

Big money behind California ballot propositions

By Normitsu Onishi, New York Times

SAN FRANCISCO – Next month, California voters will be asked to consider 11 ballot propositions whose passage would carry the full force of law, an exercise in direct democracy that traces back to the Progressive Era of the early 20th century.

Tom Steyer, the founder of Farallon Capital Management, a hedge fund, has spent \$22 million on Proposition 39 to rescind a three-year-old tax benefit given to out-of-state companies.

This time around, though, four of them are initiatives of single rich individuals, while others are being challenged by equally wealthy critics pouring in millions of dollars to defeat them – a sign, in this era of “super PACs” and Citizens United, of the increasingly sophisticated use of the populist tool by the wealthy to influence politics in the nation’s most populous state.

Tom Steyer, the founder of Farallon Capital Management, a hedge fund based here, has spent \$22 million on Proposition 39 to rescind a three-year-old tax benefit given to out-of-state companies. In an interview, Mr. Steyer said he decided to finance the initiative after leaders in the Democratic-controlled Legislature failed to eliminate the break themselves.

“I’m someone who believes that actually the best thing we can have is a highly respected and competent Legislature,” Steyer said. “But it seemed as if there was a need for somebody to do something, and I have a bad enough temper that I figured I wasn’t going to wait any longer.”

Joining Steyer on their own deep-pocketed crusades are George

Joseph, a billionaire insurance executive hoping to change the state's auto insurance laws; Chris Kelly, a former Facebook executive who has spent \$2.1 million on a proposal to crack down on human traffickers that critics say is intended to burnish his own future political prospects; and Molly Munger, the wealthy daughter of Warren E. Buffett's partner at Berkshire Hathaway, who has mounted a tax initiative aimed at derailing Gov. Jerry Brown's tax initiative.

To be sure, rich individuals have sponsored ballot initiatives to advance pet projects in the past. But now they are doing so in greater numbers and using their resources to build coalitions with like-minded groups to increase the success rate of their initiatives and actually help set government policy, experts said.

"Their level of giving is something we haven't seen before," said Kim Alexander, president of the California Voter Foundation, a private organization that has long tracked the money behind ballot initiatives. "We've seen companies giving that much, and unions and PACs that have a lot at stake giving \$10, \$20 million in an election, but you didn't see that so much for individual donors. So that's something that is bringing us to a new level this cycle."

Supporters say the ballot initiatives will help break the partisan gridlock in Sacramento. Critics say that the increasing involvement of rich individuals perverts the original intent of the initiatives, established by reformers like California's Gov. Hiram W. Johnson to empower the electorate and curtail the influence of the Gilded Age's special interests.

"Hiram Johnson would probably be turning over in his grave, since he gave us the initiative process to fight the railroad barons," said Jamie Court, president of Consumer Watchdog. "There has been no ballot in modern history with this type of concentration of millionaire and billionaire wealth behind it."

If this was a reality TV show, we'd call it the billionaire ballot."

Consumer Watchdog has spent \$72,500 to fight the initiative to change auto insurance laws, Proposition 33, which is being bankrolled almost single-handedly by Joseph, the insurance executive. He has funneled \$16 million into the initiative, which would lower rates for drivers with continued coverage. Opponents argue that the measure, which could raise rates for drivers who have not maintained coverage, would hurt the poor.

Steyer's opponents argue that repealing the out-of-state tax break would make California less competitive in attracting businesses from other states. But they appeared to have given up the fight against Proposition 39, having spent a total of just \$56,000.

"What was it they say in 'The Untouchables'?" Steyer said, explaining that he did not regret his lopsided spending. "Don't take a knife to a gunfight."

The popularity of ballot initiatives has kept growing since the passing of the landmark Proposition 13 in 1978, which capped property tax rates and cut \$5 million in taxes. But the cost of placing an initiative on the ballot and waging a campaign has grown exponentially, so nearly no initiatives have been driven purely by volunteers in recent decades, said Mark Baldassare, president of the Public Policy Institute of California.

An industry of political consultants and signature-gathering companies supports a thriving business in which just placing an initiative on the ballot can cost \$3 million.

For the rich, even though voters endorse only a third of ballot initiatives, the process provides a more direct, high-profile way of exercising political influence than running for office or backing a candidate. The potential impact can also go beyond California's borders because of its history as a

bellwether.

“You’re not sure of winning, but if you do, it’s a huge win,” said Thad Kousser, a political scientist at University of California, San Diego. “You can spend \$15 million of your own money and change a fundamental law in one of the world’s biggest economies.”

Arnold Schwarzenegger became governor in part after establishing his political credentials by spending \$1 million to sponsor an education initiative in 2002. The initiative has since become an attractive option for those with political aspirations.

Kelly, a former chief privacy officer at Facebook who ran unsuccessfully for attorney general of California in 2010, has spent his millions on Proposition 35, which would establish longer sentences for human traffickers. Some, including advocates for human trafficking victims, have opposed the initiative as well intentioned but poorly formed. But none have raised money to challenge it.

Others have questioned the motive behind the initiative, which experts say is the kind that could pass the Legislature.

“It could be something that makes Chris Kelly say: ‘Hey, I brought you this initiative. It was backed by 80 percent of the people, and this is going to help launch my career,’” Kousser said.

Even before Californians vote yes or no, the self-financed initiatives are having an outsize impact on government.

With more than three weeks left before Election Day, Ms. Munger, the daughter of Charles Munger and a civil rights lawyer, has already spent \$31 million on her tax-raising initiative, Proposition 38, which could derail Governor Brown’s own tax-increase plan, Proposition 30. Her brother, Charles Jr., a physicist, has funneled \$22 million into

efforts against the governor's measure and in support of yet another initiative to outlaw political donations by labor unions.

Nathan Ballard, a spokesman for Proposition 38, which would redirect the extra tax revenues toward education, waved away criticism that rich individuals like Munger have an undue influence through the ballot initiatives. He said that the political establishment behind the governor's plan was also attacking Munger, whom a leader of the campaign against Proposition 38 compared to Marie Antoinette.

"This is a classic battle between an idealistic outsider and the Praetorian Guard of the status quo," Ballard said.