Using Ballot Measures to Drive Economic Investment in States and Metropolitan Areas

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Summary

Throughout the nation, elected leaders and voters alike increasingly understand that some level of public investment will be necessary in order to set their economies on the path to widely shared prosperity. However, conventional budgetary processes are in many instances failing to address the critical economic challenges confronting American communities. As a result, states and metro areas are increasingly seeking other ways to finance large-scale, economy-shaping efforts. Ballot measures represent one possible tool that leaders can use to secure funds for critical investments in economic growth amid diminished federal support and continued fiscal challenges at the state and local levels. Initially conceived as a check on corporate interests and a way to effect reform, legislative referendums and citizen-initiated measures today can offer an alternative vehicle when further investment is needed and cannot be obtained through traditional channels.

Introduction

A rebalancing of power dynamics is underway throughout the United States. At the federal level, profound dysfunction—epitomized by ongoing budget battles, debt ceiling stalemates, and the recent 16-day federal government shutdown—has become the new normal. As Washington lurches from one crisis to the next, leaders in states and metropolitan areas are working to establish a more resilient economic growth model that prizes exports and global engagement, advanced energy and low-carbon solutions, innovation and expanded opportunity. As Bruce Katz and Jennifer Bradley have argued, a "metropolitan revolution" is afoot, with "cities and metros ... driving the conversation, making transformative investments in the public goods that undergird private investment and growth."[1]

However, there is a problem: As state and metro leaders take action to reshape their economies, they are increasingly finding conventional budgetary processes ill-suited to the task of addressing the critical economic challenges confronting American communities. In decades past, states and metro areas could rely on the federal government to provide funds for the types of investment needed to catalyze economic growth. For instance, in the years following the end of World War II, federal investment in high-tech research and development, education and skills training, and transportation infrastructure, inspired in large part by the geopolitical imperatives of the Cold War, set the nation on a path to global economic dominance in the latter half of the 20th century.

Today, by contrast, the federal role in providing such funds is steadily declining. With the Budget Control Act of 2011 placing downward pressure on discretionary spending through 2021, federal funding for investment in such critical economic drivers as infrastructure, education, and basic research is projected to decline to its lowest levels in at least a decade.[2] Meanwhile, demographic trends such as the aging and retirement of the baby boom generation as well as rising health care costs require a shift in federal spending priorities in order to meet the growing financial obligations of the Social Security, Medicare, and Medicaid programs.

States and localities, meanwhile, are contending with their own budget challenges. Though tax revenues have begun to rebound from their Great Recession nadirs, economic uncertainty persists and a cautious attitude prevails in many state capitals and city halls.[3] In addition, underfunded pension liabilities at the state and municipal levels raise questions about the public sector's ability to make good on commitments to pensioners and bondholders alike.[4] Faced with diminished federal support and continued fiscal constraint at the subnational level, states and metro areas are now seeking other ways to finance large-scale, economy-shaping efforts.

This search for alternative approaches has led some leaders to look to ballot measures, a longstanding mechanism for effecting change, as a potential solution. Rooted in a tradition of American popular self-help, legislative referendums and citizen-initiated measures can give voters the opportunity to determine how the government should respond to the pressing issues of the day. By appealing to voters directly to secure funds for needed investments in innovation, education, and infrastructure, some state and metro leaders are working to address the challenges facing their area economies.

The measures passed in November 2012 alone highlight public support for forward-thinking interventions designed to bolster area economies. From closing business tax loopholes in order to fund clean energy projects to investing in prekindergarten programs, postsecondary educational facilities, and transit infrastructure, voters have proven their willingness to invest tax dollars in ways that strengthen the economy and foster more widely shared prosperity.[5]

Looking forward, ballot measures will likely continue to play an important role as a vehicle for public investments in a broad range of economically critical areas. As leaders in states and metropolitan areas formulate new post-recession economic development strategies, they would do well to explore how initiatives and referendums have been used in the recent past to fund public investment in economic growth. By learning from these earlier efforts and carefully weighing ballot-driven financing mechanisms against other available modes of public finance, states and metro areas will be well positioned to identify the approach best suited to their goals.

Ballot Measures and the Next Federalism

America's initial impulse toward ballot measure use dates back to the 1890s, when those in the Populist movement, frustrated by what they perceived as government complicity in and support for corporate monopolies, called on states to adopt the initiative and referendum. Drawing on long-held notions of popular sovereignty and anti-monopoly sentiment, Populists argued that direct democracy would allow citizens to take matters into their own hands and end the political influence of corporate special interests.[6]

Although the Populist movement was short-lived, agitation for ballot measures persisted. In the early 20th century, Progressive Era reformers took up the cause of direct democracy, forging alliances with a variety of constituencies, including organized labor, farmer associations, and temperance activists. Working together, these diverse interests pressed state governments to institute the initiative and referendum.[7]

Today, with Congress paralyzed with partisan stand-offs and budgetary constraints, these concerns have reemerged, inspiring citizens to again seek new ways to contend with government dysfunction and lack of responsiveness to pressing policy matters. It increasingly appears that states and metropolitan areas must now engage as more active partners in the work of governance and economic development. Growing numbers of leaders now speak of the need for subnational self-assertion in order to co-produce the policies and programs needed to restructure the economy and bolster American competitiveness in the global marketplace. In so doing, states and metros can move the nation toward a new, next form of federalism, one that is predicated on collaboration, pragmatism, and problem-solving.

