

Pete Rates the Propositions

Sensible opinions on the California ballot propositions

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by Pete Stahl

My Semi-biennial Lecture on Bonds

When California wants to finance a large project, it asks the voters for permission to take out a loan. Props 152 and 153 are just such requests. If the voters approve, the legislature may take out loans for the projects by selling general obligation bonds, which are paid back with interest over 20 or 30 years. The bond payments come out of the state's main budget, the General Fund. So when we vote on the bonds, we are really voting on whether the project in question ought to be added to the state's budget.

"Wait a minute!" I hear you cry. "What about those interest payments? Won't we end up paying more for interest than for the bonds themselves?" This used to be the case, but in the current financial climate each dollar of bond money will cost only fifteen cents in interest, accounting for inflation. (See page 16 of your ballot pamphlet for details.)

"Okay," you admit, "but loans are still more expensive than pay-as-you-go." Sure they are. But loans are essential to buy a house, or a car, or anything else that you need immediately but can't pay for yet. It's worth paying the premium of interest to get the funding now.

"Well and good," you continue, "but there are almost *three billion dollars* in bonds on this ballot. Isn't that too much to borrow?" For you, yes, but the State of California can handle it. State Treasurer Kathleen Brown says bond payments should total no more than five percent of the General Fund. Current bond payments are 3.2% of the General Fund. The bonds on this ballot will raise it to 4.6%, still within reasonable limits. Yes, California's credit rating was recently lowered from AAA to AA, but that has more to do with legislative gridlock in Sacramento than our bond debt.

"But what about the impending state budget crisis? Assemblymember Vasconcellos says we've got a *nine billion dollar* budget gap. Won't 152 and 153 just make things worse?" Yes, but not enough to make a difference. Props 152 and 153 represent less than 1.5% of the budget. Don't try to balance the whole budget with this vote. You can't do it.

Props 152 and 153 will fund only real estate acquisitions and improvements. It's sensible to make extended payments for land and buildings which will be used far into the future. Remember, too, that California's population continues to skyrocket at the rate of half a million people a year. Borrowing makes particular sense if you know your income will go up in the future. As the state grows and the economy recovers, the General Fund will certainly grow too.

There one last reason to vote for a bond measure. In addition to being formal requests for permission to take out "loans", bond measures are also looked upon as referenda on the merits of the proposed projects. If a bond measure fails, legislators are likely to believe that the public feels the project is not worthy of receiving any state funding. You may have meant, "yes on the project but no on the bonds," but your message to Sacramento will read, "no on the project." So if you vote down a bond measure just because you don't like bonds, you may well have killed forever the project the bonds were to have funded.

Proposition 152: \$1.9 Billion for School Construction — YES

Prop 152 will provide \$1.9 billion for construction and modernization of elementary, junior high and high schools. At least \$1.3 billion of this will be used to build new schools. Before the famous Prop 13 of 1978, most school districts funded their own construction. But local districts can no longer afford this, so the state has taken over. Since 1982, voters have approved about five billion dollars in school construction bonds. Nevertheless, *seven billion dollars* worth of applications for school construction and reconstruction are pending. California gains 200,000 new students each year. We need 152 to give them places to learn.

Proposition 153: \$900 Million for College & University Construction — YES

Prop 153 will provide \$900 million to the University of California, California State University, community colleges and the Maritime Academy for the purchase and improvement of land, buildings and laboratories. Back before 1984 state tideland oil revenues provided about \$125 million a year for college construction. But foreign oil prices have been so low that this revenue has all but disappeared. In November 1990 we voters defeated the \$450 million Prop 143. Since then, course offerings have been reduced and tuition has risen dramatically as the colleges are forced to use their operating budgets for buildings and improvements. Passage of 153 will help reverse this alarming trend and restore our public colleges to the distinguished stature they deserve.

Proposition 154: Property Tax Postponement for Low Income Homeowners — NO

The famous Prop 13 of 1978 says that a property's *assessed value* can go up only 2% a year as long as it isn't remodeled or sold. When the property is sold, it is reassessed at the sale price, which is usually much higher. So when you buy a house, the property tax you pay will probably be considerably more than what the previous owner paid.

Since Prop 13 passed, we voters have approved about a zillion little exemptions to let special people avoid being reassessed when they move or remodel: disaster victims, people who inherit their property, people over 55 who move into cheaper homes, people who fire-proof their property, people who live in historic buildings, and so on. Prop 154 extends reassessment exemptions to low-income people who buy the homes or mobile home parks they currently rent.

Prop 154 isn't really an exemption, though. The property is actually reassessed, but the increased taxes are paid by the State until the property is sold again, at which time the homeowner reimburses the State with interest and an administrative fee. So Prop 154 amounts to a *loan* from the State to low-income home buyers to cover higher property taxes.

What effect will Prop 154 have? Will it suddenly enable thousands of low-income renters to realize the elusive dream of home ownership? Get real. For that to happen, thousands of landlords must suddenly decide to sell their rental property. And their low-income tenants must want to buy those units. And the tenants must magically acquire thousands of dollars for down payments (but still qualify as "low-income"). And lending institutions must liberalize their lending criteria, which currently exclude low-income people. Riiiiight.

Even if Prop 154 did enable low-income renters to buy their units, it wouldn't deserve your support, because it would take those units off the rental market. With our homelessness problem, the last thing we need is less affordable rental housing.

Prop 154, as it turns out, is intended not to help renters convert their tenements to condominiums, but to help mobile home owners band together to buy their mobile home parks. That's the one part of 154 that will have any effect. Who benefits? People who *already own their homes!* True, they don't own the land, but mobile home owners are already on their way up the ownership ladder. If we're going to give out special breaks, let's give them to those who aren't even on the ladder yet.

There's one last reason to vote down 154. Under Prop 13, the amount of property tax you pay is often determined more by how long you've owned your property than how much it's worth. This is ludicrous. Imagine paying your income tax based on how long you've had your current job instead of how much you earn. Every time we grant an exception to this lunacy, as Prop 154 proposes, we eliminate the objections of yet another class of taxpayers upset with its obvious unfairness, and thus postpone the day when California *repeals* Proposition 13. By defeating Prop 154 we can hasten the demise of this fundamentally flawed law.

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2418 Alvin Street
Mountain View, CA 94043