WITH FRIENDS LIKE THESE

HOW LOCAL OFFICIALS CAN END CORPORATE WELFARE AND UNLEASH MARKETS TO CREATE PROSPERITY IN CALIFORNIA COMMUNITIES

A PUBLICATION FOR CALIFORNIA LOCAL ELECTED OFFICIALS

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PREFACE

In his classic *Economics in One Lesson*, Henry Hazlitt declared, "There is no more persistent and influential faith in the world today than the faith in government spending." Within that broad and influential faith, there's no specific article of belief more influential than the belief that giving taxpayer dollars to politically influential and powerful business interests is effective economic development policy.

We call this "crony capitalism" or "corporate welfare" – a transfer of wealth from taxpayers to politically connected business interests. Today, despite decades of evidence that corporate welfare undermines economic growth, the "faith," as Hazlitt called it, persists. Indeed, it's arguably more deeply than ever embedded in our political culture.

Government officials frequently advertise corporate welfare as "business-friendly" "economic development" that will support job growth. These and other false claims for corporate welfare are not limited to the left or right in American politics; the article of faith – that government spending creates prosperity – is neither exclusively liberal nor conservative, neither Democrat nor Republican nor other. It is now the majority opinion. If you doubt this, consider California's state legislature.

At the federal, state and local levels, our public officials often act as if taking money from some in order to give it to politically connected others is not only not criminal. It's admirable and moral.

In this little book, California Policy Center analysts reveal the flaws in that faith – and what you, as a local leader, can do to liberate markets to create prosperity in your own community.

WHAT YOU'LL READ HERE

We begin with Howard F. Ahmanson's essay on the very first problem of corporate welfare – that helping our friends and family is "human nature." Quoting the great Francis Fukyama, Howard writes, "Natural human sociability is built around two principles, kin selection and reciprocal altruism." In politics, "reliance on friends and family" – the people who support candidates – are "forms of social cooperation, … the default ways human beings interact." Because this is a "default" feature of our humanity, the problem of helping our friends "is never finally solved in any political system."

We follow with Edward Ring's brief overview of the state of California's corporate welfare initiatives. Ed shows that in everything state government touches – homelessness, transportation, retirement, jobs, the environment – corporate welfare destroys. Destruction, failure and collapse aren't the goals, of course, but they are inevitable.

Ed even offers a glimpse into what we assert are the most powerful tools available to local officials who want real economic development: reduce cumbersome regulation, cut taxes, invest in first-world infrastructure, fight for high-quality K-12 public education (including competitive charter schools), and always – always – insist on sustainable, transparent public finance.

In the five short chapters that follow, Steven Greenhut tells the stories of corporate welfare programs that have run off the rails – sometimes quite literally. California's regulation of housing has created a devastating housing shortage. In my favorite example of failure, Steve spotlights Culver City: "Five years ago, local officials there cut the ribbon on a publicly subsidized low-income apartment complex that cost taxpayers an astounding $739,000 per unit to build. Today, even after years of rising home prices, the median listing price of a condominium in Culver City is still just over $600,000." In other words, he points out, Culver City "could have bought new houses or condos for less than the price of that 33-unit project, but that's not how 'affordable housing' works."

Steve follows with stories of well-intended corporate welfare projects that went nowhere, including those in Anaheim (where he documents massive wealth transfers from taxpayers to Disney, among the world's largest corporations) and Stockton (where city officials borrowed millions to pay for construction and management of public facilities built to accommodate powerful corporate interests).

Steve's exposé of corporate welfare in Los Angeles is perhaps his most powerful. There, he notes the absolute recklessness of corporatist officials. "Los Angeles city officials have plowed a whopping $1 billion dollars into myriad hotel and corporate subsidies between 2005 and 2018. Despite the scale and supposed sophistication of LA's governing class, the city still lacks a 'rigorous analysis' for determining whether these 'investments' provide the promised amount of tax revenues, new jobs and related public improvements, according to last year's report from City Auditor Ron Galperin.

The bottom line in that chapter: If your public officials are determined to override common sense, insist on "rigorous analysis" to determine whether promises made are also promises kept.

WHAT YOU CAN DO

All is not lost. It's not yet time to post signs at California's ports of entry, warning those who enter to abandon all hope. At the end of this book, we offer several tools for ending cronyism – or dampening its worst excesses – and expanding opportunities for prosperity and human flourishing.

These tools will not end corporate welfare; recall Francis Fukyama's observation that corporate welfare is a manifestation of the innate human preference for friends and family – and the desire to reward both. There is no utopia. Knowing that, we offer a corollary, Barry Goldwater's injunction that the price of liberty is eternal vigilance. As local leaders, we're charged with guarding liberty from sweet-sounding initiatives that reward political juice and destroy the markets that have done more than any government project to create real prosperity.

The struggle for liberty spans terms of office, individual lives, and generations. But we can win from moment to moment. To paraphrase another American great, liberty is ours if we can keep it.

—Will Swaim

A BRIEF HISTORY OF THE PROBLEM OF CRONY CAPITALISM

HOWARD F. AHMANSON, JR.

Editor's note *This study was funded in part by a grant from Howard F. Ahmanson Jr.'s Fieldstead and Company, a private philanthropy. At the time of his death in 1968, Howard Ahmanson Sr., Howard's father, owned Home Savings and Loan, the largest savings and loan in America. Based in Orange County, California, Fieldstead's grants focus on relief and development work both in the United States and around the world; religious liberty; and cultural issues ranging from the arts to education and politics.*

This preface is based largely on Francis Fukuyama's *The Origins of Political Order: From Prehuman Times to the French Revolution* and *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy*.

FUKUYAMA INFORMS US THAT to understand the problem of patrimonialism – what you and I might call corporate welfare or crony capitalism - we must understand fallen human nature:

Natural human sociability is built around two principles, kin selection and reciprocal altruism. … These forms of social cooperation are the default ways human beings interact in the absence of other, more impersonal institutions. When impersonal institutions decay, these are the forms of cooperation that always reemerge because they are natural to human beings. What I have labeled patrimonialism is political recruitment based on either of these two principles.[1]

And, to make the point clearer:

Modern states create strict rules and incentives to overcome the tendency to favor family and friends …. But the force of natural sociability is so strong that it keeps coming back, like the proverbial thief who, being blocked by a locked front door, tries the back door, windows, and basement crawl space.

It seems to me fair to say that the American state has been repatrimonialized in the second half of the twentieth century, much in the same way as the Chinese state in the Later Han Dynasty, or the Mamluk regime in the century prior to its defeat by the Ottomans, or the French state under the Old Regime.[2]

And,

Before Americans, Britons, or Germans get too self-satisfied about their own political systems, it is important to note that the problem of patrimonialism is never finally solved in any political system…[R]eliance on friends and family is a default mode of human sociability and will always return in different forms in the absence of powerful incentives to behave otherwise. The

1 The Origins of Political Order, 439

2 Political Order and Political Decay, 478

modern, impersonal state forces us to act in ways that are deeply in conflict with our own natures and is therefore constantly at risk of erosion and backsliding. Elites in any society will seek to use their superior access to the political system to further entrench themselves, their families, and their friends unless explicitly prevented from doing so by other organized forces in the political system. This is no less true in a developed liberal democracy than in other political orders, and one can make the argument that the process of repatrimonialization continues into the present.[3]

Fukuyama explains that "All states were originally patrimonial. The first non-patrimonial state was China under the Qin and early Han around 200 B. C."[4]

He also points out that, "…around 100 CE, the state reverted to patrimonialism, but "Impersonal state administration was restored only during the Song and Ming dynasties beginning in the second millennium A.D."[5]

If patrimonialism is so powerful as a human impulse, why, indeed, would anyone ever adopt a non-patrimonial state? One incentive is military.