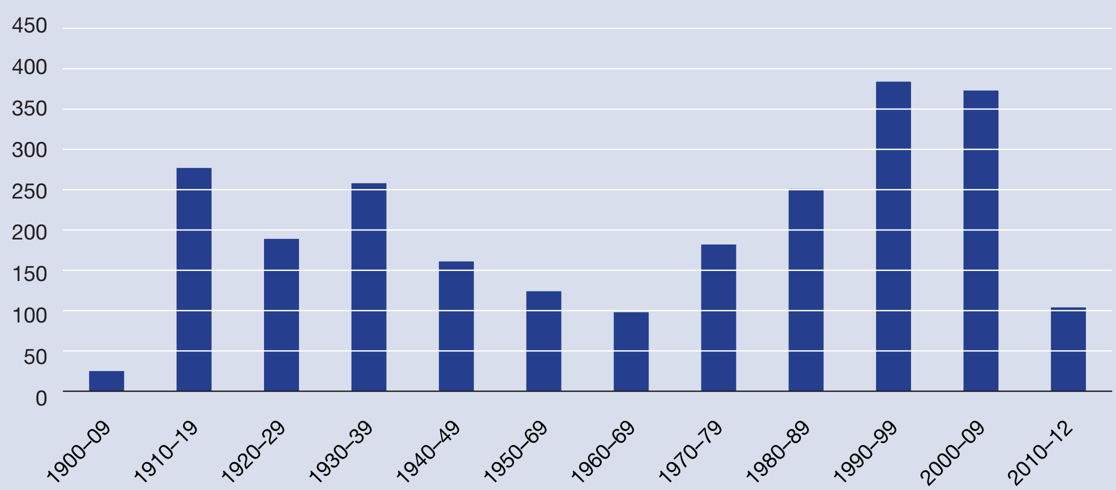
Fostering greater engagement between the public and private sectors, finding new uses for existing funding streams, and aligning current programs to regional economic priorities will all play a role in driving this transformation. But when further investment is needed and cannot be secured through traditional channels, ballot measures may offer an important alternative course of action.

To a certain extent, ballot measures are emblematic of the decentralized problem-solving that federalism has always sought to make possible. Those states and localities that authorized use of the initiative and referendum leveraged federalist devolution of power in order to provide additional policymaking channels rooted in the consent of the governed.

Legislative referendums give state legislatures the option of allowing voters to decide whether a certain measure should be enacted. This form of direct democracy can trace its lineage to the mid-19th century, when legislatures drafting state constitutions made popular approval a criterion of implementation. Citizen-initiated statutes and amendments are a more recent innovation allowing members of the public to advance policies that for whatever reason have been neglected by elected officials. This explicitly popular mode of direct democracy was initially envisioned in part as a check on the crony capitalism of late-19th and early 20th-century America.

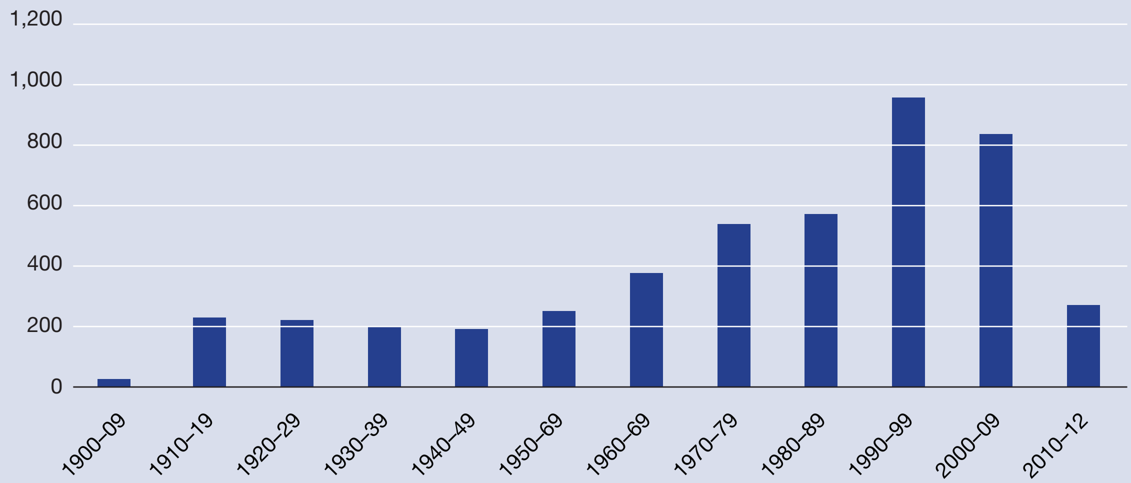
The turn toward the ballot box is not a new phenomenon; rather, it is part of a longer-term trend that steadily gained momentum over the course of the 20th century. In the decades following the 1978 passage of California's Proposition 13, which inaugurated what some have described as the modern initiative movement, initiative use—those measures placed on the ballot by citizens—rose and remained consistently high following a peak in the 1990s. Legislative referral of measures by the state legislature to the voting public has followed a similar upward trend, with the number of referendums more than doubling between the 1960s and the 1990s (Figure 1 and Figure 2).

