



# A POCKET GUIDE TO PROPOSITIONS ON CALIFORNIA'S NOVEMBER 2006 BALLOT

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## Reason Foundation

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## Executive Summary

There are a number of important propositions on the November ballot in California. Here are simple summaries of what those propositions do and what Reason recommends voters think about when making their decision on how to vote.

For more information on this issue and others on California's November Ballot, go to [reason.org/californiaballot/](http://reason.org/californiaballot/)

# Table of Contents

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Proposition 1A.....	1
Transportation Funding Protection .....	1
Proposition 1B.....	2
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006.....	2
Proposition 1C.....	3
Housing and Emergency Shelter Trust Fund Act of 2006.....	3
Proposition 1D .....	5
Kindergarten-University Public Education Facilities Bond Act of 2006 .....	5
Proposition 1E .....	6
Disaster Preparedness and Flood Prevention Bond Act of 2006.....	6
Proposition 84.....	7
Water Quality, Safety and Supply. Flood Control. Natural Resource Protection. Park Improvements. Bonds. Initiative Statute .....	7
Proposition 86.....	8
Tax on Cigarettes. Initiative Constitutional Amendment and Statute. ....	8
Proposition 87 .....	9
Alternative Energy. Research, Production, Incentives. Tax on California Oil Producers. Initiative Constitutional Amendment and Statute. ....	9
Proposition 88.....	11
Education Funding. Real Property Parcel Tax. Initiative Constitutional Amendment and Statute.....	11
Proposition 89.....	12
Political Campaigns. Public Financing. Corporate Tax Increase. Campaign Contribution and Expenditure Limits. Initiative Statute.....	12
Proposition 90.....	13
Government Acquisition, Regulation of Private Property. Initiative Constitutional Amendment. ....	13

## Proposition 1A

# Transportation Funding Protection



**SUMMARY:** In 2002, voters approved Proposition 42 to mandate that special excise taxes collected on gasoline and diesel fuel be directed to transportation funding. The measure allowed the state to suspend those funding restrictions in cases of fiscal difficulty. Prop. 42 did not mandate repayment or define fiscal difficulties. Proposition 1A would:

- Prohibit the state sales tax on motor vehicle fuels from being used for any purpose other than transportation improvements.
- Authorize Prop. 42 loans only in the case of severe fiscal hardship.
- Require Prop. 42 loans to be fully repaid within the three years.
- Restrict loans to no more than twice in any 10-year period or if any previous loans remain outstanding.



**KEY ISSUE FOR VOTERS:** Proposition 1A does not solve California's transportation crisis, but will more effectively ensure that transportation fuel taxes be devoted to improving transportation and prevent the legislature from easily diverting these funds. In doing so, Proposition 1A would make more difficult the diversion of more than \$2 billion each year in transportation funds.

## Proposition 1B

# Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006



**SUMMARY:** Proposition 1B would authorize more than \$19.9 billion in general obligation debt, with an annual debt service of \$1.3 billion and a total cost to taxpayers of approximately \$38.9 billion. The funds would be spent as follows:

- \$4.5 billion to congestion relief and highway capacity projects
- \$2 billion to highways, local roads and public transit systems
- \$2 billion to local roads
- \$1 billion to State Route 99 through the Central Valley
- \$1.75 billion to local transportation projects and state highways
- \$4 billion to capital projects for local transit systems and intercity rail systems
- \$2 billion to goods movement via ports, highways and rail
- \$1.2 billion to reduce air emissions and replace/retrofit old school buses
- \$1.1 billion to security and disaster response on transit systems and in publicly owned ports and harbors
- \$325 million to railroad crossings and retrofit local bridges and overpasses



**KEY ISSUE FOR VOTERS:** While that is an impressive looking list and it would seem that \$19.9 billion could make a substantial improvement to the state's transportation system, only a limited portion of this money will be used to invest in new infrastructure, and an even smaller portion for new roads and highways. Most funds may go to ongoing maintenance and rehabilitation and to other non-infrastructure uses such as retrofitting buses or improving security on local transit systems. Since most of the money would be apportioned by the legislature, we should expect plenty of it to go to local pork barrel projects. Moreover, this proposal neglects to leverage any private dollars, which are increasingly available through public-private partnerships, such as new toll roads or tunnels, and which do not obligate taxpayers with decades of general obligation debt.

