

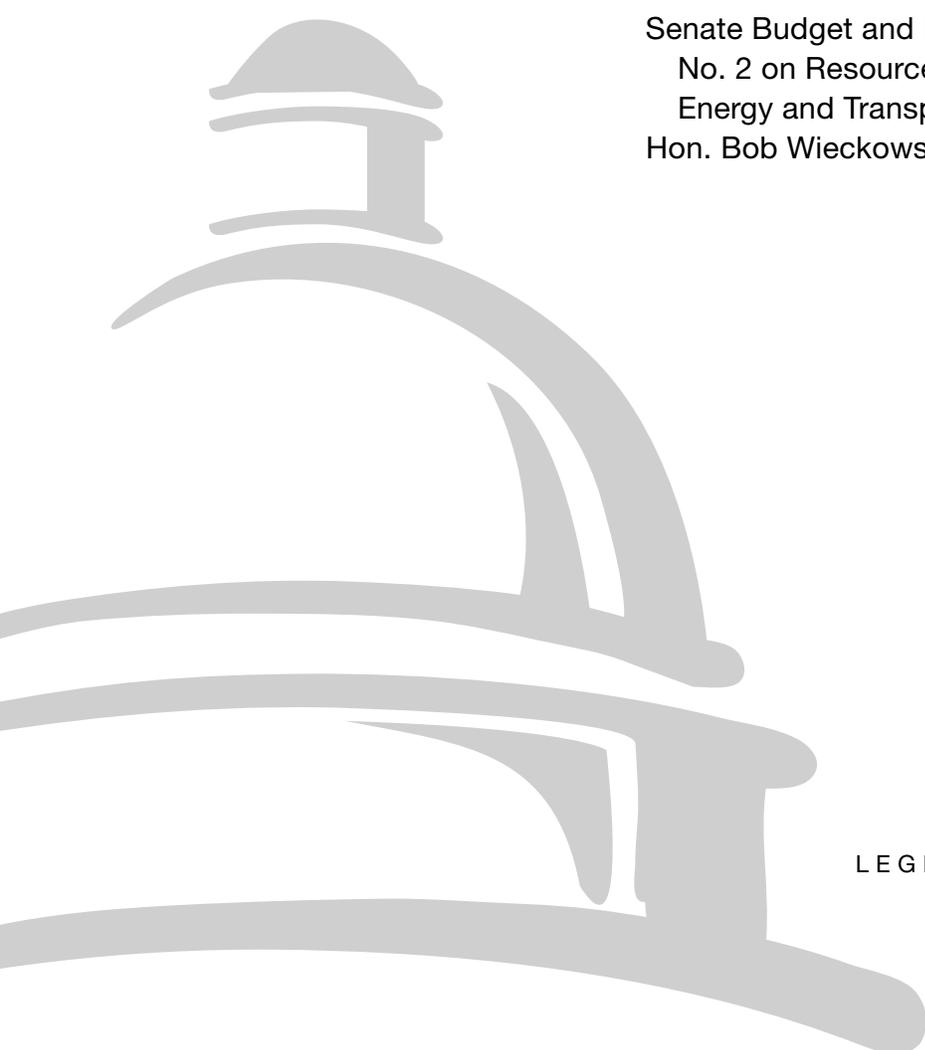
MARCH 26, 2019

High-Speed Rail Update

PRESENTED TO:

Senate Transportation Committee
Hon. Jim Beall, Chair

Senate Budget and Fiscal Review Subcommittee
No. 2 on Resources, Environmental Protection,
Energy and Transportation
Hon. Bob Wieckowski, Chair



