February 14, 2014

Hon. Kamala D. Harris
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Ashley Johansson
Initiative Coordinator

Dear Attorney General Harris:

Pursuant to Elections Code Section 9005, we have reviewed a proposed statutory initiative related to high-speed rail (A.G. File No. 14-0004).

Background

High-Speed Rail Authority (HSRA) Established in 1996. The California HSRA was established by Chapter 796, Statutes of 1996 (SB 1420, Kopp), to plan and construct an intercity high-speed train system to link the state's major population centers. The HSRA is an independent authority consisting of a nine-member board appointed by the Legislature and Governor. In addition, the HSRA has an executive director appointed by the board and a current staff of about 100.

Voters Approved Funding for High-Speed Rail in 2008. In November 2008, voters approved Proposition 1A, which authorizes the state to sell up to $9.95 billion in general obligation bonds for the development and construction of a high-speed rail system. Of this amount, $9 billion is available to support planning, engineering, and capital costs for the system. The remaining $950 million in bond funds is available for capital improvements to existing passenger rail services—specifically, intercity, commuter, and urban rail systems. The bond funds authorized in Proposition 1A require a match of at least 50 percent from other funding sources such as the state, federal, and local governments, or the private sector. A total of about $5 billion in Proposition 1A funds have been appropriated to date, with a total of about $705 million of bonds sold to date (leaving about $9.3 billion in unsold Proposition 1A bond funds).

Federal Funds for High-Speed Rail. The HSRA has received $3.5 billion in federal funds for planning, engineering, and construction of high-speed rail in the Central Valley, which require matching state funds. Of the federal funds received, about $3.3 billion have been appropriated to HSRA. Currently, the HSRA expects to begin construction of the high-speed rail system in the Central Valley in spring 2014.

Proposal

This measure prevents the further issuance and sale of Proposition 1A bonds for the construction of high-speed rail and improvements to existing passenger rail services. In addition, the measure states that any unspent bond proceeds shall be used to pay back the outstanding debt from the issuance and sale of Proposition 1A bonds. The measure also specifies that the state shall not accept or use any federal funds, provide or use any state funds, accept any local funds, or enter into future contracts for the construction or operation of the high-speed rail project authorized by Proposition 1A.

Fiscal Effects

Savings in Debt-Service Costs. This measure would prevent the sale of up to $9.3 billion in bond funds previously authorized by Proposition 1A. The actual reduction in bond sales would depend on (1) the amount of bonds that would have been sold in the future absent the measure and (2) how much additional state funding is appropriated and spent on high-speed rail prior to the passage of the measure. It may be, for example, that the state would otherwise be unable to sell all the state bonds due to an inability to raise the necessary matching funds. Assuming the bonds would have been sold at an average taxable interest rate of 6.5 percent and repaid over a period of 30 years, the measure could reduce state debt-service costs by up to about $700 million annually.

Loss of Federal Funds. The state has received $3.5 billion in federal funds dedicated to high-speed rail that require matching state funds. To the extent that the measure prevents Proposition 1A bond funds from being sold to satisfy this match requirement, the state would lose this infusion of federal funds. This loss in federal funds could in turn reduce the level of economic activity in the state, resulting in a reduction in state and local tax revenues of tens of millions of dollars annually for a few years.

Summary of Fiscal Effects. We estimate the measure would have the following major fiscal effects on state and local governments:

- State debt-service savings of up to about $700 million annually from not using state bond funds to support high-speed rail, depending on the actual reduction in bonds funds spent as a result of this measure.
- Potential reduction in state and local tax revenue of tens of millions of dollars annually for a few years, resulting from a loss of federal matching funds.

Sincerely,

Mac Taylor
Legislative Analyst

Michael Cohen
Director of Finance