

Dan Walters: Farmer's measure hits bonds

By Dan Walters
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Dean Cortopassi, a wealthy San Joaquin County farmer, is rattling California's political establishment by spending millions on a 2016 ballot measure.

Dubbed the "No Blank Checks Initiative," the constitutional amendment would require a public vote whenever the state borrows more than \$2 billion for a public works project via "revenue bonds."

Typically such bonds are serviced via streams of non-tax revenue, such as charges for water or sewer services, unlike "general obligation" bonds, which are backed by taxes.

While GO bonds require voter approval, revenue bonds do not, and critics say Cortopassi's proposal could cripple much-needed infrastructure work.

His chief target is the twin tunnels project that Gov. Jerry Brown and major water interests propose to divert Sacramento River water beneath the Sacramento-San Joaquin Delta to the California Aqueduct.

He assumes that the tunnels would be financed via bonds secured by payments from large water districts that depend on the aqueduct. But the measure could affect other major public works projects.

Theoretically, there are good reasons why GO bonds need voter approval, while revenue bonds don't. But the once-clear separation between the two has been blurred by politicians who don't want to risk rejection by voters.

Most notably, after voters rejected a bond issue to build more prisons in the 1980s, the Legislature and successive governors plowed ahead anyway by creating a phony revenue bond financing system.

They created a special agency to issue revenue bonds, build the prisons and then "lease" them to the state prisons department. Thus, the "revenue" to repay the bonds came straight out of the state general fund, just as it would have done with general obligation bonds. In fact, the financial community treats them like general obligation bonds.

Had the state not used this subterfuge, and continued to ask voters for approval, it's doubtful whether the massive prison construction program, and its attendant multibillion-dollar costs, would have occurred. And the state would not now be trying to reduce prison overcrowding under pressure from federal judges.

The same blurring has occurred at the local level as officials sought ways around the voter approval requirements of GO bonds.

Recently, a state appellate court approved a rather sneaky deal involving the city of San Diego and the Public Facilities Financing Authority, which the city created and controls.

They forged a "joint powers" agreement under which the city leases property to the authority, which then leases it back, with new city facilities, to the city – financed by \$130 million in bonds issued without voter approval.

The deal is a clone of the prison subterfuge and clearly aimed at avoiding voters, but the court ruled that while questionable, it's legal. And local school districts also have been using similar "lease-leaseback" schemes to bypass voters.

As long as these smarmy voter-avoidance schemes exist, perhaps subjecting big revenue bond issues to voter approval isn't such a bad idea. And if the twin tunnels are the big benefit that Brown and others claim, they shouldn't

fear facing voters either.

Brown, however, may spend some of his multimillion-dollar campaign fund to oppose the Cortopassi measure.