Ancient China, Prussia, and Japan all felt themselves engaged in prolonged struggles with their neighbors in which efficient government organization was critical to national survival.[6]

And…

Military struggle created incentives to tax populations, to create administrative hierarchies to provision armies, and to establish merit and competence rather than personal ties as the basis for recruitment and promotion. In the words of the sociologist Charles Tilly, "War made the state and the state made war."[7]

The prospect of being conquered does concentrate the mind wonderfully. But change does not always take place because of the threat of invasion or conquest.

The second route to state modernization was via a process of peaceful political reform, based on the formation of a coalition of social groups interested in having an efficient, uncorrupt government.[8]

And…

In Britain and America, economic modernization drove social mobilization, which in turn created the conditions for the elimination of patronage and clientelism. In both countries, it was new middle-class groups that sought an end to the patronage system. This might lead some to believe that socioeconomic modernization and the creation of a middle class will by themselves create modern government. But this view is belied by the Greek and Italian cases, societies that are wealthy and modern and yet continue to practice clientelism. There is no automatic mechanism that produces clean, modern government, because a host of other factors is necessary to explain outcomes.…

Even within the United States, not all the new social actors produced by industrialization signed up with the Progressive movement. As we saw,

3 Political Order and Political Decay, 208
4 Political Order and Political Decay, 206
5 The Origins of Political Order, 101
6 Political Order and Political Decay, 199
7 Political Order and Political Decay, 10
8 Political Order and Political Decay, 201

the railroads figured out how to make use of the existing patronage system to their own benefit; in many cases it was rather the customers of the railroads – the merchants, shippers, and farmers – who led the charge against what they perceived as a cozy relationship between the railroads and politicians. There was in a sense a race between the newly organizing middle-class interests opposed to patronage and the existing urban machines to sign up new social groups like recent immigrants.[9]

And there was yet another factor, a spiritual one:

Self-interest explains only part of the reason that different social groups push for change, and it does not capture the high degree of moralism that often accompanies such movements. In each of these countries, individual leaders of reform movements were motivated by personal religiosity.[10]

So, the whole issue of "crony capitalism", "corporate welfare" or "patrimonialism" turns out to be the central problem of political science. And it seems there are ways to solve it.

First, make sure there is an influential class in society that perceives itself to benefit from a non-patrimonial order of things. Second, it's essential that we seek spiritual renewal in at least a critical sector of society. The "religious right" and "religious left" are noisy in our society, but instead of focusing on this central problem, they have amplified more peripheral issues.

The following essays reveal the dangerous repatrimonialization of many California cities and the state of California itself. New factors have aided this devolution. Most of them seem to me to be effects of the world of media - of radio, television, and the Internet.

First, the expense of communicating through these has forced practically all politicians (whether they want to or not) to take a greater interest in the "donorate" or "donorocracy" than to the electorate. It is the donorate that they spend time with; the donorate to whom they devote half their days dialing for dollars.

Under such conditions, one is a crony capitalist politician, or one is not a politician at all.

Second, many industries are so regulated that in order to be in, say, real estate, banking, or the savings and loan industry (Yes, Dad!), one is either a crony capitalist or one is not a capitalist at all.

Land use, in particular, is highly controlled. "Ownership" now means not the right to use property according to one's own desires, but to buy and sell and profit from it as one can. And, increasingly, as Timothy Sandefur has pointed out in *The Permission Society*, rule of law (known in the real estate industry as "by right") has been replaced by case-by-case permission. The more influential groups with access can get used to this very quickly. Those who do not have access can't.

Third, the media world has turned the world of the Founding Fathers on its head. Local government is no longer close to the people, though it certainly is close to local elites and to homeowner neighborhood preservation groups. We now know most about the President of the United States; a little less about the House, Senate, and Supreme Court; even less about our state governments; and the very least about our local governments. (The Founders would have

9 *Political Order and Political Decay*, 205

10 *Political Order and Political Decay*, 206

been appalled to hear us describe the elections where Congress but not the President is on the ballot as "off year elections.")

And even there, the bigger the city, the more the media coverage. A resident of Wheaton, Illinois, has to work a lot harder to find out about the politics of her hometown than about those of the city of Chicago. A Beverly Hills resident has to work harder to find out what is going on in Beverly Hills than she does to find out what is going on in the City of Los Angeles.

The book *Stealth Democracy,* by John R. Hibbing and Elizabeth Theiss-Morse, describes the actual attitudes of the public. The more a part of government is in the public eye, the less it is trusted; local government is, sad to say, more trusted than national government; even sadder, unelected bureaucrats are trusted more than elected officials. (I have made the Swiftian suggestion that we ought to start letting our bureaucrats take bribes, to put them on an even playing field with our elected officials!)

So perhaps the problem of crony capitalism is not entirely the fault of crony capitalists. We all need to look to ourselves. We need to make sure that there is some kind of powerful constituency that sees itself benefiting from anti-patrimonial, impersonal, honest government, the rule of law, and accountability.

It's my hope that, if you're reading this collection of essays, you're part of that powerful constituency.

GOVERNMENT HOUSING PROGRAMS EXACERBATE CRISIS AND HELP THE RICH GET RICHER

BY STEVEN GREENHUT

In April 2018, a condemned home was put on the market in Fremont. Its roof bore several gaping holes and the rooms were riddled with mold — but that didn't stop it from selling for a cool $1.23 million. Meanwhile, the U.S. Department of Housing and Urban Development recently announced that it has raised the income cap that determines which San Franciscans (and residents of neighboring counties) are eligible for low-income housing units. The new income cap: a shocking *$117,400 per year*.

Such anecdotes are becoming more common as the California housing crisis reaches its nadir. And this phenomenon's effect extends far beyond the plight of individual Californians looking for a new house or apartment: it threatens California's economy as a whole, costing the state $140 billion per year and driving away potential investors who know the state can't reasonably sustain their workforces. Sunny California, once an easy sell for company recruiters, is now a deal-breaker for many of today's job-seekers.

Those living in California aren't sold on staying here, either. Fatigued by astronomical rent, many residents are giving up on our state altogether. California is experiencing a net loss of people, many of whom are moving to cheaper states: Texas, Arizona, and Nevada are among those receiving California's economic refugees.

Some Californians don't have the option to leave *or* to stay: priced out of housing, they wind up homeless. Over half of California's renters spend more than 30 percent of their earnings on shelter. This isn't just a financial burden for these individuals: such inflated rentals are a halfway-house to eviction and the streets. This dire fate is increasingly hitting lower-income Californians, and at a rate far above that in the rest of the country. Between 2016 and 2017, homelessness rose by one percent nationally. In the same period in California, homelessness rose by *14 percent*. Our state is No. 1, all right – in homelessness, cost of living, home prices and taxation.

The causes of this housing crisis are fairly obvious. Community resistance to new construction presents itself as "slow-growth" or even "smart-growth" and expresses itself in political campaigns that produce local officials opposed to new housing. Behind these officials and their anti-development constituents is a tangle of local, state and federal environmental policies that ensnare builders of all sizes and limit competition.

Surveying the problem, a majority of state and local officials have settled on precisely the wrong solution. They've doubled down on the very regulations that drive up building costs, and they're offering massive state and federal subsidies to those builders who win the corporate welfare lottery.

Consider Culver City, a fast-growing suburb of Los Angeles. Five years ago, local officials there cut the ribbon on a publicly subsidized low-income apartment complex that cost taxpayers an astounding $739,000 per unit to build. Today, even after years of rising home prices, the median listing price of a condominium in Culver City is still just over $600,000. The city could have bought new houses or condos and for less than the price of that 33-unit project, but that's not how "affordable housing" works.

Studying data from the federal Government Accountability Office, *Reason* magazine concluded that the Culver City project was the priciest affordable-housing project in the nation. But thinking as regulators always think, GAO analysts simply called for more rigorous oversight to control construction costs.

