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Gov. Brown Opposes Voters' Say on Big Bonds.

SACRAMENTO (CN) — As voters await the presidential election, California Gov. Jerry Brown is focused on a statewide proposition he spent millions of dollars to suppress. If approved, Proposition 53 could stop work on two multibillion-dollar public works plans that Brown considers his legacy projects.

Coined the “Stop Blank Checks” initiative, Proposition 53 would sap decision-making power from legislators and state officials and require voter approval for megaprojects that seek \$2 billion or more in revenue bonds.

Decades of borrowing, often with voter approval, have swelled California’s state debt to more than \$330 billion. And the Golden State is pouring billions more into its largest-ever public works projects: a high-speed bullet train and a \$16 billion Delta tunnels water project.

Fiscal conservatives, including the Howard Jarvis Taxpayers Association, have united behind Proposition 53. The proposal would reroute control over multibillion-dollar bond decisions from bureaucrats to the taxpayers who foot the bill, said David Wolfe, legislative director at the Howard Jarvis Taxpayers Association.

“Unelected bureaucrats can basically approve these [bonds] willy-nilly without transparency for really big projects that frankly might not generate any revenue,” Wolfe said.

Critics of the constitutional amendment, including Brown and a host of public safety groups and local governments, call Proposition 53 “terribly written” and “dangerous,” due to its potential to stall infrastructure projects and the state’s response to natural disasters.

“Prop. 53 irresponsibly fails to contain an exemption for natural disasters or major emergencies. That flaw could delay our state’s ability to rebuild critical infrastructure following earthquakes, wildfires, floods or other natural or man-made disasters,” the California Professional Firefighters warned in a statement.

The measure landed on the statewide ballot thanks to the deep pockets of California farmer and former Brown supporter Dean Cortopassi. He spent more than \$4.5 million promoting and collecting signatures to place the measure on the November ballot. Cortopassi failed to qualify a similar measure for the 2014 election.

Proposition 53 calls for a state constitutional amendment requiring statewide voter approval of any government project financed with more than \$2 billion in state revenue bonds. If the state wants to issue major revenue bonds, it would need to poll voters in a special or general election.

At issue are revenue bonds which are typically repaid by money generated from the completed public project for which they were issued. Bridge tolls, increased water rates and airport fees are examples of fees used to repay revenue bonds.

Usual buyers of state-issued revenue bonds include municipal bond mutual funds, investment banks

and hedge funds. Revenue bonds can be attractive to investors because they carry a higher interest rate than state-issued general obligation bonds.

While general obligation bonds require voter approval because they are repaid with General Fund revenue, California officials can issue revenue bonds without asking voters.

Officials can also dig up revenue for projects through a less commonly used method known as lease revenue bonds. Lease revenue bonds generate funding for projects not expected to bring in revenue, such as state buildings or prisons.

Proposition 53 critics say the state's revenue bond policy doesn't need a tune-up because there is no risk in bureaucrats issuing bonds that are bought by private parties.

Supporters say the state's credit rating could drop if it doesn't repay the large bonds. Requiring state officials to justify issuing major bonds is a common-sense proposal, particularly with the small amount of mega projects, Wolfe said.

"I can only think of three projects over the last 15 years that would have or will be impacted by this. It's not like there is going to be 30 different projects on the ballot every two years for people to approve," Wolfe said.

States such as Arkansas, Missouri, Louisiana and Oregon require voter approval on some or all types of revenue bonds, as do Santa Clara and San Diego counties, according to the Yes campaign.

Robert Wassmer, state and local public finance professor at California State University, Sacramento, said taxpayers can be better off when governments issue revenue bonds, not general obligation bonds.

"Revenue bonds are actually safer for citizens and the government because the only thing that is backing them is the project itself," Wassmer said.

He said the state would be highly unlikely to default on revenue bonds because it would jeopardize future projects by damaging its reputation and credit rating with borrowers.

Proponents say the measure won't affect local government projects or borrowing, and that allowing voters from different regions to have a say on projects hundreds of miles away is not a real risk.

The Yes campaign cites several examples of voters approving projects in faraway regions, including improvements to San Francisco Harbor and special projects on University of California campuses.

Brown and his deep war chest adamantly oppose Proposition 53.

According to the California Secretary of State's website, Brown's campaign has donated more than \$4 million to fight the proposition and opponents have outraised supporters by nearly a 3-1 margin. In recent weeks, supporters have ponied up more than \$7 million against Proposition 53, including donations from Brown, Hustler Magazine founder Larry Flynt and the Kaiser Foundation.

The No campaign says allowing voters in faraway regions to assert control over local projects creates an unpredictable scenario. They rebut the proposition's language that local projects are exempted, noting that cities forming joint power authorities with the state are included in Proposition 53.

Loren Kaye with the California Chamber of Commerce used the proposed Sites Reservoir in rural

Colusa and Glenn counties as an example of a project that could be delayed by uninterested voters in Southern California if the measure passes.

"People in L.A., San Diego and the Bay Area would be able to vote on the project. It really flies in the face of local control," Kaye said.

The No campaign says the measure is really about stalling the California WaterFix, better known as the Delta tunnels project.

In its official ballot argument, the opposition paints Proposition 53 as a measure "financed entirely by one multimillionaire and his family, who are spending millions in an attempt to disrupt a single water infrastructure project."

Cortopassi, Proposition 53 author, once sat on the board of Restore the Delta, an anti-tunnels coalition. He has also sued the state for allegedly mismanaging the Sacramento Delta and supported Brown's attorney general campaign in 2006.

The project calls for twin 40-foot-wide, 35-mile long tunnels to reroute water from the Sacramento-San Joaquin River Delta into southbound aqueducts. The water would eventually reach Central Valley farmers and Southern California residents in a theoretically more efficient manner than the state's current water project.

Critics also take issue with Proposition 53's potential impact on the Golden State's ability to respond to natural disasters and other emergencies. It does not include an exemption for emergencies, so the state may need to wait for voter approval to repair damaged water systems or freeways under Proposition 53. And as California hosts the most active and longest earthquake faults in the nation, opponents say, that's a risky proposition.

Kaye cited California's 2000 energy crisis, when the state was forced to buy mass amounts of electricity with billions in revenue bonds. Proposition 53 could restrict the state's ability to handle another emergency by restricting revenue bond use, Kaye said.

"The fact is, we don't know what sort of emergencies might befall the state and that's why they are emergencies. It's irresponsible to not have a safety valve for emergencies," Kaye said.

The fiscal conservatives say that in the event of a major earthquake or other disaster, California would still be able to seek immediate federal relief funding if the measure passes.

The state's nonpartisan legislative analyst says most state projects won't come close to the \$2 billion price requirement, but because the measure does not clearly define what a "project" is, it would be up to the courts to decide what is considered a single project.

"A broader definition could result in more projects meeting the \$2 billion requirement, thus requiring voter approval," the analyst's report states.

Wassmer said the proposition is an opportunity for Californians to be more involved in the state's planning of mega projects.

"People are going to get rich off the tunnels and the high speed rail," Wassmer said. "The idea is to bring voters in and let them weigh in on them."

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By NICK CAHILL

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