Figure 1. The use of state-level initiatives rose in the decades following the passage of Proposition 13



Source: National Conference of State Legislatures Ballot Measures Database

Figure 2. The use of legislative referendums has also increased in recent decades.



Source: National Conference of State Legislatures Ballot Measures Database

Proposition 13 and the Resurgence of State-Level Direct Democracy

Over the course of the 20th century, citizens in states allowing ballot measures used direct democracy to effect change on a wide variety of issues, ranging from taxation and public finance to public morality and social welfare.[10] However, it was the surprise passage of California's Proposition 13 in 1978 that returned ballot measures to the national spotlight. Often referred to as the "taxpayers' revolt," this citizen-initiated constitutional amendment capped property taxes at 1 percent of assessed value and mandated a two-thirds majority to pass revenue bills in the state legislature. Though widely opposed by state politicians on both sides of the aisle, California voters approved Proposition 13 by a two-to-one margin.

The electorate's support for Proposition 13 was in large part a reaction to tax policy at the state and local levels, which over the years increasingly came to depend on property and personal income tax revenue. Rising inflation exacerbated the problem, resulting in "as much as a tripling of an individual homeowner's tax bill." Frustrated by growing tax burdens, conservative political activists Howard Jarvis and Paul Gann set out to limit taxes using the ballot box. The success of their effort sparked similar campaigns in other states, with some working to restrict spending and/or taxation through legislative processes and others seeking limits on taxation and public expenditures via ballot measure.[11]

By placing severe strictures on property tax rates, Proposition 13 dramatically reduced funding for local governments, which relied heavily on such revenue to fund public schools, county budgets, municipal budgets, fire departments, and other public services. At the same time, the measure's supermajority requirement constrained state legislators' ability to secure revenue for services that residents expected from the state, such as higher education and transportation infrastructure investments and social safety net spending. Similar negative outcomes have surfaced in other states that have implemented tax and expenditure limitations (TELs). A prominent example of the adverse effects of TELs is Colorado, where in 1992 voters enacted the Taxpayer Bill of Rights (TABOR), one of the most restrictive tax limitation requirements in the nation.[12]

Despite the growing popularity of ballot measures as a means of policymaking, state leaders have only recently begun experimenting with the use of initiatives and referendums to bolster economic growth. From a $3.1 billion bond issue for North Carolina's community colleges in 2000 to California's $3 billion Stem Cell Research and Cures Initiative in 2004, a handful of states have employed ballot measures to fund and advance large-scale economy-shaping actions. Though limited in number, these measures suggest how leaders might use initiatives and referendums to finance specific investments in area economies.

How Can Ballot Measures Help Strengthen the Economy?

Even as state and municipal budgets continue to struggle with the aftereffects of the Great Recession, leaders and voters alike increasingly understand that some level of public investment will be necessary in order to set their economies on the path to widely shared prosperity. Given that the federal government is no longer a reliable partner for such investments, states and metro areas must look to other instruments. Ballot measures represent one such tool that leaders can use to secure sufficient funding for critically needed investments in area economies.

Three categories of economy-shaping investment have been shown to have particular resonance with the voting public. Support for innovation and technology tends to be high, as demonstrated by a 2010 Pew Research Center survey in which 68 percent of people polled held a positive view of the technology sector.[13] Education is another policy priority held by many, both with regard to K-12 schooling and postsecondary education.[14] Lastly, many voters regard infrastructure investment as an essential use of public funds. A 2011 survey by the Rockefeller Foundation found that two-thirds of those polled believe "improving the country's transportation infrastructure is highly important."[15] The popularity of innovation, education, and infrastructure among voters at both the state and regional levels suggests that ballot measures might offer a way to advance public investment in these three areas and, by extension, inspire growth in the broader economy.