More oversight is great, but the problem of affordable housing programs is fundamental to the nature of all government programs. Market competition – not better government accounting – is the best way to manage costs.

In true market transactions, developers weigh all costs, including land, government fees, labor and materials, financing and battling the inevitable California Environmental Quality Act lawsuits. In subsidized-housing projects, by contrast, the government pays for most costs. *Reason* reported that Culver City's $24.4 million project was government funded, except for a $1.7 million loan. Of course, government funding comes with myriad regulations that drive up costs; in California, that includes a requirement to use only union labor, for instance. When the public is funding housing, developers have far more incentive to write a change order than to sharpen their pencils.

In the November election, California voters approved Proposition 1, which authorized Sacramento to borrow and spend up to $4 billion to subsidize costly housing projects that won't make a dent in the housing shortage. Reason Public Policy Institute analyst Marc Joffe points to The Depot at Santiago, a Santa Ana housing development "typical of projects we might expect under Proposition 1. The 70-unit development cost approximately $34 million – almost half-a-million dollars per 'affordable housing' unit, not including land costs."

Joffe noted that the "lucky few" who live there will receive amenities far beyond their modest, subsidized rents; no wonder that, within days of opening the Depot at Santiago, city officials bragged that 1,800 were on the waiting list for just 70 units. So, yes, a few people on long waiting lists will win the lottery, but such projects won't meaningfully add to the housing supply in the region. Furthermore, because such developments are owned by non-profit organizations, they will generate no tax revenue.

State bond measures such as Prop. 1 don't necessarily raise taxes. But they grab a share of the general-fund budget and crowd out other programs – and that creates pressure for revenue. Higher taxes exacerbate the financial problems of people already struggling to pay rent. These projects are not the win-win that advocates make them out to be, except for the developers and consultants who tap into the special financing and pot of subsidies.

California's housing crisis is so severe that some activists, developers and politicians are pushing for a return to the bad old days of "redevelopment." Redevelopment agencies were state agencies run at the municipal level. They were created in the 1940s to promote urban renewal by using a mechanism known as "tax increment financing," or TIF.

TIF districts let local governments float bonds without voter approval, and then use the bond proceeds to subsidize infrastructure and development projects in a targeted and supposedly blighted area. The redevelopment agency would receive all of the increase in property tax value – the increment – after the project area was created. That money would pay off the debt for what officials called the "investments."

But cities soon learned that this process could be helpful in a variety of other pursuits. Many city officials used their redevelopment power to subsidize the construction of big-box stores and other retail outlets to generate sales tax revenue for their discretionary budgets. Other officials used the redevelopment windfall to raise salaries for the government workers whose unions had funded their political campaigns.

Instead of allowing developers to build projects based on true market considerations, redevelopment encouraged cities to pick and choose the projects they wanted and to provide subsidies – and even use eminent domain on behalf of politically connected developers. It also lavished funds on a cadre of consultants, lawyers and land-use planners, another feature of corporate welfare projects. Here's where housing becomes an issue: 20 percent of a project area's proceeds were diverted to pay for "affordable housing" projects.

In 2011, Gov. Jerry Brown led an effort to shut down these agencies. He did so because the agencies siphoned around 12 percent of the state's general fund. The state had to backfill those dollars to public schools and other traditional public services. Mired in the Great Recession, California faced a budget shortfall, and Brown and legislators found RDAs a handy place find some extra billions.

This year, Assemblyman David Chiu's Assembly Bill 11 tried to resuscitate redevelopment agencies to subsidize housing and infrastructure programs. AB 11 would lead us again to the kind of overpriced, subsidized projects that do little to boost the state's housing supply. Fortunately, that measure was shelved in the waning days of the Legislature's house-of-origin deadline, but there's little question something like it will come back next session.

"One of the main failings (of redevelopment) was with affordable housing, which consumed one-fifth of RDAs' budgets," explained *The Market Urbanism Report*'s Scott Beyer. "Like many affordable housing programs, this money wound up getting spent inefficiently. According to a 2010 *Los Angeles Times* report, at least 120 municipalities combined to spend $700 million in housing funds without producing a single unit, as many instead spent six-figure sums on 'planning and administration.' In other cases, cities spent over $800,000 per affordable unit."

Bottom line: Corporate welfare made the housing shortage worse, and then tried to fix some of the problem by throwing around government cash, which did little more than enrich an army of government-approved redevelopers.

There is a better way to deal with our genuine, catastrophic housing crisis. Local officials can reduce the regulations that constrain private development. If you doubt the financial impact of regulation, study the Building Industry Association report on San Diego County. That BIA report estimates that government regulations account for 40 percent of the cost to build a single-family house. That number doesn't include the high cost of land – a cost that is also driven in part by government-imposed growth controls that limit supply and therefore drive up prices for developable plots.

Government officials also need to understand a concept known as the housing ladder. "The core belief of housing advocates is that the private market cannot and will not provide adequate housing within the means of the poor," explains the Manhattan Institute's Howard Husock. But

the open market has always done a far better job housing people than government – or government-subsidized projects.
These planners seem to believe that the poor ought to be housed in a brand-new, amenity-filled apartments, when in reality most poor and middle-class people work their way up that ladder, living in "used" housing and improving their lot as their economic situation improves. Every time a family buys a brand-new luxury house, they sell their old one to a family that is moving on up. And that family left something more modest behind, ad infinitum. That's how the housing ladder works.

As all the case studies in this white paper show, the solution is to let the real free market work, but first government must be willing to get out of the way.

CALSAVERS RETIREMENT PLAN: A NEARLY UNPARALLELED FORM OF CORPORATE WELFARE

BY STEVEN GREENHUT

As California's public-pension liabilities soared and local city officials began qualifying ballot measures to reform public pension plans around 2011, the state's unions worried about something they dismissively called "pension envy." They feared that private workers, who rely on Social Security and meager 401/k plans, would channel such jealousy into rollbacks of the six-figure pension payouts that government employees routinely receive.

Something had to be done, so California's union-friendly state officials came up with the idea to create a state-run mini-Social Security program that they first called Secure Choice and then renamed CalSavers. Speaking to the 21st Annual Northern California Public Retirement Seminar in Sacramento in October of that year, then-Treasurer Bill Lockyer carefully described the motivations behind the coming mandate on California's private employers.

There's "nothing more important" than protecting the defined-benefit pension plans California government employees receive, he said, but "if we want to get the people of California and the nation back in our corner on these issues and also protect the interest of the present-day working families, we have to make corrective changes in all of the systems that now provide retirement security for California's public employees."

If the state needs to embrace pension reform, Lockyer added, then it should do it – but on "our" terms. "Pension liabilities are a problem," he admitted. "And they are OUR problem because they are driving unacceptably high contribution rates for employers and workers too. And by OUR problem, I mean every one of us who fights to win economic justice for working people or to provide adequate public services to the people of California."

Lockyer was speaking in his official capacity as state treasurer, but it's clear that by "our" – and he capitalized the word in his own remarks – he wasn't referring to the general public. He seemed to be speaking on behalf of public-sector unions and California government employees. In his view, the problem wasn't mainly that pension debt burdens taxpayers or threatens public services, but that it was forcing union workers to pay more for their benefits and was alarming voters.

Here's where his remarks become even more cynical. Lockyer expressed concern about the "financial sustainability" of these public pension funds, but emphasized that "we also need to think about political stability." And in those terms, "it is not hard to see why we are dealing with a very serious and virulent strain of *pension envy* (emphasis added.)"

Echoing the views of a prominent labor

economist, Lockyer thought it would be "a very smart political and policy move by those who want to keep defined-benefit public pensions to link the move for pension reform to a demand for a meaningful retirement security option for California private-sector workers." In the ensuing years, California lawmakers created such a program to boost "retirement security" for private-sector Californians, but it's hard to forget that its roots were in solving a political problem for unions, not the financial problem confronting the average worker.