## Proposition 1C

# Housing and Emergency Shelter Trust Fund Act of 2006



**SUMMARY:** In 2002, voters approved Proposition 46 which provided \$2.1 billion to fund state housing programs. More than \$350 million of these funds currently remain unused. Proposition 1C would authorize another \$2.85 billion in general obligation debt with an annual debt service of \$204 million and a total cost to taxpayers of about \$6.1 billion for the following purposes:

- \$1.35 billion to fund housing projects predominantly in urban areas and near public transportation systems. Funds could be used for a myriad of purposes, including parks, water systems, transportation, and housing.
- \$625 million to fund taxpayer-subsidized loans and grants to encourage homeownership of low- and moderate-income homebuyers.
- \$590 million to fund taxpayer-subsidized loans for high-density multi-family housing that reserve a portion of the units for low-income housing, with priority given to projects located in urban cores and near existing public services.
- \$185 million in taxpayer-subsidized grants and loans to fund homeless shelters and housing for farm workers, and to those that develop, own, lend, or invest in affordable housing.
- \$100 million will be deposited into the newly created Affordable Housing Innovation Fund to pay for grants and loans for pilot projects pursuant to criteria to be established by the legislature by a two-thirds vote of each House.



**KEY ISSUE FOR VOTERS:** Taxpayers should not be asked to repay another \$6.1 billion on programs that fail to address the root cause of California's housing affordability crisis: the severe, ongoing shortage of new housing, which is largely due to state and local land-use regulations that make it difficult for new housing to be approved and built. The small number of housing units that could possibly be built under Proposition 1C would be dwarfed by the current shortage (estimated between 600,000 to 1 million housing units), as well as the future housing demand created by the state's growing population. Equally troubling is how little of this bond money would go to true infrastructure projects while most of the funds listed

above go into ongoing state programs. Borrowing money to pay for ongoing expenses is fiscally irresponsible, especially when approximately \$350 million in voter-authorized bond funding for affordable housing programs remains available from past bonds. The programs that the bond will fund may be changed by the legislature at any time, so there is no guarantee the money will be spent as described above; some funds will be diverted to pork barrel projects.



## Proposition 1D

# Kindergarten-University Public Education Facilities Bond Act of 2006



**SUMMARY:** Proposition 1D would authorize \$7.3 billion in general obligation debt for primary education (K-12) and \$3.1 billion for higher education facilities.

Together, this debt package would have annual debt service costs of \$680 million per year and a total cost to taxpayers of \$20.3 billion. These monies would be available to fund construction for modernization projects, new construction, and vocational education facilities, among other uses.

Over the past ten years, state voters have authorized \$28.1 billion in general obligation debt for K-12 school facilities. Approximately \$3 billion of these funds remain unused at this time. Additionally, local school district voters have authorized an additional \$41 billion in local bonds to fund school construction. School construction is also supported by developer fees paid when new homes are built.



**KEY ISSUE FOR VOTERS:** With so many available sources of traditional revenue, including several billion in unused state borrowing capacity, should voters authorize an additional bond that will wind up costing \$20.3 billion? It takes many

years to build a school in California. The complex regulatory process coupled with mismanagement at the district level and other factors such as prevailing wage rules significantly increase the cost of building a school. The current bond measure makes no attempt to reform the cumbersome and heavily regulated school construction system. It fails to prioritize resources to those districts experiencing enrollment growth, and may favor wealthier districts that can more easily match funds. It also fails to place the primary responsibility for school construction funding at the local level which would offer school districts the financial incentive to better manage their school facilities programs. Rather than asking all voters in the state to fund local school projects, policymakers should explore other approaches, such as innovative public-private partnerships for school facilities, expanded use of charter schools and alternative education, as well as giving greater flexibility to local school districts in how they fund school construction.

