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Assembly California Legislature



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PATRICK JOHNSTON
 ASSEMBLYMAN, TWENTY-SIXTH DISTRICT
 REPRESENTING SAN JOAQUIN COUNTY

September 7, 1988

Dear Community Leader:

I am writing to ask for your support for Proposition 88 on the November 8, 1988 statewide ballot.

Proposition 88, which I sponsored, is a technical amendment to the State Constitution designed to help taxpayers get the most from their tax dollars. This constitutional amendment would benefit the public by ensuring that state and local governments can get the most competitive interest rates on deposits of public funds.

The California Constitution currently permits state and local government deposits in banks, savings and loans and credit unions. Proposition 88 would allow the Legislature to also permit public agency deposits in FDIC-insured industrial loan companies.

An estimated \$45 million in public funds were already deposited with industrial loan companies until recently when the State Banking Superintendent determined that a technical amendment is needed to permit state and local governments to make such deposits. A similar constitutional amendment (Proposition 45) to allow public deposits in credit unions was overwhelmingly approved by California voters in the June 1986 election by a 65.8 percent to 34.2 percent margin.

Here's why allowing deposits of public funds in industrial loan companies makes good sense:

- Greater interest income for state and local governments would result by ensuring the most competitive interest rates. Industrial loan companies typically offer slightly higher interest rates.

September 7, 1988

Page 2

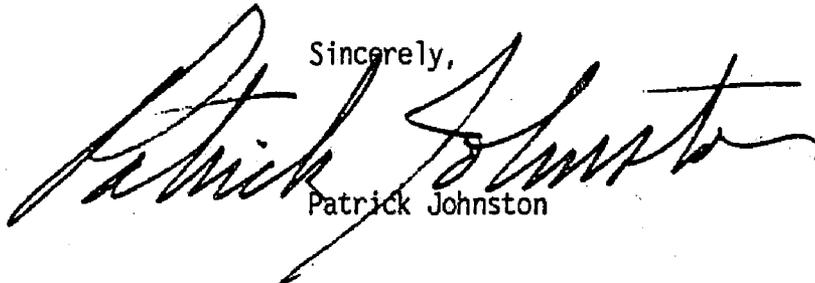
- Public deposits in federally-insured industrial loan companies would be as safe as those in banks since they would be subject to the same regulatory requirements as public deposits in other financial institutions.
- Industrial loan companies have a long history of more than 70 years of service to California savers, consumers and small businesses.

The State Assembly and Senate overwhelmingly approved placing this amendment on the ballot on votes of 70-1 and 37-0 respectively. Proposition 88 has also been endorsed by numerous state and local government leaders and organizations including the California Taxpayers Association; Los Angeles County Treasurer Sandra Tracey; U.S. Congressmen Howard Berman, Mervyn Dymally and Vic Fazio; and, many others. A non-partisan committee is now forming to work for passage of the amendment on the November 8, 1988 general election ballot.

We're hoping you will endorse this constitutional amendment and join together with other community leaders and organizations in supporting this campaign. I have enclosed a postage-paid reply card for your use -- please fill out this postcard and return it as soon as possible.

Your endorsement and help will be crucial in rallying support behind Proposition 88. Please feel free to call the campaign office at (916) 444-2671 if you have any questions or if we can be of any assistance. I await your reply.

Sincerely,

A handwritten signature in cursive script, appearing to read "Patrick Johnston".

Patrick Johnston

P.S. I have also enclosed for your information a fact sheet and a copy of the ballot argument in support of Proposition 88 signed by Assemblyman John Lewis (R-Orange), State Controller Gray Davis and myself (no argument was submitted in opposition).

BALLOT ARGUMENT FOR PROPOSITION 88

A yes vote on Proposition 88 will help us as taxpayers get the most for our tax dollars. Proposition 88 is common sense legislation that *benefits taxpayers throughout California by ensuring state and local governments can get the most competitive interest rates on deposits of public funds backed by the full faith and guarantee of the federal government.*

Proposition 88 will increase funds available for needed government services WITHOUT increasing taxes.

Public funds have been deposited for many years in federally-insured banks and savings and loan associations. In 1986, California overwhelmingly voted to allow public deposits in credit unions. Proposition 88 similarly allows deposits of public funds in industrial loan companies insured by the Federal Deposit Insurance Corporation (FDIC).

Just like individuals and businesses, state and local governments (including schools, water and park districts, as well as cities and counties) deposit funds in financial institutions to earn interest until needed. Proposition 88 is a non-partisan technical amendment that includes federally-insured industrial loan companies along with banks, savings and loans and credit unions on the list of authorized deposit institutions.