Fast forward to March 2019, when a California district judge rejected possibly the last serious challenge to the new state program. That's an amazing time frame – from raw cynicism to a new government mandate and program in just under eight years.

CalSavers was actually launched in November as a pilot program and is now beginning its full roll out. As the current state Treasurer's office explains, "Any employer with at least five employees that doesn't already offer a workplace retirement savings vehicle will be required to either begin offering one via the private market or provide their employees access to CalSavers. CalSavers will be operated solely through administrative fees, so there's no cost to taxpayers."

The program applies to businesses with 100 or more employees starting in 2020, to those with 50 or more employees in 2021 and to those with five or more employees in 2022. There aren't any major costs to private companies beyond their internal red tape and hassles. So what's the problem?

The Howard Jarvis Taxpayers Association, which filed that legal challenge, argued that the federal government, because of the Employee Income Retirement Security Act of 1974 (ERISA), doesn't allow states to run their retirement programs for private employees. "Because the U.S. Congress has expressly disavowed savings arrangements established by states for non-governmental employees in Public Law 115-35, there is no potentially valid (Department of Labor) regulation permitting this state-run retirement arrangement," according to the lawsuit.

But the main issue is not mainly a technical or regulatory one. The Jarvis group accuses the state of wasting time and money on an unnecessary program, given that "any person today can easily open an IRA (Roth or traditional) and set up automatic payroll debits at any bank in person, online or by telephone." Any worker can indeed set up their own retirement account and shop around for the plans with the best track record and lowest fees. They can do so in the real private market by contracting with firms that compete for their business.

Instead, the state government is handpicking the investment funds that millions of California workers must invest in (provided they don't opt out of the program). Taxpayers will foot the bill for millions of dollars in start-up costs, but the system is designed to be operated by administrative fees. Those fees, of course, will go to the companies selected by the state. The CalSavers board already has named the investment funds and administrators after a variety of firms responded to their request for proposal.

The program is unparalleled in California history given its size and scope – and its potential for growing exponentially. Last year, the CalSavers board, and its consultants, selected Ascensus College Savings Recordkeeping Services LLC to serve as the program administrator to handle administrative aspects of the program. It also selected State Street Global Advisors LLC as the investment manager, which provides the various investment funds that workers will choose from.

CalSavers explains that it "offers a range of investment options, from aggressive investments seeking higher returns to conservative investment options that seek to protect the principal. When you invest in CalSavers, you get access to high-quality mutual funds and other investment options, the value of which will vary with market conditions."

That may be so, but all of the particular funds listed on the state website are offered by that one firm, although another option is coming online. In January, current Treasurer Fiona Ma announced that a company called Newton Investment Management North America Limited would offer an "environmental, social and governance" investment option as part of the plan. That jibes with the state's focus on so-called social investing.

"California workers now have even more reason to open a CalSavers account and feel good about investing in their futures," Ma said, in a statement. "They can now choose to put their retirement savings into investments that protect the environment and champion a more fair and just world."

There's nothing wrong with individuals choosing to invest in funds that reflect their social and political values, but it hardly seems like a legitimate state role to steer investments to one particular social-investing fund. Yet California state pension officials have long championed the idea of favoring investments that divest from stocks connected to coal-based power plants, or from tobacco companies or gun manufacturers.

The California Public Employees' Retirement System (CalPERS), which handles most of California's liability-soaked public-sector pensions, also is known for using its financial clout to pressure private firms to diversify their boards. That, however, involves state funds invested on behalf of state employees. Now, the same concept will be applied to a program that gets its hands on investments made by private workers employed by private firms.

State Street Global Advisors is well known for pushing public companies to include more women on their boards of directors. That may be a noble effort, even though the firm has taken some heat for the lack of diversity on its own board. But the issue isn't about any particular firm that has been selected or any particular investment strategy or social strategies, but about the design of the overall program.

As Institutional Investor explained last August, "The program's development is part of a broader movement on the part of states to offer either mandatory or voluntary individual retirement accounts in the hopes of curbing a retirement savings crisis. The movement is a boon to investment managers like State Street, which are getting a new pool of potential clients."

Ultimately, this "broader movement" seems more about blunting public criticism of overly generous government pensions and growing pension debts than about curbing the retirement crisis, as Lockyer's 2011 remarks suggest. But the former treasurer's cynicism is nothing compared to the design of a system that gives those firms selected by the state access to a captive pool of potentially millions of California private-sector workers in a program that its backers say might one day rival Social Security.

WITH CORPORATE GIVEAWAYS, ANAHEIM IS MOST GENEROUS CITY ON EARTH

BY STEVEN GREENHUT

The city of Anaheim, a one-time citrus-growing town that later became the home of Disneyland, gained national attention in the mid-2000s for pioneering a "freedom friendly" approach to local governance. One would think that freedom-oriented policies – low taxes, a protection of property rights and an aversion to government subsidies – would be *de rigueur* in a nation that claims to value such things. But government-directed corporate welfare had become so common that Anaheim's approach became a nationwide man-bites-dog news story.

One example of Anaheim's newfound commitment to freedom was the city's effort to build a new area of high-rises developments. "In the typical world of redevelopment, officials would choose a plan and a developer, offer subsidies and exclusive development rights, and exert pressure on existing property owners to leave the area," as I explained in the *Wall Street Journal* in 2006. "Instead, Anaheim created a land-value premium by creating an overlay zone that allowed almost any imaginable use of property." The target area, known as the Platinum Triangle, became a boomtown that lured billions of dollars in private investment.

Unfortunately, good public policy can be short-lived if the political winds change direction. After a few years, a new City Council majority reverted to the same old corporate-welfare policies of the past. The council's backsliding was not surprising given how much the city's biggest employer – and one of the main beneficiaries of public largesse – had "invested" in local political campaigns.

That business, of course, is the Walt Disney Co. Disney's reliance on Anaheim's government for assistance started modestly. In 1953, Walt Disney purchased 160 acres to build the Magic Kingdom, and he asked the city "to annex parts of the property and provide help with infrastructure improvements," according to *Governing* magazine. We're talking small amounts by current standards – $153,000 in infrastructure upgrades. But as Anaheim's tax base grew – and as Disneyland became the city's largest draw – so too did the company's demands.

In the 1990s, Anaheim agreed to an astounding subsidy to the Burbank-based company. It floated $510 million in voter-approved bonds to upgrade the infrastructure around the theme park, which officials claimed had become defined by ticky-tacky motels and aging strip malls. The local malls and motels were aging, but in reality there was plenty of private investment and ongoing private efforts to build new hotels and projects. The bonds were to be repaid by a hike in the bed tax from 12 percent to 15 percent. The project included upgrades to the Anaheim Convention Center and the construction of a fancy new Mickey & Friends parking garage.

"When the 40-year bonds, which include roughly $1.1 billion in interest, are paid off, Anaheim will transfer ownership of the garage to Disney," the *Los Angeles Times* reported. "Meanwhile, the company pockets the parking revenue." The creation of the Resort District included some genuine public improvements, but it involved complex public-private partnership deals – and helped the company build the new California Adventure theme park.

As part of the project, Disney spent $1.4 billion to build a walkable mall with restaurants and shops called Downtown Disney, but the *New York Times* noted that critics "point out that several key pieces of Disneyland infrastructure, including the vehicle bridge and the parking structure, benefit the theme-park developer almost exclusively." Most of the money went to support Disney's projects more than the city in general, although backers of the plan still argue that the improvement was a benefit to Anaheim because it increased sales and bed taxes by millions of dollars each year.

That, of course, is the go-to argument of every advocate for subsidies – the resulting tax revenue supposedly will pay for itself. Typically, the predicted windfalls fall short. One need only look at nearby Garden Grove, where the city engaged in a years-long spree of subsidizing hotels (to service the Anaheim Resort Area) to see how far off the predictions often are. Ironically, Anaheim's subsidy defenders look to other cities that have embraced a similar policy as justification for their policy.

