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January 3, 2012

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

Attention: Ms. Dawn McFarland
Initiative Coordinator

Dear Attorney General Harris:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative related to high-speed rail (A.G. File No. 11-0084).

## 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.

***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 eliminates the HSRA and amends the state Constitution to specify that no state funds shall be used to support high-speed rail.

## Fiscal Effects

***Savings in Debt Service Costs.*** This measure would prevent the sale of up to $8.5 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. The cost to the state of repaying the principal and interest on the remaining 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 approximately $19.5 billion—resulting in an average annual debt service savings of about $650 million.

***Other Impacts.*** The state has received federal funds dedicated to high-speed rail. This measure would result in the loss of approximately $3.3 billion of these funds because a state funding match is required. That, in turn, would reduce somewhat the level of economic activity in the state over the next several years, along with some reductions in state and local tax revenues.

***Summary of Fiscal Effects.*** We estimate the measure would have the following major fiscal effect:

- State debt service savings of up to $650 million annually from not using state bond funds to support high-speed rail.
- A one-time loss of $3.3 billion in federal funds would reduce somewhat the level of economic activity in the state over the next several years, resulting in some reduction in state and local revenues.

Sincerely,

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Mac Taylor
Legislative Analyst

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Ana J. Matosantos
Director of Finance