Innovation

Ballot measures have shown promise as a tool for facilitating critical investments to address the market failures that limit innovation activity. Funding for basic research activity, support for the commercialization of new technologies, and help for early-stage firms in the so-called "Valley of Death" between proof-of-concept and stable revenue flow are all ways that public funds can make a sizable difference in the health of area economies.[16]

Over the past decade, several states have leveraged the tech sector's popularity with voters and taken action through the ballot box to support innovation-intensive economic development efforts. For example, in November 2004, California voters approved Proposition 71—the California Stem Cell Research and Cures Initiative—which authorized a $3 billion investment in stem cell research at a time when new federal rules sought to curtail certain types of scientific inquiry in this field. Supporters made the case for this measure in economic terms, pointing to the potential savings in healthcare expenditures that stem-cell-based cures could produce as well as the positive effects such investment could have on the state economy. Voters concurred, passing the measure by a sizable margin (59.1 percent).[17]

In Ohio, voters twice authorized the issuance of general obligation (GO) bonds to fund the state's $2.3 billion Third Frontier initiative, which supports technology-based economic development strategies. Investments made through Third Frontier work to cultivate an innovation ecosystem that fosters new ideas and helps companies expedite the process of moving technologies and products from lab to market. In 2005 and again in 2010, Ohioans voted for sizable expansions of Third Frontier ($500 million and $700 million, respectively), thereby demonstrating their commitment to targeted interventions to support innovation-powered economic growth.[18]

More recently, in November 2012, California voters approved Proposition 39, the Income Tax Increase for Multistate Businesses Initiative. This citizen-initiated statute provides funds for needed investments in California's clean energy economy and public school system by closing a $1 billion tax loophole for multistate businesses. Although opposed by out-of-state businesses and others fearful of the measure's effect on the state's business climate, Proposition 39 garnered support from a wide, bipartisan range of individuals and organizations and ultimately passed with 60 percent of the vote.

Investing in Innovation—The California Stem Cell Research and Cures Initiative

In August 2001, President George W. Bush announced his decision to restrict federal funding for stem cell research to those stem cell lines already in existence. In the months that followed, a small minority of states began the search for ways to circumvent such restrictions. The California legislature passed a bill authorizing "derivation and use of…stem cells from any source," provided that such research was first cleared by an institutional review board.[19] However, in the absence of federal funding, California researchers still lacked the means to undertake such work.

Proposition 71 aimed to address this problem by furnishing sufficient funds to allow now-restricted stem cell research to proceed using only non-federal funding. This citizen-initiated constitutional amendment authorized the issuance of $3 billion in general obligation (GO) bonds for stem cell research, to be administered by the California Institute for Regenerative Medicine (CIRM), a state agency created by the measure.[20] Through Proposition 71, California aimed to establish itself as a world leader in the biotech field, creating jobs and bolstering the state economy in the process.[21]

The investments authorized by Proposition 71 have had a marked effect on the California economy. An external evaluation of the initiative's progress in 2010 found that CIRM had "built significant additional research capacity in the state … attracted scores of talented young people to stem cell research, and … catalyzed large and important stem cell projects across the state."[22] In addition, projects funded through the initiative "generated 25,000 job years and attracted over $1 billion in matching funds from private donors, institutions, industry, and foreign governments."[23] The case of Proposition 71 provides a strong example of how ballot-driven funding can be used to build innovation capacity and foster growth in a particular field.

Taken together, the passage of these measures highlights citizens' support for large-scale public investment in innovation activity, particularly when such efforts promise greater prosperity, job creation, and economic growth. These victories at the ballot box, when combined with the demonstrable return on investment produced by these measures, underscore the broad popularity of technology and innovation-related efforts with voters and suggest that ballot measures can be an effective mechanism for launching transformative efforts to increase innovation and cultivate strong area economies.

Education

Investments in education have also proven amenable to the ballot measure route. As the GI Bill demonstrated in the postwar era, investment in education and skills training represents a critical element of any effort to strengthen the economy. Concern about American workers' ability to keep pace with the ever-evolving global marketplace has prompted interest in state-funded efforts to improve education and skills training, particularly at postsecondary institutions. Although education measures do not always pass, as the recent failure of Colorado's Amendment 66 revealed, voters' ongoing interest in improving the U.S. education system often translates to success at the ballot box.[25]

While school bond issues are commonplace at the local level, a few states have repurposed this approach for large capital investments in postsecondary education. In 2000, North Carolina voters authorized $3.1 billion in GO bonds to provide funds for needed capital improvements in the state's community colleges and public universities. The campaign for the measure explicitly connected these capital investments to the health of the economy by highlighting the critical importance of these institutions to the state's workforce development pipeline.[26]

In 2012, New Jersey voters approved a similar (albeit smaller) legislatively referred bond issue for capital improvements at the state's public and private postsecondary institutions. As was the case in North Carolina, proponents of New Jersey's $750-million Building Our Future bond act framed investment in postsecondary education as an economic concern. The text of the act insisted that "New Jersey's economic competitiveness and prosperity are directly related to the

Investing in Education—North Carolina's Michael K. Hooker Higher Education Facilities Financing Act