The Anaheim blog referred to those who claim that Anaheim's approach "isn't free market economics and that government shouldn't subsidize a business enterprise." Its rebuttal: Anaheim isn't working in a free market and must compete with Garden Grove, which in 2013 gave a developer five city owned acres for a hotel and proposed subsidizing a water park resort and hotel. This is a circular argument. We'd *love* to operate without subsidies, but we have no choice but to do so because other nearby cities are subsidizing developers, too. It's also nonsense.

Of course, developers play cities for fools and pit one against another. They never address the obvious points: First, these companies are in the business of building hotels and theme parks. They will invest in such projects, with or without subsidies, even if they don't build exactly what city planners prefer or on the city's timetable. Second, city governments make bad central planners. Their subsidies distort land-use decisions, undermine property rights and overemphasize government-preferred projects at the expense of other types of construction and neighborhood concerns. That's one reason that Garden Grove has been plagued by high hotel vacancy rates. City governments are supposed to function for the benefit of residents – not to maximize city government revenue, which often is spent in questionable ways (huge pensions, for instance).

Despite these concerns, the Downtown Disney project wasn't the end of the city's subsidies. In 2015, the City Council agreed to forestall any tax on Disney ticket sales for 45 years. There was no particular tax proposal on the table, but city officials have long tossed around the idea of a $1 tax, which could bring in an estimated $1 billion for the city. In return the company promised to build a new Star Wars area at the original park and make billions of dollars in additional investments – something critics believe Disney would do anyway, with or without the tax guarantee.

The next big fracas involved a hotel project – a now-defunct plan for the city to provide $267 million in subsidies for Disney's construction of a luxury hotel. That plan called for a 700-room hotel, with the city rebating approximately 70 percent of the hotel-occupancy taxes to the company. That was just the latest planned hotel subsidy for the Resort District. In 2012, the council voted for a

$44 million subsidy to Lake Development to build a Las Vegas-style luxury hotel, which was backed by business interests and labor unions coveting the construction jobs. That never panned out.

City officials, who continually cite a lack of luxury hotels in the district, are constantly mulling such subsidies. *Bisnow* reported in November 2018 that, "In 2013 and 2015, as a way to attract upscale tourists and visitors, the city awarded an estimated total of $700M in transient occupancy tax subsidy over 20 years to help three developers … build five four-diamond luxury hotels in the Anaheim Resort District."

Disney and the Resort District are not the only beneficiaries of Anaheim's generosity with taxpayer dollars. One can't talk about "Anaheim" and "corporate welfare" without mentioning the city's two professional sports teams – and this sticks in any Anaheim taxpayer's craw – the *Los Angeles* Angels of Anaheim baseball franchise and the Anaheim Ducks hockey team.

In 2014, the *Orange County Register*'s Martin Wisckol reported on negotiations with Angels owner Arte Moreno: "A proposed stadium lease for the Angels contains benefits so generous that in addition to covering the cost of the team's renovation of the ballpark, it could bring team owner Arte Moreno tens of millions of dollars of new income." Fortunately for taxpayers, the team and the city couldn't come to a permanent lease-extension deal.

But Moreno is now threatening to move the team elsewhere – after opting out of his lease with the city thanks to a "trigger extension granted (to the team) by a friendly City Council back in 2013, when their original lease was scheduled to enter a term favoring taxpayers," explained the Voice of OC's Norberto Santana. The Angels already is basically rent free, but now seek $150 million in stadium renovations. The latest plan is for Moreno to fund renovations by developing the stadium's city-owned parking lot. The catch: The Angels reportedly wanted the $245 million property for one dollar. Negotiations continue.

Anaheim recently approved a more reasonable deal to keep the National Hockey League Ducks in the city through 2048, which involves selling city-owned parking lots to the private company that owns the team. Part of the deal includes handing over to the Ducks' owners the management of the city's ARTIC (Anaheim Regional Transportation Intermodal Center) train station, which will save the city the $2.5 million a year that it's now stuck paying for what virtually everyone now sees as a boondoggle.

Anaheim officials built the 67,000 square-foot transportation hub, a futuristic glass Quonset Hut that looms over the 57 freeway, at the urging of the hotel owners in the Anaheim Tourism Improvement District. The station was going to bring people to the city's sports and tourist destinations, connect to the coming High Speed Rails system. It promised to pay for itself.

But ridership is well below predicted levels, the city is stuck paying for its annual shortfalls and the bullet train largely has evaporated, after Gov. Gavin Newsom vowed to scale it back. ARTIC may be an architectural landmark, but it's more of an empty shell than a destination for anything. The promised naming rights and leases never materialized. It's turned into a monument to why city officials should not try to play developer. Yet this article documents only some of the city's myriad attempts to do so. It seems obvious that once a city goes down the subsidy road that it leads to more subsidies and more aggressive demands for them from businesses.

After the city switched from citywide to district-based elections, its council – under the leadership of Mayor Tom Tait, a libertarian-leaning Republican who was a consistent voice against corporate subsidies – had moved back in that old freedom-friendly direction. Officials backed away from all the subsidies and started focusing more on neighborhood issues. Last September, Disney and the city agreed to put the kibosh on the hotel subsidy plan and cancel any ticket-tax moratorium.

Disneyland Resort President Josh D'Amaro told the city that the subsidies, which have become increasingly controversial, led to "an unprecedented and counterproductive" situation. A more likely explanation for the pullback is that a union-backed ballot measure, which passed in November, would force companies that receive taxpayer subsidies to pay much higher hourly wages. But the political winds have blown once again. Tait was termed out in November and the new Republican mayor seems more amenable to the old, subsidy-friendly way of business.

Anaheim seems stuck in a bad cycle. One solution, detailed by California Policy Center board member David Bahnsen in a *National Review* article last year, is to change the politics of the situation by pushing Republicans to stick to their guns on this issue even if it means refusing to support fellow party members who aren't so firm. "When Republicans advocate a little 'thumb on scale' here, and a little 'public-private partnership' there, they dilute their brand, and they are doing so irreparably," he wrote. "They are missing a generational opportunity to communicate to millennials, minorities, and independents that they are not a party of big business, of cronyism, and of special interests."

Bahnsen's exhortation to his colleagues on the right was warranted, but such subsidies are a bipartisan deal. Democratic-run cities are just as apt to lavish subsidies on developers, although they now are getting pushback from liberal groups that decry the way that corporate welfare undercuts funding for community centers, parks, libraries and public schools – and the way such subsidies promote gentrification and give workers short shrift.

Anaheim's former Mayor Tait had the right idea as he put together a governing majority of Republicans and Democrats who opposed these noxious giveaways. That's the key to the future in Anaheim and elsewhere – a diverse coalition that might not agree on many things, but which understands that crony capitalism is not the basis of as successful city.

CORPORATE WELFARE HELPED LAND STOCKTON IN BANKRUPTCY, BUT IT'S A SLOW LEARNER

BY STEVEN GREENHUT

SACRAMENTO
The San Joaquin Valley city of Stockton, a down-in-the-dumps industrial city 75 miles northeast of San Jose, is best known outside of northern California for its 2013 bankruptcy. Before Detroit went into receivership, Stockton was the nation's largest city to go belly up. The prime reasons had been widely reported and centered on the city's pension debt and unsustainably generous healthcare benefits that were provided to municipal workers.

But there was another reason that Stockton had become awash in red ink. For years, the city had tried to revive its decrepit but historic downtown by pouring millions of dollars into a variety of redevelopment projects ranging from an arena for its minor-league hockey team to a new hotel on the waterfront. Corporate subsidies were a drain on the budget, but a column by the *Stockton Record*'s feature writer, Lori Gilbert, highlights the thinking that led to such spending.

