

Bond Case Briefs

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California Debt Foe Campaigns to Block Billion-Dollar Bond Deals.

Dino Cortopassi, who lives near Stockton, watched as the California city loaded up on debt for amenities like a waterfront ballpark, only to slash services after the community went bankrupt. So he's spending \$4 million in an effort to give the state's voters more power to curb bond sales.

The 78-year-old farmer turned businessman placed an initiative on the November ballot that would require voter approval for revenue bonds exceeding \$2 billion. That could set up roadblocks for billions of dollars of planned public projects, including California's high-speed railroad and the vast network of tunnels and water works that Governor Jerry Brown, a Democrat, wants to build across the drought-stricken state.

"This is an effort to halt California's rush into deeper and deeper debt," Cortopassi said. "It is to instill some discipline in a totally undisciplined feeding off the public trough."

The measure is part of a decades-long tradition of using the ballot box to exert influence over fiscal policy in the most populous U.S. state, sometimes with long-lasting consequences. Already, labor unions and the California Chamber of Commerce are lining up to defeat the initiative, which the state's nonpartisan Legislative Analyst's Office said would cast "substantial uncertainty" over the financing of infrastructure projects.

"You don't know what type of initiative can pop up and what the implications are fiscally for the state," said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees \$5.9 billion of investments. "A lot of them could ultimately result in limiting the flexibility of the legislature to deal with financial problems."

Cortopassi's campaign against profligacy comes as public finances are reviving in California, which was hit particularly hard by the real estate crash and recession. As the recovery provided California with a tax windfall, Brown has used the surplus to pay off debt and bolster savings.

In July, Standard & Poor's raised its bond grade to the highest in 14 years, marking the eighth upgrade from one of the three biggest credit-rating companies since 2010. California 10-year bonds yield about 2.34 percent, or 0.27 percentage point more than top-rated debt, down from a gap of as much as 1.7 percentage point six years ago.

Voter Approval

California voters already must approve general-obligation debt, which is backed by the government's full faith and credit. Revenue bonds are repaid through money generated by the projects being financed, such as tolls on roads or fees from water customers.

California and local agencies have sold \$310 billion of the securities since 2008, data compiled by Bloomberg show. Even so, the state has relied more heavily on general obligations: As of November, California had \$76 billion of general obligations outstanding, almost seven times what it owes for

revenue bonds.

Cortopassi, a son of Italian immigrants who started out on rented land before acquiring his own farm and stakes in local agricultural businesses, said the level of debt will take decades for future generations to repay. State and local governments are already contending with swelling liabilities to workers' pension funds, he said.

Last year, he bought full-page advertisements in California newspapers with "Liar, Liar, Pants on Fire!" emblazoned in capital letters across the top. Written as columns from Cortopassi, the ads detailed the state's debts and urged voters to reject every bond proposition. He followed that with a successful drive to put on the ballot his constitutional amendment, which would apply to debt sold by California and some local agencies.

Close to Home

One bond-funded project would run right through the Central Valley, the agricultural heart where Cortopassi made his fortune. Brown's effort to improve the state's water supply includes building two \$15 billion tunnels under the Sacramento-San Joaquin delta. Cortopassi said he opposes the project because of its environmental impact and has raised funds for a group that's against it.

The Central Valley will also carry a major leg of California's high-speed railroad. Voters have already approved the sale of \$10 billion of bonds for the \$68 billion project, which would run from San Francisco to Los Angeles. Private investors, who will be needed to help pay for the rail line, have said they won't sign on unless taxpayers pitch in even more.

The consequences of Cortopassi's initiative, if approved, could have a broad reach. A review by the Legislative Analyst's Office said it may wind up reducing funding for large-scale projects, though the effects will hinge on how it's interpreted by courts and governments. Such constitutional changes can have lasting repercussions: Proposition 13, a property-tax limit that was passed in 1978, made local governments more dependent on sales taxes.

"It's making it harder to finance these kinds of infrastructure needs, which I think everyone acknowledges are pretty critical for the state," said Stephen Walsh, a director with Fitch Ratings in San Francisco.

It may also leave California projects dependent on more expensive forms of financing, according to the Citizens to Protect California Infrastructure, a coalition of business groups and labor unions organized to sway voters against it. It would impose "costly delays in repairing our roads, colleges and water systems and make it harder to respond to natural disasters," said Gareth Lacy, a spokesman for Brown.

Cortopassi is unmoved by such arguments. He said those who benefit from bond-funded projects don't want residents to have a say.

"This is the people's chance to choose their own destiny," he said.

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