In 2000, North Carolinians voted to authorize the largest higher education bond issue in U.S. history. The Michael K. Hooker Higher Education Facilities Financing Act provided $2.5 billion for capital projects at state universities and $600 million for similar improvements at the state's community colleges. The investments made possible by this bond issue also helped stimulate employment by creating more than 88,000 design and construction-related jobs.[27]

Many proponents saw the bond issue as a matter of basic economic competitiveness, given that North Carolina's community colleges and universities have primary responsibility for training the state's workforce. Advocates argued that obsolete facilities and inadequate capacity would undermine the quality of North Carolina's postsecondary institutions, which would in turn diminish the state's ability to compete in the global marketplace.[28] Thus a vote for the bond issue was, in supporters' estimation, a vote not only for the modernization of the state's postsecondary institutions but also a sound investment in North Carolina's economic future.

This message resonated with voters, almost 74 percent of whom voted in favor of the measure.[29] This sizable margin of victory affirms that ballot measures can prove an effective route for obtaining funding when major capital investments in educational facilities are needed.

quality and capacity of its colleges and universities" and argued that the investments made possible through the bond issue would help "stem the outmigration of talented students, and ensure the educated workforce necessary to retain and attract business and industry" to the state.[30]

As the cases of North Carolina and New Jersey show, voters often respond affirmatively to ballot measures that connect the modernization and expansion of community colleges and universities to the role that these institutions play in cultivating a skilled workforce and, by extension, a healthy economy. By going to the ballot for these investments, state leaders were able to leverage popular support for education in order to create jobs in the short term and ensure that their postsecondary educational systems were well-positioned to prepare individuals for the employment opportunities of the 21st century.

Infrastructure

Infrastructure investment is perhaps the most familiar focus for ballot-driven financing. Ballot measures have traditionally played an important role in securing funds for infrastructure investment, particularly at the local level. Because such investments are often financed using GO bonds, which in many places first require popular approval, regions and municipalities frequently go to voters for decisions on funding public transit systems, bridges, road construction, water and sewer improvements, and a whole host of other infrastructure projects. Such measures tend to fare well because voters recognize that investments in the built environment enhance economic competitiveness by ensuring that people, goods, and information can be moved safely and efficiently.[31]

At the state level, ballot measures on infrastructure investments are far less common. This is likely due at least in part to the fact that a statewide measure can set a much higher bar for passage. For infrastructure measures as for all ballot-driven endeavors, the odds of success stand to improve if the voting population can be confined to those who will see a clear benefit from the measure. Since infrastructure investments tend to be more localized in their effects, a regional or municipal vote offers a higher likelihood of passage.

Even still, some states have on occasion put infrastructure questions to their voters. For example, in 2008, California voters approved Proposition 1A, a legislatively referred measure that authorized nearly $10 billion in GO bonds for the construction of a high-speed rail system connecting San Francisco and Los Angeles. Although progress on this project has faced a number of delays and cost projections now exceed initial forecasts, the passage of the measure affirms that the ballot box can be an effective route for securing sizable investment in critical public infrastructure projects.[32]

In other cases, state legislators have used the referendum process to advance regional infrastructure planning. Georgia's 2012 Transportation Special-Purpose Local-Option Sales Tax (T-SPLOST) referendum asked voters in the state's 12 special districts to decide whether to authorize a 10-year, one-cent sales tax increase to fund a variety of transportation infrastructure projects.[33] This state-level referral to the regions suggests one possible strategy for encouraging greater local-level engagement and decisionmaking on matters of state and regional importance.

Although the success rates of these efforts vary and in many cases require multiple attempts to win passage, infrastructure ballot measures represent a proven tool for advancing large-scale investments in the built environment that positively affect area economies.

Regional and municipal ballot measures

In addition to state-level referendums and initiatives, ballot measures also play an important role at the regional and municipal levels. Cities and metro areas routinely ask voters to decide whether and how certain local government activities should be funded. Against that backdrop, the recent turn toward use of regional and municipal ballot measures for economy-shaping investments can be seen as an extension and expansion of the more routinized forms of bond issues and tax increase measures that frequently populate ballots.

Traditionally, sub-state measures have focused on the provision of funds for public schools, utilities districts, and other locally controlled public services. These run-of-the-mill votes give voters in a particular school district, municipality, or service area the opportunity to determine how their tax dollars should be spent, often with a requirement that any revenue raised by the ballot-authorized tax increase or bond issue be reserved for a particular purpose.

Building on the tradition of local control over public school financing, some cities and metro areas have gone to voters for more substantial investments in particular types of educational programming. Supporters of such measures have emphasized the critical link between education and economic prosperity, arguing that these targeted investments will help ensure that the educational system is up to the task of preparing students for future employment opportunities.