"You never hear anyone in town say, 'We wouldn't be bankrupt if they hadn't built that arena,'" she noted. "The arena is a gleaming thing of beauty, bathed in evening purple lights. It was built with city money as part of an effort to revitalize the downtown waterfront." The minor-league hockey arena is a beautiful building indeed, even if that waterfront park is largely empty – mainly the province of panhandlers and homeless people.

In fact, the city dropped $134.5 million in taxpayer funds on the arena and a nearby baseball stadium, which is home to the "Class A" farm team for the Oakland Athletics. But sports facilities were only part of the spending. The city decided to build a shiny eight-story office tower for City Hall, created an entertainment venue with movie theaters and restaurants, a city-subsidized restaurant in a historic hotel, a 650-space parking garage, a new marina and that downtown hotel.

Gilbert praised the arena project as a "source of pride in a city desperate for positive attributes," but admitted that the city's 2008 "financial collapse halted any hoped-for private-sector development around the arena and ballpark and their expected tax revenue never materialized." But it's a "valued, special part of the community that is worth more than the expense of erecting it," she added.

Never mind that the restaurant was too fancy for the area and closed its doors after a year. Or that the hotel had such little business that officials eventually turned most of its rooms into dormitories for students at the University of the Pacific, with a campus a few miles up the road. Or that "between 2003 and 2009, the city … issued nearly $320 million in debt tied to it its general fund" and that debt service "increased by 600 percent between the start of the recession and 2012, thanks to a back-loaded interest payment schedule," according to *Governing* magazine.

The projects in and of themselves didn't cause the bankruptcy, but they didn't result in the promised downtown revival or new revenues. The debt spending – pushed by officials who used emotional arguments about inspiring a renaissance in a pre-Gold-Rush-era city badly in need of civic optimism – compounded a problem driving by rising pension and healthcare costs. To come up with the cash, the city floated $125 million in pension-obligation bonds, which is the equivalent of taking out a new loan to help make one's mortgage payment.

The 2007 bonds were acquired at the height of the market, *Governing* added, and after the market crashed, "the city saw its investment drop almost immediately by nearly a quarter" and then housing values dropped by 70 percent, "crushing revenues when debt liabilities were booming." The city went bankrupt for a variety of fiscally imprudent decisions, but the downtown spending spree was a big part of the overall fiscal problem.

Cities in wealthy regions agree to corporate subsidies as a way to supposedly bring in new tax revenues, or to provide certain amenities desired by city planners. Anaheim, the home to Disneyland in Orange County, has used subsidies to encourage the building of five-star hotels to serve the resort district. But in poorer regions, such subsidies are pitched as a way to revive a city's flagging fortunes.

Stockton's original "Waterfront District Development Plan" explained that the area is "in transition from an industrial district into a new neighborhood" and that its success will "require a different way of thinking – an URBAN way of thinking." To make the waterfront "all it can be will require a master planned approach," that "early projects will need to be catalysts for future investment" and that "it will require public-private partnerships."

After the 2008 real-estate crash, Stockton blamed its misfortunes on economic factors that were out of its control. City officials assumed that the market would continue to boom. It's as if a family spent wastefully on home remodels, new cars and Hawaiian vacations, then pinned the blame for its ultimate budget crash on a job loss. Sure, that job loss was the proximate cause, but years of bad financial choices assured that a problem would become a disaster.

In its post-mortem on the Stockton bankruptcy, *Reuters* in 2012 reviewed the city's "15-year spending binge." The stock market was soaring. People were moving into the city in large numbers, mostly from the pricey San Francisco Bay Area, thus bringing in unexpected tax revenues. Whereas other cities took a go-slow approach, Stockton boosted pensions, healthcare and salaries for city workers. "Analysts and investors generally see Stockton as an extreme case of fiscal mismanagement over the past two decades," *Reuters* added.

"City officials, looking to transform their sleepy downtown, approved spending on large projects to raise Stockton's profile and turn it into a bedroom community for San Francisco and the Bay Area," according to the article. It issued a $47 million bond to build the hockey arena, which ended up being a perennially money loser. It financed more than $100 million on those other downtown projects, none of which lived up to official promises. The downtown remains as dystopian as ever, although its vacant buildings are interspersed with these gleaming subsidized facilities.

Unfortunately, Stockton officials apparently haven't learned the lessons of their pre-bankruptcy spending spree. The city's workout plan reduced healthcare spending but it did not pare back current pensions, even though the federal bankruptcy judge would have allowed it to do so. The put a "public safety" tax (Measure A) on the ballot promising to hire more police officers in the crime-plagued city. Voters approved it, but the city never hired the number of officers promised – and even used some of the tax dollars to fund their waterfront City Hall project.

From a corporate-welfare standpoint, the city continues to lavish subsidies on public-private downtown partnerships. Five months after exiting bankruptcy, the city handed out millions of dollars "to the worldwide corporation that manages Stockton Arena, the ballpark, the Bob Hope Theater and Oak Park Ice Arena," reported the *Record*'s Roger Phillips. The city in 2015 spent $6 million to operate those facilities, which is 1.7 percent of the city's annual general-fund spending. Predictably, city officials defended the spending because it improves the city's "quality of life."

Weeks after it exited bankruptcy, the city also approved the Cal Weber Project, described by the *Record* as a "$14 million public and private investment" designed to transform a city block with affordable housing apartments and retail stores. The city's pitch sounds eerily similar to the language it used for projects that officials used for projects that preceded the bankruptcy. "Really it's a catalyst for potential new development and new expansion to come after it," said Stockton's economic development director.

In 2017, the Stockton City Council unanimously approved the Open Window redevelopment project, a "planned 15-square-block mixed-use downtown development" with "about 1,000 residential units, 90,000 square feet of commercial space and 110,000 square feet of industrial/art studio space," according to the *Record*. The city is spending more than $6 million in public funds to bolster the $67.5 million project.

The bottom line: Money is fungible. If cities misspend on corporate welfare – public-private partnerships, if you prefer – it only compounds their existing fiscal problems and makes them unable to react to unexpected economic downturns. When cities promise that such projects will be catalysts to new projects or will bring in a windfall of revenues, taxpayers ought to look back at past promises and see if they ever came to fruition.

New subsidized hotels, arenas and whatnot may indeed be physically beautiful and might even be a source of civic pride, but that's no excuse for imperiling a city's long-term economic future or for raising taxes to pay for the amassing debt. And there are few things that undermine civic pride more than cutbacks in traditional services – and the bad publicity that stems from municipal bankruptcy and the other fruits of fiscal malfeasance.

L.A.'S BILLION-DOLLAR HOTEL SUBSIDIES ARE UNACCOUNTABLE AND IRRESPONSIBLE

BY STEVEN GREENHUT

Los Angeles is the nation's second most-populous city, with a population larger than 24 U.S. states, so the scale of its corporate subsidies dwarfs those found in most other cities. But it follows the template one will find virtually everywhere: Officials make grandiose predictions about the benefits of such projects; they fail to measure the results with exactitude; they keep financial details under wraps; even as past results fall short of public promises, city leaders tout new projects.

Instead of rigorously analyzing the costs and benefits of these so-called "investments," LA's civic leaders trade in bromides. Take, for instance, the city's subsidies for hotel developers. "They have allowed us to attract these large conventions, and these large conventions bring an amazing amount of economic impact and bed tax to the general fund," said Doane Liu, head of the city's tourism department, as quoted in a *Los Angeles Times* report.

Typically, officials promise new jobs and tax revenue, but assume that private hotel developers wouldn't build hotels in Los Angeles without public assistance. That's not necessarily the case. Downtown Los Angeles is booming and there's a real market niche to be filled satisfying the demand for hotel beds around the Los Angeles Convention Center.

