



2012 STATE ELECTION INITIATIVES
NOVEMBER, 2012

In addition to the election of national, state and local officials, voters had a number of ballot measures to consider last Tuesday, November 6th that could have various impacts in the public finance market. Despite the media attention that individual races received, the outcomes of state and local proposals may have an equal or greater effect on municipal finance over the next few years. Below we have compiled a number of the major initiatives and commented on the credit implications of each result.

STATE INITIATIVES & TAXES

- **California:** Proposition 30 passed with 53% voter approval. This will lead to seven years of increased income taxes for top earners in the state and the sales tax will increase by 0.25% to 7.50% for the next four years. Also, the backup trigger cuts to education spending will not take effect due to the passage of Prop 30. The competing proposition 38 failed by 73% of the votes. ***We view the passage of Prop 30 as positive for both state and local education districts. The additional revenues from the income tax and sales tax increases would improve the prospect of balanced operations. In addition, local school districts and public colleges and universities would not face mid-year cuts in state funding.***
- **California:** Proposition 31 failed with only 40% of the vote. The proposition would have instituted a two-year state budget cycle and allowed the Governor to cut the budget unilaterally during a declared fiscal emergency. ***We view failure of this measure as credit neutral for the state. Passage of the measure would have given the Governor a significant amount of spending control and reduced the possibility of political gridlock, both positive developments.***
- **California:** It appears that Democrats have obtained a two-thirds, supermajority control of both the state Assembly and Senate for the first time in more than 100 years. That is power enough to allow Democrats to pass most legislation, including tax increases, without the help of Republicans. ***We view this as a credit positive for the state. Supermajority control of both houses should relieve political gridlock and allow for a smoother process to increase revenues and reduce expenditures if necessary.***
- **Florida:** An amendment to limit state revenue growth to the rate of inflation or population growth failed. The amendment would have required “excess” funds to be deposited into a reserve fund and at certain thresholds, would require tax relief. This initiative would have replaced current revenue limits and would have negatively affected the state’s revenue raising flexibility. ***We view failure of this amendment as a credit positive for the state.***
- **Michigan:** Voters repealed Public Act 4, the financial emergency law approved by Republican legislators in 2011. An emergency manager law passed in 1990 (Public Act 72) will now go back into effect. Public Act 72 provides emergency managers with less power to reduce spending and change employment contracts. ***The repeal of Public Act 4 is a credit negative for local governments in Michigan, especially those distressed credits currently under state oversight, such as Detroit. The existence of Public Act 72, although weaker, provides some oversight in contrast to other “hands-off” states.***
- **Michigan:** Voters also voted down a proposal that would have required a two-thirds legislative supermajority or popular vote to approve increases in state taxes. ***We view the failure of this measure as a credit positive for the state, as passage would have limited the state’s revenue raising ability.***



- **Illinois:** Voters did not approve a measure that would have required a three-fifths approval by the General Assembly, City Council, or school district governing body to increase pension benefits of their employees. This amendment required three-fifths approval of those voting on the question or a majority of those voting in the election in order for the amendment to become effective. ***We view the failure of this measure as a credit negative for the state and those local governments in Illinois that administer their own pension programs. The passage of this measure would have placed better controls over the possibility of future exorbitant employee benefits.***
- **Washington:** In the past 20 years, voters have approved a two-thirds legislative supermajority requirement for new taxes five times, including this election. Legislators have repealed the last four voter approvals. ***Based on the past, we would expect the legislature to repeal this measure as well. If the measure is not repealed we would view it as a credit negative for the state, significantly limiting revenue raising flexibility.***
- **Arizona:** Voters rejected a measure that would have made a temporary one-cent sales tax increase permanent to fund education, highway projects and social programs. The tax increase, approved in 2010, will expire in mid-2013. ***We view failure of this measure as a credit negative. The state will either need to replace the lost revenue or make spending cuts.***

BONDING APPROVALS

The total par amount of ballot measures in 2012 was \$35 billion, a 47% drop from the 2008 elections. We view the significant drop in par as reluctance by officials to commit to additional borrowings given uncertain revenue projections. Local and state issuers in California contributed significantly to the decline, proposing \$14.4 billion of bonds in 2012, or 68% less than 2008. Below are some of the larger bond measures approved this year.

- **Arkansas:** Voters approved a half-cent sales tax, the revenues of which will go to statewide highway projects financed with \$1.3 billion of bonding
- **San Diego Unified School District** = \$2.8b
- **Houston Independent School District** = \$1.9b
- **Houston Community College District** = \$425mm
- **Miami-Dade County Schools** = \$1.2b
- **Chaffey Joint Union High School District (CA)** = \$848mm
- **New Jersey Higher Education** = \$750mm
- **San Bernardino Unified School District** = \$250mm. Interesting approval given the city's current status in bankruptcy protection. The Unified School District is a distinctly separate legal entity from the city.