One example is San Antonio's Pre-K 4 SA initiative, a one-eighth-cent sales tax increase approved by voters in November 2012 to fund all-day prekindergarten for eligible four-year-olds in the region. Given the documented long-term benefits of early childhood education, proponents argued that expanded access to prekindergarten represented an important investment in San Antonio's future workforce.[34]

That same year, Houston voters approved $1.89 billion in bonds for capital improvements to area public schools and $425 million for new facilities in the Houston Community College System to support growth in health sciences, engineering, technology, and other high-growth fields. As was the case in San Antonio, the Houston campaign framed the bond issues as essential investments in the present and future economic health of the region. Though some feared that voters would balk at the price tag, both measures passed by sizable margins, demonstrating Houston voters' desire to strengthen their economy by improving the quality of the region's educational institutions.[35]

Infrastructure projects are also a common feature on regional and municipal ballots. Each election, voters make decisions about routine investments in water and sewer infrastructure, road construction, and other public works projects. But ballot measures have also been used to finance more expansive infrastructure investments. For example, in November 2004, metropolitan Denver voters approved Referendum 4A, which established a 0.4 percent sales tax to finance FasTracks, a multi-billion-dollar regional investment in light rail, commuter rail, and bus rapid transit projects. Building on lessons learned from the failed 1997 Guide the Ride campaign, the regional FasTracks campaign secured passage by giving voters specific details on the cost and timeline of the effort as well as expected economic growth, job creation, traffic mitigation, and improved environmental sustainability.[36]

Investing in Infrastructure—Georgia's Transportation Special-Purpose Local-Option Sales Tax (T-SPLOST) Referendum

Securing funds for infrastructure projects via state-level legislative referendum can prove difficult given that success at the ballot box hinges on whether individual voters believe the investments will positively affect their lives and their communities. In order to circumvent this challenge, the Georgia legislature developed a creative approach that used a state legislative referendum to place regional infrastructure measures on the ballot.

Through the Transportation Investment Act (TIA) of 2010, Georgia legislators worked to encourage regional infrastructure planning and investment by requiring each of the state's 12 special districts to develop a list of projects to be funded using revenues from a one-cent sales tax increase. With these lists in hand, Georgians would then vote to determine whether their region would impose the tax increase and carry out the designated projects. If approved by each of the 12 districts, the increase would have provided $19 billion over 10 years to fund each region's predetermined list of infrastructure investments.

Of particular note is the hybrid structure of the TIA's T-SPLOST funding mechanism. The 12 special districts created by the TIA were effectively creatures of the state, fashioned through state-level legislation that established both the geography and purview of the district. However, by requiring each special district to assemble its own project list and then vote to levy its own sales tax increase, the TIA shifted the responsibility for action from the state to the regional level. Voters in each region had the final say on whether they wanted to invest in their region's transportation infrastructure, and the outcome of a vote in one district had no bearing on any other district, thereby allowing voters in each district to act with complete autonomy.

Although only three of the 12 districts voted in favor of the tax increase, the T-SPLOST referendum offers an important model for states looking to encourage regional action via state referendum. Whether for infrastructure investment or for other types of economy-shaping projects, the hybrid approach employed by the Georgia legislature could be productively used in other instances to foster regional engagement on critical economic development concerns.

Four years later, voters in Los Angeles County approved Measure R, which levied a 30-year, half-cent sales tax to finance and expedite critical transit investments in the region. On recognizing that the state was unlikely to provide sufficient funding for needed infrastructure, leaders in the region took matters into their own hands and sought legislative authorization for a regional sales tax increase. Supporters appealed to voters by providing detailed information on the projects to be funded and the potential benefits to the region, including improved transportation safety, reduced emissions, and lower transit fares. The approach proved a success, with over 67 percent voting in favor of the measure.

* * *

The examples above suggest the types of economy-shaping investments that states, regions, and cities can undertake via ballot measure. Although financing such investments may at first glance appear an impossible task, particularly given declining federal funding, diminished public-sector budgets, and in some cases a reluctance to invest on the part of elected officials, these measures demonstrate that direct appeals to voters offer another way to secure funds, whether through general obligation bond issues, sales tax increases, or other voter-approved financing mechanisms.

Voters have time and again shown themselves willing to devote public dollars to projects that bolster innovation, strengthen educational institutions, and create the built environment necessary for economic growth. By crafting measures that provide carefully targeted investments in key economic drivers—while also making plain to voters the likely benefits and return on investment—leaders can forge ahead with efforts to reshape their economies for greater and more sustainable prosperity.

Is Direct Democracy Dangerous?