Don't totally blame the developers. They're a savvy bunch, and they certainly will take tens of millions of dollars if city officials are willing to offer it to them. But that doesn't mean they wouldn't build a project without them. As the Real Deal noted, "Hotel development, both in L.A. and across California, remained strong in the first half of the year, fueled by high occupancy rates and profitable revenue streams." This is not an industry that's suffering through hard times.

Nevertheless, Los Angeles city officials have plowed a whopping $1 billion dollars into myriad hotel and corporate subsidies between 2005 and 2018. Despite the scale and supposed sophistication of LA's governing class, the city still lacks a "rigorous analysis" for determining whether these "investments" provide the promised amount of tax revenues, new jobs and related public improvements, according to last year's report from City Auditor Ron Galperin.

The audit does a remarkable job spotlighting the problem with such subsidies in Los Angeles and elsewhere. But it should be a wakeup call for cities across California.

In particular, the auditor found that Los Angeles' current system for analyzing the benefits of these outlays does little more than add up anticipated revenues from the projects, while failing to "consider potential 'cannibalization' – that is the loss of tax revenues that could occur, for example, from an older hotel when a new one goes up nearby." The city also lacks a rigorous framework for evaluating which projects to support and a means to enforce the terms of the agreements. Given the amount of money at stake, these failings are troubling.

The detailed and incisive report hasn't stopped the City Council from doubling down on its subsidy-laden development approach. "The city is on track to surpass its goal of building 8,000 hotel rooms within walking distance of the Los Angeles Convention Center by 2020," according to a May 14 article in Curbed LA. "Earlier this month, it approved a deal to give $17.3 million to AECOM for a 258-room, 16-story hotel at 1155 South Olive Street."

As the report explained, the city of Los Angeles provided "incentive agreements" totaling $654 million to the Headquarters Hotel (now a J.W. Marriott and Ritz Carlton), the Wilshire Grand Hotel (now an InterContinental), the Olympic North Hotel (now a Courtyard Marriott), the Metropolis Hotel (now a Hotel Indigo), and the Village at Westfield Topanga. The city approved another $345 million for three other projects, bringing the total to $999 million. For comparison, that's nearly a quarter of South Dakota's total annual state budget.

It's hard to believe that Los Angeles – one of the nation's great tourist meccas – would be at a loss for luxury hotel rooms if the city's highly taxed citizens weren't forced to pay part of those hotels' costs. It's even more difficult to believe that officials negotiated the best-possible deal given their eagerness to see the projects built. The auditor gently chides the city on the latter point.

"I am not convinced at this time that the city has the kind of expertise that would put us in the best negotiating position," Galperin told the *Times*. His report recommends that Los Angeles hire "individuals with the requisite practical and legal experience in proposal evaluations and negotiations with developers and their counselors." In other words, city officials often get rolled by more skilled developers. These projects leave the city on the hook for as long as 25 years, so the ill effects of poorly crafted deals can linger for a very long time.

The auditor makes a number of other reasonable and specific suggestions. For instance, the report calls for codifying a process to ensure that the city "identifies clear and measurable goals." It calls for a more thorough evaluation of the "feasibility gap," which is the claimed difference between the cost of the project and its market value. It suggested more thorough efforts to determine whether these projects can be built with fewer public dollars.

It also recommends an analysis of the projects after their completion, annual reporting of job creation and tax revenues, and better "clawback" provisions, so the city can recoup some of its costs if the promises don't pan out. "It's essential that every deal be maximally transparent and advantageous to taxpayers," Galperin said in a statement. "That is why we need a clear roadmap to ensure consistency, fairness and value for those we serve."

Those are excellent suggestions and the auditor deserves credit for making them. It's not his job to establish public policy, but to assure that such policies are implemented in as fiscally responsible and transparent manner as possible. But ultimately the best suggestion is the simplest one: Los Angeles city officials, who face constant budget pressures to provide basic public services, need to stop handing out hundreds of millions of dollars to developers to build hotels and assorted projects. They ought to be funded entirely by private investors.

The city really doesn't need to study the "feasibility gap"; if a project is not financially feasible, then it shouldn't be built. City officials don't need to toughen up their contract provisions to claw back public dollars; there should be no public dollars – beyond the normal road and infrastructure costs associated with any project – to be retrieved.

The city doesn't need to produce more reports – because hotel developments should mainly be the business of the companies that build and operate them. The city's "measurable goals" should focus on its provision of infrastructure, parks and social services, not whether it secured the right number of hotel beds to serve a convention center. Taxpayers in Los Angeles and other cities that lavish such subsidies do in fact need a "rigorous analysis." It's time for them to analyze why their elected officials are so irresponsible with public money.

FOUR THINGS YOU CAN DO

LIBERATE MARKETS

State and federal policies have tremendous impact on – but not total control over – local markets. There are powerful tools available to local officials who want real economic development. Counties, cities, school districts and other local agencies can reduce cumbersome regulation; cut taxes; invest in first-world infrastructure; fight for high-quality K-12 public education (including competitive charter schools); and always – always – insist on sustainable, transparent public finance.

This agenda puts local officials on offense: instead of merely opposing the corporatists in and out of government, you can offer effective, proven alternatives. The California Policy Center and CLEO can provide policy and messaging training in each of these areas.

CRAFT MUTUAL AGREEMENTS WITH NEIGHBORS

In regional trainings of California Local Elected Officials (CLEO), we often hear officials say something like this: "I'm all for ending corporate welfare. But if my city refuses to give subsidies to a major employer that is demanding them, that company will simply go across the city limits and bring their jobs and tax revenue to that city."

It's hard to resist the impulse to join in this race to the bottom, this competition to outbid one's neighbors for the short-term political payoff of a headline-creating "jobs project." But George Mason University's Mercatus Center is developing a unique response to the problem of battling subsidies. They're bringing together local officials who represent multiple neighboring jurisdictions. These officials are encouraged to create MOUs (memorandums of understanding) that bind their respective government agencies to ban corporate welfare and to compete with one another only on the basis of the free-market initiatives described briefly above.

BAN CORPORATE WELFARE IN YOUR COMMUNITY: THE FAIRNESS IN BUSINESS ORDINANCE

Article 16 Sec. 6 of the California Constitution offers what may be the greatest weapon in the arsenal of anyone hoping to eliminate corporate welfare. Also known as the "gift clause," this provision in our state's governing document declares that public officials "shall have no power to give or to lend, or to authorize the giving or lending, of the credit of the State, or of any county, city, township or other political corporation or subdivision of the State now existing, or that may be hereafter established, in aid of or to any person, association, or corporation, whether municipal or otherwise, or to pledge the credit thereof, in any manner whatever, for the payment of the liabilities of any individual, association, municipal or other corporation whatever; nor shall it have power to make any gift or authorize the making of any gift, of any public money or thing of value to any individual, municipal or other corporation whatever."

This is a remarkable, commonsense ban on an official's right to hand out the public's property. But it has been virtually forgotten. Through decades of fights over the environment, housing, transportation, education, government unions, the poor, the media, and water – over everything, in other words – our elected officials have generally ignored the Gift Clause. Instead, like thieves fighting over stolen goods, our state and local officials typically argue only about whose friend should receive the wealth they take from others.