## Proposition 1E

# Disaster Preparedness and Flood Prevention Bond Act of 2006



**SUMMARY:** Proposition 1E authorizes \$4.1 billion in new general obligation debt with annual debt service payments of \$266 million and a total cost to taxpayers of \$8 billion. These monies would be used for California’s aging system of levees, overflow weirs, and channels. Approximately \$3 billion of this total would be dedicated to the state Central Valley Flood Control System. A major use of this funding would be the system of levees in the Sacramento-San Joaquin Delta region. The delta levee system is essential in supplying water to the State Water Project and thus irrigation and drinking water to people around the state, but flood control remains largely a local priority. Of monies from the bond measure, 73 percent or more of the fund is for as-yet unidentified projects in the Sacramento-San Joaquin Delta, and 93 percent of the fund is available to projects without any requirement for federal and/or local matching funds.



**KEY ISSUE FOR VOTERS:** While there is a clear state interest in preserving the water supply which flows through the Delta, general obligation debt is a poor and indirect method of funding these improvements. There is no guarantee that the funds will be used to address priority flood control and levee projects that increase the state’s long-term water infrastructure and financial security. In fact, the opposite is likely as the system does a poor job of prioritizing needs and pork barrel projects vie for a share of the funds. Policymakers should adopt appropriate user-fees, both within drinking water rates and upon land-users that are protected by flood-control facilities. Adopting this “user pays” system would not only fund needed infrastructure improvements but would also encourage sensible land use in and around flood plains. Asking taxpayers to shoulder this obligation encourages inappropriate land use within flood plains, worsening the potential impact of future flooding.

## Proposition 84

# Water Quality, Safety and Supply. Flood Control. Natural Resource Protection. Park Improvements. Bonds. Initiative Statute



**SUMMARY:** Since 1996, California voters have authorized \$11 billion in general obligation bonds for water and resource-related purposes. Approximately \$1.4 billion of this funding remains available. Proposition 84 would authorize another \$5.4 billion in general obligation debt with annual debt service costs of \$350 million and a total cost to taxpayers of \$10.5 billion over the life of the bond. While the title of the measure suggests that water quality, safety and supply (as in drinking water) are the primary aims of the bond, this is quite misleading. The funds from the bond would go to a range of purposes, including:

- \$1.5 billion for water quality projects (mostly through grants to local agencies)
- \$928 million for projects to protect of rivers, lakes, and streams
- \$800 million in additional funding beyond Proposition 1E for flood control projects
- \$580 million to fund “sustainable communities” and “climate change reduction”
- \$65 million for planning and feasibility studies concerning water supply and flood control



**KEY ISSUES:** Why should California taxpayers take on another \$10.5 billion in costs to fund more of the same system that hasn't fixed our water and resource issues in the past? In recent years we have approved \$11 billion in bonds for these purposes and little went to actual infrastructure. Instead, it is mostly comprised of funding for unrelated purposes, such as land conservancy purchases, protection of water quality for non-potable uses, funding for parks and nature education facilities like museums and aquariums, and programs for “sustainable communities” and “climate change reduction.” Moreover, by relying on taxpayer-funded general obligation debt for non-infrastructure projects, this borrowing encourages irresponsible budgeting where lawmakers fail to budget for priorities in each year, instead relying on future generations to pay for their commitments through debt.

## Proposition 86

# Tax on Cigarettes. Initiative Constitutional Amendment and Statute.



**SUMMARY:** Proposition 86 would increase taxes on each pack of cigarettes by \$2.60—a 300 percent increase over the current excise tax rate of 87 cents per pack—amounting to an approximate tax increase of \$2.1 billion annually. While the measure purports to aim at reducing the number of smokers in California and, consequently, fund programs to help people stop smoking, it actually mandates spending on a broad range of health services—many of which have no relationship to smoking. Included in the programs that would be funded are nursing education in the University of California and hospitals. The Legislative Analyst warns of significant uncertainty in predicting how much revenue will actually come in from the new tax due to the uncertainty of consumer response, the emergence of smuggling and out-of-state Internet purchases, and how suppliers will price their products should the tax increase take effect.