A number of thoughtful voices have expressed concern about the expanded use of ballot measures in the United States. Arguments against the use of ballot measures often center on concerns about wealthy special interests coopting the political process by placing measures on the ballot and then persuading uninformed voters to approve these measures. Some critics have gone so far as to warn that direct democracy—particularly in the form of initiatives—poses a threat to the American political system as a whole. This argument tends to hinge on the notion that allowing policymaking external to traditional legislative processes will in time undermine citizen support for representative government in general.[38]

Scholars have found little basis for such fears. Political scientists Arthur Lupia and John Matsusaka dispute concerns about special interest cooptation, asserting that "the idea that the initiative allows special interests to subvert the policy process to the detriment of the public is not supported by any of the evidence."[39] Furthermore, Lupia and political scientist Mathew McCubbin have found that, contrary to those who raise the specter of ill-informed voters legislating at the ballot box, "*limited information need not prevent people from making reasoned choices.*"[40] As is the case in elections for candidates, voters employ a variety of informational cues and shortcuts to inform their decisions about ballot measures, including who has worked to place the measure on the ballot, who supports the measure, and who opposes it. There is also evidence that voters who are undecided or uncertain about a measure's effects tend to vote against it, preferring to maintain the status quo instead of opting for changes that may or may not improve upon the current situation.[41] Taken together, these findings suggest that fears about voters who are truly uninformed causing havoc at the ballot box are exaggerated.

Which is not to say that all ballot measures necessarily produce good outcomes. Like all forms of legislation, ballot measures can produce detrimental and in some cases unexpected results. For example, the cases of California's Proposition 13 in 1978 and Colorado's TABOR amendment in 1992 show that policymaking via ballot box can have significant negative consequences that are more far-reaching than proponents ever envisioned.

Nevertheless, initiatives and referendums should not be overlooked as a tool available to drive economy-shaping investment in states and metropolitan areas. While ballot measures cannot and should not supplant traditional public finance mechanisms, they can help states and metro areas secure much needed funding for specific large-scale investments—in innovation-driven economic development, educational institutions and programming, infrastructure projects, and other crucial areas—that advance economic growth. Particularly in times of political paralysis and federal divestment, initiatives and referendums hold potential for pragmatic leaders and citizens interested in taking action to restructure their area economies for the better.

Choosing the Right Approach

The decision to use a ballot measure to authorize funding for an economy-shaping investment requires careful reflection and a clear-eyed assessment of available financing mechanisms, the political climate both within the legislature and among the public, and the likely costs involved in running a successful campaign. Only after determining that traditional channels are unfeasible—whether due to political realities or to the fact that a ballot measure is required, as is the case with certain bond issues—should leaders look to the ballot box as an option.

Once the decision has been made to pursue action via ballot measure, leaders will need to identify what kinds of measures are allowed in their particular state or locality and the rules governing use of such measures. At the state level, 18 states have a process for citizen-initiated constitutional amendments, 21 states allow citizen-initiated statutes, and 24 states let the legislature refer measures for popular vote (see Appendix for further detail). At the sub-state level, the types of measures available vary widely and often depend on rules set by the state.[42]

Legislative referendums offer one avenue for state governments interested in enabling public investment. In general, this form of ballot measure employs one of two financing mechanisms: issuance of GO bonds, which often require popular approval, or sales tax increases. Legislative referendums can prove useful in situations where there is bipartisan support for a measure but, for various political reasons, legislators would rather let voters make the final decision. However, because legislatively referred measures by definition demand passage by the legislature, a certain level of political will must exist among the majority of state legislators in order to secure a measure's place on the ballot.

GO Bond Basics

General obligation bonds, which provide long-term financing through the bond market, offer one possible source of funding for economy-shaping investments. Unlike revenue bonds, which are repaid using revenue generated from the project being funded, GO bonds are backed by the full faith and credit, or taxing power, of the issuer. Many states and localities require voter authorization prior to issuance since taxpayers are ultimately on the hook for repaying the debt.[43]

GO bonds are particularly well suited to multiyear investments like the California Stem Cell Research and Cures Initiative. Since the bulk of the benefits from the investment come only after several years of intensive research activity, GO bonds provide a closer fit between those paying for the bond issue and those benefiting from the products of the investment. GO bond financing also provides a way to avoid the vagaries of the state legislative budget cycle as well as any potential fluctuations in tax revenue due to changes in the economy.[44]

When deciding whether to use GO bonds to finance a particular investment, leaders should take into account any laws governing indebtedness as well as the level of outstanding debt owed by the state, with particular attention to how an increase in debt burden might affect the state's ability to operate. A large bond issue can constrain a state's borrowing capacity, thereby reducing funds available for the expansion of current programs or the start of new endeavors. Likewise, regions and municipalities should consider how a bond issue might affect their ability to borrow for other investments and programs, particularly given that state governments often set limits on how much debt municipalities and other entities can issue.[45]

Another factor to consider is the state's credit rating and prevailing interest rates. Although the backing of the state reduces risk for bondholders and, by extension, the cost of borrowing, states with stronger credit ratings will likely be able to issue debt at lower interest rates than those with weaker credit ratings. The same holds true for regions and municipalities. Although higher borrowing costs do not necessarily preclude the use of GO bonds, they should be factored into the decisionmaking process.

