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February 29, 2012

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. 12-0004).

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 staff of about 25.

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 to partially fund 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 lines—specifically, intercity rail lines, commuter rail lines, 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.

High-Speed Rail Expenditures. Approximately $400 million in Proposition 1A funds have been appropriated to HSRA for planning activities and the preparation of environmental and engineering studies for high-speed rail. In addition, $129 million in Proposition 1A funds have been allocated for improvements to existing passenger rail lines.

On November 3, 2011, the HSRA notified the Legislature and the Governor that it intends to begin construction on the high-speed rail system in 2012 and will request an appropriation of $2.7 billion in Proposition 1A bond proceeds over the next five years.

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 lines.

Fiscal Effects

Savings in Debt-Service Costs. This measure would prevent the sale of up to $9.4 billion in bond funds previously authorized by Proposition 1A. The actual reduction in bond sales would depend on such factors as: (1) how many bonds would have been sold absent this measure and (2) the amount of bonds sold 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. Moreover, it is possible that up to a few billion dollars of Proposition 1A bond funds could be sold prior to the passage of this measure in order to support high-speed and existing passenger rail projects currently under consideration. The cost to the state of repaying the principal and interest on the $9.4 billion in unsold bonds, assuming they would have been sold at an average interest rate of 6.5 percent and repaid over a period of 30 years, would be $709 million annually. Based on the above factors, however, the estimated annual debt-service savings could be far less.

Other Impacts. The state has received $3.5 billion in federal funds dedicated to high-speed rail that require matching state funds. To the extent that Proposition 1A bonds are not sold prior to the passage of this measure to satisfy this match requirement, the state would lose up to $3.3 billion of these federal funds. The state could also incur a loss of potential matching funds from state, federal, and local governments, or the private sector that would be required in order to spend any remaining bond funds. Unlike the federal funds that have already been committed, there are currently no funding commitments from these other entities. The loss of federal funds and potential other funds, in turn, would reduce somewhat the level of economic activity in the state over the next several years resulting in unknown reductions in state and local tax revenues. However, the loss of any state and local matching funds would not have a significant net fiscal impact on the economy to the extent that they were otherwise spent in the state for other purposes.

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 $709 million annually from not using state bond funds to support high-speed rail, depending on the actual reduction in bonds sold as a result of this measure.
- Unknown reduction in state and local revenues due to a somewhat lower level of economic activity in the state over the next several years, resulting from a loss of matching funds from the federal government or potential private investors.

Sincerely,

Mac Taylor
Legislative Analyst

Ana J. Matosantos
Director of Finance