**KEY ISSUE FOR VOTERS:** For non-smokers, raising cigarette taxes seems fairly straightforward. Nonetheless, the consequences of this measure are manifold. First, taxes on this product will disproportionately affect lower-income families—many of whom will not stop smoking because of the higher cost. Secondly, such a dramatic increase in the price of cigarettes will be a strong incentive for smuggling and other black market activities. Finally, the very philosophy behind this measure should be of concern to voters. Proposition 86 uses the state's taxing authority to achieve social ends—in this case, stopping smoking. But only 10 percent of the revenue will go toward anti-smoking programs. The purpose of taxing authority should be limited to raising the necessary funds to operate government, not social engineering.

## Proposition 87

# Alternative Energy. Research, Production, Incentives. Tax on California Oil Producers. Initiative Constitutional Amendment and Statute.



**SUMMARY:** Proposition 87 would create a new tax on the production of oil in California to fund \$4 billion in alternative energy programs over a ten-year period.

The measure contains a complex and imprecise tax-rate structuring with increasing tax rates as the price of oil increases. Consequently, there is no way of knowing how long this tax will be in place to fund the \$4 billion program.



**KEY ISSUE FOR VOTERS:** This measure would have the ironic impact of increasing California's dependence on foreign oil. California already has among the highest taxes on oil in the nation. Raising state taxes on oil production to the highest in the nation will cause many marginal wells to become too expensive to operate and be shut down, forcing us to import more oil. Though the initiative forbids oil producers from passing the costs of the tax on to consumers, the independent Legislative Analyst's Office points out that there is no way to enforce the ban.

Oil production in California is a significant source of income to the state, both in the form of salaries paid to its employees, and taxes/royalties paid to the state. Increasing the regulatory and tax burdens on the industry will discourage expansion and new investment in the industry, resulting in a loss of jobs and state and local and school district revenues. The measure also authorizes the state to issue bonds to fund the alternative energy program, adding to our prodigious state debt and costing nearly \$8 billion at the end of the day. The tax will continue until that debt is paid off.

While the goals of alternative energy are admirable, attempting to promote it through \$8 billion in new taxes that go to create a new bureaucracy to give out grants that are not even required to

produce actual alternative energies would be far less effective than encouraging the already substantial private investment in alternative energy research.

Proponents claim that the proposition would prevent the tax from being passed on to consumers, but the laws of economics cannot be repealed, and this kind of tax will decrease production and increase prices for consumers.

## Proposition 88

# Education Funding. Real Property Parcel Tax. Initiative Constitutional Amendment and Statute.



**SUMMARY:** Proposition 88 would create a statewide parcel tax on all real property in California with limited exemptions for elderly and disabled homeowners. This measure is expected to increase taxes by approximately \$485 million annually, and is intended to fund K-12 education. Fund uses are specified as follows: class size reduction, textbooks, school safety, Academic Success facility grants, and data systems to evaluate educational program effectiveness. It would circumvent the protections offered by Proposition 13, which requires a super-majority vote to raise taxes, and instead require only a simple majority vote to raise taxes.



**KEY ISSUE FOR VOTERS:** This initiative would roll back Proposition 13 and set a bad precedent for state-level property taxes. In California in 2006-2007 schools will receive an increase of \$5.1 billion above the 2005-2006 Budget Act—the single largest year-to-year increase in education funding in California’s history. Total funding for California’s K-12 education system rises to \$67.1 billion, for total per pupil funding from all sources of \$11,264. In light of this massive increase in education funding in California, proponents of Proposition 88 want to increase K-12 education funding by another \$500 million a year. This represents less than 1 percent of K-12 education funding on top of the massive bond funding for school facilities in Proposition 1D. Yet, this initiative would create another burdensome administrative requirement for local school districts despite being their smallest funding stream.