In some states, citizen-initiated measures represent another possible option. As with legislative referendums, these measures typically rely on either GO bonds or sales tax increases as the funding mechanism. However, unlike referendums, citizen-initiated measures by definition circumvent traditional legislative channels, which can prove a particular asset if the legislature is mired in gridlock. Campaigns for initiatives tend to be more expensive than those for legislative referendums given that supporters must first collect signatures from a certain proportion of registered voters in order to win a place on the ballot. Although the expense of signature collection can prove sizable, the petition phase can also serve an important educative function by raising awareness of the issue in advance of the campaign.

When exploring how to advance economy-shaping investments via ballot measure, leaders must take a number of factors into consideration before choosing the approach best suited to the circumstances. While those 24 states that allow citizen-initiated measures have greater flexibility in that the legislature need not be involved in placing a measure on the ballot, states that only provide for legislative referral can still use direct democracy to their benefit. Whether legislatively referred or citizen-initiated, ballot measures are an important option for leaders to consider when seeking funds for crucial transformative investments.

Financing Investment via Tax Increases: Some Caveats

One mechanism for financing investments via ballot measure involves asking voters to approve an increase in an existing tax or the levy of a new tax—whether on sales and use, property, income, or some other category. In either case, leaders should take into account how a new tax or a tax increase might affect individuals and businesses in the region. This point is especially critical with regard to sales tax rises. Although often seen as a more politically palatable form of taxation, taxes on consumption tend to be far more regressive than income taxes, placing a greater burden on those in lower socioeconomic brackets.

Leaders should also keep in mind that tax revenues are sensitive to economic trends and, as such, can yield far lower returns than initial projections might suggest. For example, regional infrastructure projects funded via sales tax in Charlotte, Denver, and Phoenix (among others) faced significant budget shortfalls in the wake of the Great Recession as consumers reduced spending to cope with the effects of the economic crisis. These finance challenges in turn placed strain on the regional relationships underpinning these projects, making the collaborations more tenuous and potentially reducing the likelihood of future regional efforts.[46] Property and income taxes also face the possibility of reduced revenue at times of economic downturn, as declining property values and increased unemployment erode the respective tax bases.

Given these considerations, leaders will need to weigh the potential costs and benefits of each type of funding mechanism and select the option that strikes the best balance possible for all parties involved.

Conclusion

Ballot measures offer one possible option for states and metros looking to invest in what matters most for their area economies at a fraught fiscal moment. Initially conceived as a check on corporate interests and a way to bring about policy reform, today ballot measures offer alternative routes for securing funds for the types of action needed to move the nation's states and metro areas toward a new and more sustainable economic growth model. By providing targeted funding for efforts to bolster innovation activity, cultivate a skilled workforce, and improve the quality and effectiveness of infrastructure, citizen-initiated measures and legislative referendums represent important tools available to state and metro leaders working to restructure their economies for the decades ahead.

Appendix—States allowing ballot measures, by measure type

Citizen-initiated statute					
Alaska	Colorado	Michigan	Nevada	Oregon	Wyoming
Arizona	Idaho	Missouri	North Dakota	South Dakota	
Arkansas	Maine	Montana	Ohio	Utah	
California	Massachusetts	Nebraska	Oklahoma	Washington	
Citizen-initiated constitutional amendment					
Arizona	Colorado	Massachusetts	Missouri	Nevada	Oklahoma
Arkansas	Florida	Michigan	Montana	North Dakota	Oregon
California	Illinois	Mississippi	Nebraska	Ohio	South Dakota
Legislatively referred statute					
Arizona	Delaware	Maine	Missouri	New Mexico	Oregon
Arkansas	Idaho	Maryland	Montana	North Dakota	South Dakota
California	Illinois	Massachusetts	Nebraska	Ohio	Utah
Colorado	Kentucky	Michigan	Nevada	Oklahoma	Washington
Legislatively referred constitutional amendment					
All states except Delaware					

Source: M. Dane Waters, Initiative and Referendum Almanac *(Durham: Carolina Academic Press, 2003).*

Endnotes

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Acknowledgments

The authors would like to thank Valerie Chang, Natalie Cohen, John Connorton, David Damore, Tracy Gordon, Robb Gray, Nick Johnson, Robert Klein, David Milenthal, Mike Pagano, and Duane Roth for their invaluable input at various stages of the research and writing process. Additional thanks go to Alan Berube, Jennifer Bradley, Allison Courtin, Jeanine Forsythe, David Jackson, Alex Jones, Amy Liu, Rob Puentes, Phoebe Silag, Karen Slachetka, Adie Tomer, and Owen Washburn.

The Metropolitan Policy Program at Brookings would like to thank the John D. and Catherine T. MacArthur Foundation for their support of this research.

The program would also like to thank the John D. and Catherine T. MacArthur Foundation, the Heinz Endowments, the George Gund Foundation, and the Charles Stewart Mott Foundation for general support for the program's research and policy efforts. We also thank the Metropolitan Leadership Council, a network of individual, corporate, and philanthropic investors that provides us financial support but, more important, a true intellectual and strategic partnership.

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