



**Proposition 10
November 2008 Ballot**

The California Taxpayers' Association Board of Directors opposes Proposition 10, and urges a "no" vote on the initiative.

Title: The California Renewable Energy and Clean Alternative Fuel Act

Sponsors: T. Boone Pickens, Allison Hart, Mitzi Dudley, Thomas Daly

Legislative History: None.

Major Provisions:

- **Findings and Declarations.** Makes various findings and declarations regarding the need to reduce petroleum dependency and the need for an alternative energy strategy that focuses on renewable electricity generation, clean alternative fuels for transportation, and energy efficiency and conservation.
- **Intent.** States intent to invest \$5 billion in projects and programs to enhance energy independence and reduce dependence on foreign oil.
- **Oversight.** Requires each state agency designated to expend money under the Act to adopt milestones for measuring success and complete annual audits.
- **Additional Revenue.** Authorizes agencies to accept additional revenue and real and personal property, including gifts, bequests, royalties, interest and appropriations to supplement agency funding.
- **Matching Funds.** Requires agencies to apply for federal matching funds.
- **General Obligation Bonds.** Authorizes the state to sell \$5 billion in GO bonds for various renewable energy, alternative fuel, energy efficiency, and air emissions reduction purposes as follows.
 - **Clean Alternative Fuels Account – \$3.4 billion.** Funds rebates for alternative fuel vehicle purchases and appliance purchases, as well as financial incentives for R & D and demonstration of alternative fuel and high efficiency vehicles, as well as alternative fuels.
 - **Solar, Wind, and Renewable Energy Account – \$1.25 billion.** Funds financial incentives for research, design, development, construction, and production of electric generation technology that reduces generation cost and greenhouse gas emissions. 60 percent must fund financial incentives for solar technology.

- **Demonstration Projects and Public Education Account – \$200 million.** Funds grants to local governments for construction and operation of alternative renewable energy demonstration projects.
- **Education, Training and Outreach Account – \$125 million.** Funds grants to universities and colleges for staff development, training, research, and tuition assistance for alternative fuel and clean energy technology commercialization and workforce development. At least \$25 million for outreach and education.
 - Provides \$25 million each to the Cities of Los Angeles, San Diego, Long Beach, Irvine, San Francisco, Oakland, Fresno, and Sacramento for education and outreach upon submittal and the Energy Commission's approval of a proposed capital project and/or operating expense program that facilitates education and outreach.
- **Petroleum Consumption Reduction Targets.** Establishes goal of reducing petroleum consumption in California by not less than 20 percent by 2020 and not less than 30 percent by 2030.
- **Poison Pill.** Includes "poison pill" which states that should this measure and a competing measure each receive a majority of votes cast, that this measure shall prevail in its entirety over the competing measure.

Background:

According to the Legislative Analyst's Office, the state promotes renewable energy, alternative clean fuels, energy efficiency and air quality improvements through a number of programs. Many of these programs offer financial incentives, such as loans, loan guarantees, grants, rebates and tax credits. Most of these incentives are funded through fee revenues, but some air quality incentive programs have been funded by GO bonds.

Fiscal Impact:

The LAO estimates the cost of bonds over a period of 30 years, sold at an average interest rate of 5 percent, would be about \$10 billion (\$5 billion in principal and \$5 billion in interest). This would amount to average annual payments of \$335 million per year. The LAO also estimates that state and local sales tax revenues and car tax (Vehicle License Fee) revenue would increase by an unknown amount. Potential state costs are estimated to be \$10 million annually for administrative costs not funded by the measure.

Policy Considerations:

- Should the state issue general obligation bonds for ongoing expenses that do not finance capital improvements?
- Should the state take on more debt?
- Should taxpayer funds be used to finance a program that benefits a particular industry and perhaps a particular individual?
- Should the state indicate a preference for particular types of clean energy technology?

Analysis:

- **Self-Dealing?** Reports indicate that Proposition 10 is funded mostly by Texas oil billionaire T. Boone Pickens, who owns Clean Energy Fuels Corp., a natural gas fueling station company that stands directly to benefit from passage of Proposition 10. The *Los Angeles Times* reports: "Much of the measure's billions could benefit Pickens' company to the exclusion of almost all other clean-vehicle fuels and technology." The *Times* also reports that "natural gas is a nonrenewable fossil fuel that we import from foreign sources, and it is no better (and in some cases worse) when it comes to emissions and fuel efficiency compared with the best hybrid cars or the new ultra-clean diesel engines."
- **State-Sanctioned Preference Is the Wrong Approach.** By providing lavish incentives for purchases of certain types of alternative fuel vehicles, other potentially superior technologies may lose a fighting chance for a share of the clean alternative fuel market – a lose-lose for Californians.
- **Taxpayers Lose.** Under this initiative, taxpayer dollars would pay for \$5 billion in interest over the life of the bonds for these industry-specific incentives. They would receive nothing of lasting value except perhaps the promise of cleaner air. However, there is no requirement in the initiative that vehicles receiving a rebate must stay in California. So the promise of cleaner air may end up being just that – a promise.
- **More Debt.** Given the state's multi-billion dollar deficit and its declining credit rating, California should be judicious in the type of debt it undertakes, reserving indebtedness for the most necessary expenses, such as prisons and roads.

Support:

T. Boone Pickens

Allison Hart
Executive Director, Clean and Renewable Energy Association

Mitzi Dudley

Thomas Daly

Dr. Alan Henderson
Past President, American Cancer Society

Miguel Pulido
Governing Board Member, South Coast Air Quality Management District

Opposition:

California Chamber of Commerce

California Federation of Teachers

California League of Conservation Voters

California Nurses Association

California State Association of Counties

California Tax Reform Association

Consumer Federation of California

Howard Jarvis Taxpayers Association

League of Women Voters

The Sierra Club

The Utility Reform Network

Recommendation:

- The primary beneficiary of this measure is its sponsor, whose company would gain market share resulting from financial incentives designed to increase purchases of its products. This places potentially superior technologies with less financial backing at a competitive disadvantage.
- Bond debt should not be used to benefit a particular industry, which in this case is alternative energy. General obligation bond funds should be used to fund projects of general public benefit.
- Bonds should not be used for ongoing expenses and financial incentives, but should be limited to funding infrastructure and capital assets.
- The state already has incurred too much debt, and should not take on more, particularly when that debt will not result in a long-term asset.
- The interest payments on the bonds issued under this act will burden the general fund, creating greater pressure to increase revenues.

For the foregoing reasons, the California Taxpayers' Association recommends a "no" vote on Proposition 10.