Why roll back Proposition 13? California has not had a statewide property tax since 1910. Instead parcel taxes in California have historically been local in nature and require a two-thirds vote to pass. Proposition 88 would circumvent the protections offered by Proposition 13, which requires a super-majority vote to raise taxes, and instead require only a simple majority vote to raise taxes. Moreover, these funds would be allocated by the legislature, with no guarantee that monies generated in a given community will be returned to support education in that community. In all likelihood, several areas of the state would become “net-donors” to other, more politically powerful regions of the state.

## Proposition 89

# Political Campaigns. Public Financing. Corporate Tax Increase. Campaign Contribution and Expenditure Limits. Initiative Statute.



**SUMMARY:** Proposition 89 would institute a \$200 million tax on corporations in California to publicly finance political campaigns for 132 state elected officials. Candidates could choose to utilize either a publicly financed campaign or a privately funded campaign with much lower contribution limits than currently exist. For instance, under current law, a candidate for State Assembly can receive \$3,300 in the primary election and \$3,300 in the general election from an individual donor. Under the new guidelines of Proposition 89, a candidate with a privately funded campaign could only receive \$500 per election per donor.



**KEY ISSUE FOR VOTERS:** Most people choose not to give to political campaigns, but Proposition 89 takes that freedom away, giving tax money to candidates no matter how much you disagree with them. People with vile and racist or hateful campaign platforms could run for office, run TV and radio ads, and otherwise spew their hate on the taxpayer's dime. While voters are increasingly frustrated both by negative campaigning and the perception that special interests dominate the process it is unlikely that this measure would have any impact on either concern. Proposition 89 would not limit independent expenditures, where much of the negative campaigning and special interest money is going anyway. Instead, it would discourage people from contributing to candidates of their choice while benefiting organizations like labor unions, which have the capacity for extensive "ground game" activities like precinct walking. Proposition 89 would have the likely effect of encouraging independently wealthy candidates to run and "self-fund," thus making it more difficult for other, less wealthy candidates to compete—even with public financing of their political campaigns. And the icing on the cake is that raising corporate taxes for yet another program that does nothing to benefit the people paying the tax will simply drive more jobs out of California.



## Proposition 90

# Government Acquisition, Regulation of Private Property. Initiative Constitutional Amendment.



**SUMMARY:** In 2005, the U.S. Supreme Court issued a highly controversial decision that permitted local governments to use the power of eminent domain to acquire private property from an unwilling property owner and utilize it for other private economic-development projects. Many viewed this ruling as a direct threat to private property rights and found relief only in the portion of the Supreme Court ruling that authorized states to regulate this practice. Proposition 90 is one such attempt to preserve property rights in California through two specific actions:

- Proposition 90 would place strict limits on a government agency’s ability to use eminent domain to acquire private property for other private uses, to acquire private property in an area of multiple properties without first concluding that each individual property was blighted, or to acquire private property for the purposes of increasing tax revenues generated by a property. Proposition 90 would also increase the amount of compensation property owners receive in cases of eminent domain—from the current level of fair market value to a higher level that essentially amounts to “replacement value.”
- Proposition 90 would also require compensation to property owners for losses of property value that are the result of new regulatory burdens—such as changing the development potential of a property.



**KEY ISSUE FOR VOTERS:** The sanctity of private property rights is fundamental to both the U.S. and State Constitutions. The arbitrary taking of property—even in cases where proponents assert there is a public benefit—stands in stark contrast to this legacy. In the absence of protections from this form of taking, residential property owners, businesses, and nonprofit organizations like churches have few protections from losing their property to well-connected individuals and businesses. Proposition 90 offers those protections, as well as ensuring that the burden of new regulations does not result in uncompensated losses for property owners.



## CALIFORNIA GENERAL ELECTION



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