LEGISLATIVE ANALYST'S OFFICE

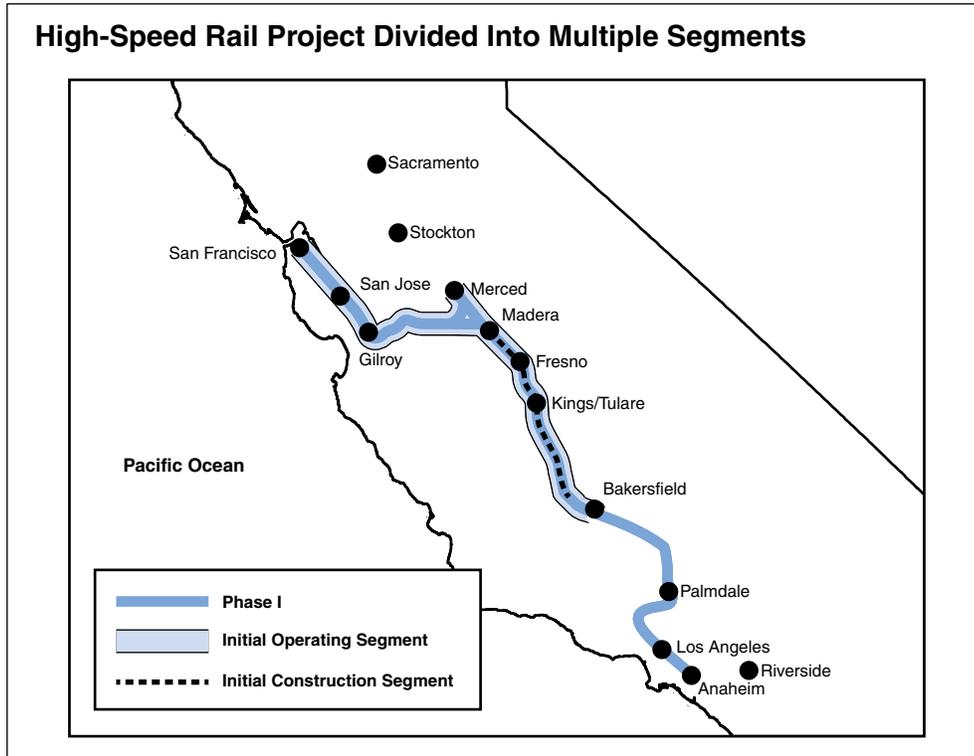
2018 Business Plan: Project Delivery Plan

- **Statutory Requirements.** State law requires the High-Speed Rail Authority (HSRA) to prepare a business plan every even year that provides certain key information about the planned high-speed rail system. (State law also requires HSRA to prepare a project update report every odd year that provides certain updated information, such as on costs and schedule.) HSRA released its recent business plan in June 2018.
- **Project Divided in Two Phases.** Phase I would provide service for about 500 miles from San Francisco to Anaheim. It is expected to cost \$77 billion and be completed by 2033. Phase II would connect the system to Sacramento in the north and San Diego in the south. HSRA has not provided estimates of the cost or schedule for Phase II.
- **Delivery of Phase I Divided in Segments.** As shown in the figure (next page), Phase I is divided into multiple segments with the state's first high-speed rail operations beginning on a segment connecting San Francisco and Bakersfield. This initial operating segment (IOS)—commonly referred to as the Valley-to-Valley line—is expected to be completed in 2029 and cost about \$29.5 billion. The IOS is itself divided into multiple segments, beginning with the initial construction segment (ICS), which extends for 119 miles through the Central Valley from Madera (about 25 miles north of Fresno) to Shafter (about 20 miles north of Bakersfield). The ICS is estimated to be completed by 2022 and cost \$10.6 billion.



2018 Business Plan: Project Delivery Plan

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- **Bookend and Connectivity Projects.** HSRA has partnered with local authorities to initiate a variety of bookend and connectivity projects on commuter rail lines in the Bay Area and Southern California that will facilitate high-speed rail, as well as provide benefits to existing rail and transit systems.



Project Funding and Expenditures

Proposition 1A Bonds

- Proposition 1A (2008) authorized the state to sell about \$10 billion in general obligation bonds—\$9 billion for the high-speed rail system itself, with the remainder to support the connectivity projects. (Of this \$9 billion, HSRA has set aside \$1.1 billion as contributions to locally administered bookend projects and \$450 million for project administration.)
- The Legislature has appropriated \$5.5 billion, and about \$2.8 billion has been spent—\$2.1 billion on the high-speed rail project and about \$700 million on connectivity projects.

Federal Funds

- The federal government has awarded HSRA a total of \$3.5 billion. First, the state received \$2.6 billion in American Recovery and Reinvestment Act (ARRA) funds in 2009. HSRA fully expended the ARRA funds and expects to complete a required state match requirement in 2019-20.
- Second, the state received a \$929 million grant from the federal High-Speed Intercity Passenger Rail program in 2010 (FY10 Federal Grant), which expires at the end of 2022. The state must meet certain conditions under this grant agreement, including (1) completing its match to the ARRA grant before spending these funds, (2) using the funds to support intercity passenger rail infrastructure, and (3) completing all environmental reviews for Phase I by 2022. The agreement allows the federal government to terminate the grant under certain conditions, such as if the state fails to make reasonable progress on the project. On February 19, 2019, the federal government notified the state of its intention to terminate the FY10 Federal Grant under this provision. HSRA responded to the federal government on March 4, 2019.



Project Funding and Expenditures

(Continued)

Cap-and-Trade Auction Revenues

- In 2014, the state began providing cap-and-trade auction proceeds for the high-speed rail project. This includes \$650 million in one-time cap-and-trade revenues, as well as the continuous appropriation of 25 percent of cap-and-trade revenues beginning in 2015-16.
- To date, the project has received about \$2.4 billion in cap-and-trade revenues and spent about \$600 million of these funds.