Here's why allowing deposits in federally-insured industrial loan companies makes sense:

- Proposition 88 provides more options to public finance officers responsible for reviewing and selecting financial institutions, which encourages competition for government deposits.
- More competitive interest rates will earn greater interest income on taxpayer dollars since industrial loan companies typically offer slightly higher interest rates.
- *Public deposits in industrial loan companies are as safe as those in banks -- they are FDIC-insured and subject to the same regulatory requirements as public deposits in other financial institutions.*
- Industrial loan companies have a long history of more than 69 years of service to California savers, consumers and small businesses.

We believe governments should maximize interest income on deposits of taxpayer dollars while preserving the safety of public funds. Industrial loan companies offer highly competitive interest rates on government deposits. **SO PROPOSITION 88 WILL SAVE TAXPAYER MONEY FOR NEEDED PUBLIC SERVICES BY EARNING MORE ON DEPOSITS.**

Federally-insured industrial loan institutions provide depositors the same protections offered by banks:

- Industrial loan companies are regulated by the State of California and the FDIC.
- More than \$3,000,000,000 is currently deposited in over 400 industrial loan company offices statewide.
- The State Banking Department regulates the deposit of public funds.

Proposition 88 was overwhelmingly approved by the State Legislature -- by votes of 37-0 in the Senate and 70-1 in the Assembly -- because it saves taxpayers dollars, encourages competition for deposits of public funds, and provides additional safe and secure deposit options to public finance officers.

Please join us in voting **YES ON Proposition 88.**

State Assemblyman Patrick Johnston (D) Twenty-Sixth District
Stockton, CA.

State Assemblyman John Lewis (R) Sixty-Seventh District
Orange, CA.

State Controller Gray Davis.

PROPOSITION 88
FACT SHEET

HOW WILL CALIFORNIA TAXPAYERS BENEFIT FROM PASSAGE OF PROPOSITION 88?

Approval of Proposition 88 will help Californians get the most for their tax dollars. Since industrial loan companies generally pay relatively higher rates, Proposition 88 would allow state and local governments to maximize interest income on taxpayer funds while fully insuring deposits.

Proposition 88 provides state and local finance officers with an additional competitive market for deposits by including federally-insured industrial loan companies as authorized depositories for public funds.

WHAT IS THIS CONSTITUTIONAL AMENDMENT ABOUT?

Proposition 88 is a non-partisan technical amendment to the California Constitution that allows the State Legislature to add federally-insured industrial loan companies to the list of authorized deposit institutions that currently includes banks, savings and loans, and credit unions. In 1986, California voters overwhelmingly approved a similar State constitutional amendment (Proposition 45) which allowed government agencies to deposit funds in credit unions.

Assemblymember Pat Johnston (D-Stockton) has authored legislation (AB 3752) that would amend California law to allow state and local public agencies -- ranging from park and school districts to cities and counties -- to deposit funds in industrial loan companies insured by the Federal Deposit Insurance Corporation (FDIC). This enabling legislation, which has already passed the State Assembly, can only go into effect with approval of Proposition 88.

WHAT ARE INDUSTRIAL LOAN COMPANIES?

Industrial loan companies (also known as thrift and loan companies) are state-chartered financial institutions which have provided an important source of business capital, consumer funds and safe, high-yielding saving opportunities since 1917. Currently there are 55 industrial loan companies with assets of \$3.0 billion operating more than 430 offices throughout California. More than 90 percent of all industrial loan accounts are currently insured by the Federal Deposit Insurance Corporation and by July 1990 all deposits will be FDIC-insured.

WILL IT BE SAFE TO DEPOSIT PUBLIC FUNDS WITH INDUSTRIAL LOAN COMPANIES?

Deposits in federally-insured industrial loan companies are backed by an agency of the federal government. Depositors are assured of the same protections offered at federally-insured banks and savings and loan associations.

WHO SUPPORTS THE AMENDMENT?

Proposition 88 enjoys widespread support among state and local government leaders and civic organizations including the California Taxpayers Association, State Controller Gray Davis, Los Angeles County Treasurer Sandra Tracey, U.S. Congressmen Howard Berman, Mervyn Dymally and Vic Fazio. The State Legislature overwhelmingly passed a resolution to place this constitutional amendment before California voters on the November 1988 general election ballot by votes of 71-1 in the Assembly and 37-0 in the Senate. Since this change in the law benefits taxpayers and treats all federally-insured financial institutions equally, it has not attracted organized opposition.