Our proposed "Fairness in Business Ordinance" leverages the gift-clause to ban the practice of corporate welfare. Here is a sample of the ordinance, using the fictional city of "California Town" as an example:

Ordinance No. _____

AN ORDINANCE OF THE CITY OF CALIFORNIA TOWN ADDING A LAW INTO THE CODE OF ORDINANCES, TITLED "THE FAIRNNESS IN BUSINESS ORDINANCE"; PROVIDING FOR FINDINGS OF FACT; PROVIDING A REPEALER; PROVIDING SEVERABILITY; PROVIDING CODIFICATION; CONFIRMING PROPER NOTICE AND MEETING; AND PROVIDING FOR AN EFFECTIVE DATE

WHEREAS the CITY OF CALIFORNIA TOWN enacts this new Fairness in Business Ordinance to allow for a fairer process for all businesses and individuals who reside and work within our municipality; and

WHEREAS the CITY OF CALIFORNIA TOWN wants to foster trust in our municipal government; and

WHEREAS the CITY OF CALIFORNIA TOWN believes that our municipality both elected and non-elected have a responsibility to provide an equitable playing field to all businesses and individuals looking to do business within the boundaries of our municipality; and

WHEREAS the CITY OF CALIFORNIA TOWN has realized that there is a responsibility to ensure that our municipality does not favor some businesses and individuals over others; and

WHEREAS the CITY OF CALIFORNIA TOWN is dedicated to enhance trust of our citizenry by providing equal rules to all businesses, disallowing subsidies and separate incentives to one entity without it being provided for every other business working within the boundaries within the municipality; and

WHEREAS the CITY OF CALIFORNIA TOWN provides that decision makers provide equal stewardship of agency resources and assets; and

WHEREAS the CITY OF CALIFORNIA TOWN intends for this ordinance to be a framework to oppose all forms of corporate welfare and crony-capitalism by disallowing incentives being offered to one business of any kind without every other business being placed under the same rules or given the same subsidy; and Fairness in Business Ordinance Requirements The CITY OF CALIFORNIA TOWN shall adopt a fairness in business ordinance. The ordinance shall prohibit any subsidy or business incentive from being provided to one business for their gain without the same subsidy or business incentive being given to all businesses that fall within the jurisdiction of the municipality. The agency may adopt stricter standards than those which appear in state law, but this fairness in business ordinance shall at a minimum include the following components:

(1) Definition of a subsidy or business incentive is any tax break or incentive given to a business in order for them to be incentivized to pursue or engage in a project or business venture within the municipality's boundaries;

(2) Avoiding the appearance of treating one business differently than another; and

(3) Administration and enforcement of the fairness in business ordinance, including the power to rectify any appearance of unfairness by allowing the same rules to apply to all businesses.

and

WHEREAS gifts of government resources to private organizations – in the form of subsidies to corporations, for example, the payment of invalid claims, or payments made under unlawful contracts – are unlawful in California

WHEREAS Article 16 Sec. 6 of the California Constitution – the "gift clause" – declares that public officials "shall have no power to give or to lend, or to authorize the giving or lending, of the credit of the State, or of any county, city and county, city, township or other political corporation or subdivision of the State now existing, or that maybe hereafter established, in aid of or to any person, association, or corporation, whether municipal or otherwise, or to pledge the credit thereof, in any manner whatever, forthe payment of the liabilities of any individual, association, municipal or other corporation whatever; nor shall it have power to make any gift or authorize the making of any gift, of any public money or things of value to any individual, municipal or other corporation whatever."

IF YOU CAN'T STOP CORPORATE WELFARE
How to reduce the risks of corporate welfare

Even if you're operating in the minority on your agency board, you can educate the public, discipline reckless public officials, and bring much-needed light to crony capitalist deals. Here's a short list of requirements that ought to be a prominent part of the discussion of any corporate welfare or business incentive.

1 Alternatives to subsidies Ask your colleagues to consider whether they can produce the same public benefits without spending the public's money. Would alternatives – reducing cumbersome regulation; cutting taxes; investing in first-world infrastructure; fighting for high-quality K-12 public education (including competitive charter schools); and working to make public finance transparent and sustainable – create ample incentives for economic development?

2 Demand "equal access" This is a public policy spin on the Golden Rule – and a feature of our model ordinance: all subsidies or incentives provided to one business must be provided to all businesses within the jurisdiction of the government agency. Your opponents may find it hard to argue the contrary – that the people's property should be given away to politically connected popular businesses but not others.

3 Guarantees, not promises Demand that advocates of subsidies translate their promises into guarantees. If project backers say subsidies will produce 250 new jobs, require that they make that a guarantee. If they agree, you've gone a long way toward reducing the risks of corporate welfare; if they refuse, you may still win: public support of subsidies often evaporates at first contact with a failure to guarantee outcomes.

4 Transparent If you can't stop corporate subsidies and incentives, you can make them more transparent. All stakeholders (the public, government officials, corporate vendors) must have easy access to the costs and guaranteed public benefits of any corporate subsidy and incentive program. Project costs and benefits must appear in a detailed, publicly available plan that itemizes the work to be paid for and the guaranteed public benefits – e.g., the number of jobs created or the additional tax revenue generated. These benefits must be specific, measurable and definable. The assertion that a subsidy "will improve the local economy" is not measurable; that it "will generate sales tax revenue of $12 million annually" is specific and measurable.

5 Bonds Most bond measures fall short of providing itemized budgets that clearly explain the use of funds, which magnifies the opportunities for wasteful spending. If the project will be funded with bond proceeds, how will bonds be issued and proceeds spent? What are the upfront costs of issuance? How will the government agency repay interest and principle? What government services will be cut if project revenue is lower than predicted? (See "How to identify a 'good' bond" on the California Local Elected Officials website for more guidance.)

6 Maintenance When new construction is taxpayer-financed, how much cash will be set aside for ongoing maintenance of these facilities? Can this maintenance cost be funded out of operating budgets?

7 Project Labor Agreements Another violation of the constitution's gift clause occurs every time government insists that project vendors use only union labor – what's known as a Project Labor Agreement. By excluding non-union companies from the bidding process, local elected officials almost certainly maintain the political favor of powerful unions – but I do so at a tremendous expense to the public. California Policy Center's analysis reveals that PLAs inflate project costs from 10 percent to 40 percent. All of that expense is borne by taxpayers. If the corporate project doesn't explicitly prohibit these cost-boosting PLAs, then it is likely they will be incorporated.

8 Oversight How will the projects be monitored? Who will sit on the oversight board? And how will you screen out prospective overseers with conflicts of interest? What authority will the citizen board have if they uncover misuse of funds? Will the board have the authority to stop work on a failing project – or even to impose penalties for failure to meet guaranteed project outcomes?

EPILOGUE
A FIFTH THING YOU CAN DO

If you want to join the movement for good government, join California Local Elected Officials.

CLEO is a free, membership-based organization that trains, supports and advises some 1,000 local elected officials throughout the state – in school districts, city councils, county boards.

CLEO members are elected officials who stand for financial sustainability, government transparency and personal liberty. They often operate in isolation. They can't count on independent policy assessments from their fellow officials, and often not even from the city staffers whose self-interest and training guide them toward more costly government. Powerful special interests apply constant pressure to already strained agency budgets.

Facing tough decisions and sometimes surrounded by controversy, CLEO helps public officials keep their eyes on the prize: the creation of a free and prosperous California.

CLEO supports the courageous minority, giving local elected officials actionable, independent policy analysis by

- Sharing best-practices, model ordinances and resolutions
- Encouraging statewide cooperation with other local officials on the three principles of transparency, financial sustainability and freedom; and
- Defending its members by educating their constituents through public workshops and media.

THE CLEO ADVISORY BOARD

CLEO's advisory board is made up of current and former local elected officials with deep experience in government. Like you, they've had to grapple with complex policy issues, bargain with union leaders, balance budgets – and through it all communicate effectively with constituents. They help us get answers to your questions fast.

Visit the CLEO website and hit the hotline button to get expert guidance.

OUR PARENT ORGANIZATION

CLEO is a project of the nonprofit California Policy Center. The California Policy Center is a non-partisan educational organization focused on securing a freer, more prosperous California by identifying public-sector barriers to freedom and economic growth and proposing alternative solutions. Learn more about CPC at:

CaliforniaPolicyCenter.org

HOW CLEO IS FUNDED

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WWW.CALOCALELECTEDOFFICIALS.ORG

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