Project Status

- Environmental Reviews.** HSRA must comply with both the California Environmental Quality Act and the National Environmental Policy Act, which require reviews to assess the extent to which the project could cause significant environmental impacts. As shown in the figure, HSRA has completed the environmental reviews for the Merced-to-Fresno and Fresno-to-Bakersfield sections and is in the process of completing the remaining reviews for Phase I.

Anticipated Schedule for Completing Environmental Reviews of High-Speed Rail Project	
Project Section	Date
Phase I	
San Francisco to San Jose	March 2021
San Jose to Merced	November 2020
Merced to Fresno	Completed
Portion requiring separate review: Central Valley Wye	To be determined
Fresno to Bakersfield	Completed
Portion requiring separate review: locally generated alternative	To be determined
Bakersfield to Palmdale	June 2020
Palmdale to Burbank	January 2021
Burbank to Los Angeles	July 2020
Los Angeles to Anaheim	To be determined
Phase II	
Los Angeles to San Diego	To Be Determined
Merced to Sacramento	To Be Determined

- Right-of-Way Acquisition.** HSRA has identified 1,826 parcels of land necessary for construction of the ICS and has acquired 1,459 of them. HSRA estimates completing right-of-way acquisition for the ICS by 2020.
- Project Construction.** In 2015, HSRA initiated construction on the ICS. To date, HSRA has spent about \$3.9 billion on construction of the ICS. This includes the completion of major structures, such as the construction of the Fresno River Bridge and Tuolumne Street Bridge, and the realignment of a portion of State Route 99. HSRA currently estimates it will complete the ICS by 2022.



Issues for Legislative Consideration

- Project Faces a Significant Funding Gap.** Based on HSRA's estimates in the 2018 business plan, there is a funding gap for Phase I of between \$54.9 billion and \$58.2 billion. (The funding gap would be about \$900 million larger if the federal government ultimately terminates the FY10 Federal Grant.) At this time, HSRA has not specifically identified how the funding shortfall would be met. Thus, there is significant risk that the state would have to cover the large majority of any funding gap—likely from the General Fund. Additionally, given the significant scope of the project, its cost is subject to substantial uncertainty and could increase further.

HSRA's Estimated Costs and Funding Sources for Construction of Phase I	
<i>(In Billions)</i>	
	Amount
Estimated Phase I Costs	\$77.3
Estimated Available Funding	
Federal funds	
ARRA	\$2.6
FY10	0.9
Subtotal	(\$3.5)
State Funds	
Proposition 1A	\$7.5
Cap-and-trade received through December 2017	1.7
Future cap-and-trade without financing ^a	6.5 - 9.8
Subtotal	(\$15.6 - \$18.9)
Total Funding Available	\$19.1 - \$22.4
Funding Gap	\$58.2 - \$54.9
^a HSRA's estimate of its share of cap-and-trade revenues through 2030 without financing. HSRA estimates borrowing against cap-and-trade revenues through 2050 could provide between \$7.9 billion and \$15.6 billion. ARRA = American Recovery and Reinvestment Act; FY10 = 2010 High-Speed Intercity Passenger Rail grant; and HSRA = High-Speed Rail Authority.	



Issues for Legislative Consideration

(Continued)

- **Peer Review Group Urged Action to Address Funding Gap and Identified Project Alternatives.** In its response to the 2018 business plan, the Peer Review Group (established by the Legislature) urged the Legislature to focus on whether and how the project should continue. It suggested that, if the project is to continue, the Legislature should consider how adequate and reliable funding can be provided. It also identified possible alternatives for the Legislature to consider in regards to the future of the project, including continuing with the completion of Phase I as planned or terminating the project early.
- **Governor Has Signaled Shift in Approach to Project.** In his February 2019 State of the State address, the Governor stated that the project as planned would cost too much and take too long, and indicated that there is not a path to complete Phase I. Accordingly, he expressed support for completing the construction of the link between Merced to Bakersfield, the bookend projects, and the environmental work for Phase I. However, the specifics of the Governor's plan are uncertain at this time. The administration has indicated that more information should be available in a project update report that HSRA currently indicates will be provided to the Legislature by May 1, 2019.
- **Governor's Plan Presents Key Opportunity to Consider Project in Context of Legislative Priorities.** Given the project's significant funding gap, it is a good opportunity for the Legislature to evaluate if it would like to continue to move forward with Phase I of the project. If so, the Legislature will want to consider how to address the current funding gap. If not, the Legislature will want to consider its preferred approach to modifying the project, which could involve adopting the Governor's proposed course of action, one of the alternatives identified by the Peer Review Group, or another available alternative. Regardless of the approach the Legislature would like to take on the project, there are significant benefits to the Legislature providing clear direction soon.

