retirement account. The enacting legislation authorized these taxes for the ten-year period 1949 through 1958.

Bonus Structure

Qualifying period of military service: Dec. 7, 1941 to Sept. 2, 1945

Excludes persons on continuous active duty for five years or more immediately prior to the war. Requirements include Minnesota residency prior to induction and honorable service. Must have at least 30 consecutive days of service.

Ten dollars per month of domestic duty (inside continental United States)
Fifteen dollars per month of foreign duty (in Alaska or outside continental United States)

\$270 maximum for domestic duty
\$400 maximum for foreign duty, or a combination of foreign and domestic duty

If veteran is deceased, bonus is paid to beneficiary (defined in detail).

\$400 to the beneficiary of any veteran who died during his/her period of service from service-connected causes, irrespective of length or place of service.

No separate reference to POW/MIAs

Sunset Provision (Laws 1951, chapter 650)

Specified that no application could be accepted after December 31, 1951. However, subsequent legislatures have continued to authorize payment for late applications.

Citations

Laws of Minnesota 1947, chapter 642 (constitutional amendment proposal)
Laws of Minnesota 1949, chapter 642 (program establishment)
Laws of Minnesota 1949, chapter 643 (constitutional amendment extending the authorized use of mineral occupation tax revenues for use in funding this program)
Laws of Minnesota 1951, chapter 650 (extended eligibility to certain veterans returning from Canada)

Appendix C: Korean War

Constitutional Amendment - none was proposed

This program used funds remaining in the veterans compensation fund from the bond sale used to finance the WWII bonus program; therefore, since no further public debt was being incurred, further constitutional authorization was believed to be unnecessary.

Program Enactment - 1957 (Laws 1957, chapter 942)

Financing - \$15 million

The enabling legislation for the Korean War bonus program amended the WWII program legislation principally by modifying the qualifying dates of service and the bonus structure. Thus, debt-service for the Korean War bonus program continued to be based on the special surtaxes, headtaxes, mineral occupation and royalty taxes, and backup statewide property tax enacted to retire the WWII program debt.

Bonus Structure

Qualifying service period: June 27, 1950 to July 27, 1953 (3 years, 1 month)

Excludes persons on continuous active duty for four years or more immediately prior to the war. Requirements include Minnesota residency prior to induction, honorable service, and at least 30 days continuous service.

If eligible for the Korean Service Medal:

- \$15 per month for foreign duty (in Alaska or outside continental United States)
- \$7.50 per month for domestic duty (\$270 maximum for this portion)
- \$400 maximum for all domestic and foreign duty combined
- No minimum

If not eligible for that medal:

- \$7.50 per month for all foreign and domestic duty
- \$200 maximum
- No minimum

No separate bonus amount for deceased veterans or those becoming POW/MIA

Citation

Laws of Minnesota 1957, chapter 942 (program establishment)

Appendix D: Vietnam War

Constitutional Amendment - Proposed 1971 (Laws 1971, chapter 959)

Shall the Minnesota Constitution be amended to permit the payment of bonuses to veterans serving during the period of the Vietnam conflict and the levying of taxes for that purpose?

Yes ___
No ___

Constitutional Amendment - Adopted, 1972 general election

Results of the 1972 general election

1,131,921 Yes (64 percent of all voters)
477,473 No (27 percent of all voters)

1,773,838 Total voters

Program Enactment - 1973 (Laws 1973, chapter 204)

Financing - \$60 million

\$60 million bonds authorized

Program legislation stated the intent to retire the bonds by direct annual appropriations from the state's general fund.

Bonus Structure

If veteran earned the Vietnam Service Medal or the Vietnam Expeditionary Medal:

Qualifying period of service: July 1, 1958 to July 27, 1973 (15 years)

\$300, plus \$15 per month of service during the qualifying period
\$600 maximum

If veteran did not earn either of these Vietnam medals:

Qualifying period of service: August 5, 1964 to January 27, 1973 (9 1/2 years)

\$15 per month of service during the qualifying period
\$100 minimum
\$300 maximum

If veteran was a POW or MIA:

\$1,000 in lieu of any other amount

If veteran died during the qualifying period from service-connected causes:

\$1,000 to the beneficiary

Citations

Laws of Minnesota 1971, chapter 959 (constitutional amendment proposal)

Laws of Minnesota 1973, chapter 204 (program establishment)