

Informational Hearing Senate Transportation and Housing Committee

Jim Beall, Chair
Tuesday, March 14, 2017
1:30pm – John L. Burton Hearing Room (4203)

High-Speed Rail Authority Project Update: Where are we now and where are we heading?

BACKGROUND INFORMATION

Introduction:

The purpose of this hearing is to receive an update on the high-speed rail project. Hearing panelist will include members from the California High-Speed Rail Authority (HSRA), the Independent High-Speed Rail Peer Review Group (PRG), and small businesses working on the project that will provide testimony on the status of California's high-speed rail project. The intent of this hearing is to create a forum for project stakeholders to provide testimony on where the project stands today and for Legislators to ask stakeholders about where the project is heading.

Background:

Brief history of HSRA and prior business plans

The HSRA was established in 1996 (SB 1420, Kopp, Chapter 796, Statutes of 1996) for purposes of planning and constructing a high-speed train system to connect the state's major population centers. However, until voters approved Proposition 1A in 2008, authorizing the state to sell up to \$9.95 billion in general obligation bonds for the project, HSRA lacked a significant source of funding. Proposition 1A imposed specific requirements on the project as a condition of using the funds, including that it be capable of achieving specified operating speeds and travel times between certain cities. Proposition 1A also limited funding to no more than 50% of the construction cost of any corridor or usable segment of the

system and further required that the system operate without a public subsidy. Subsequently, the project received approximately \$3.5 billion in federal funds, including \$2.6 billion in federal stimulus funds which must be expended by September 30, 2017. Furthermore, in 2014, the Legislature authorized a portion of the state's annual cap-and-trade auction proceeds to be used for the project.

Construction of the project was to begin in the Central Valley with a 130-mile segment — the Initial Construction Segment (ICS) running from Madera to Bakersfield. HSRA intended to construct the remainder of an Initial Operating Segment (IOS) in segments, though high-speed trains would not operate on the system until the entire IOS was complete. In July 2012, the Legislature appropriated \$5.85 billion (\$2.61 billion from Proposition 1A and \$3.24 billion in federal funds) to complete the ICS. At the same time, the Legislature also appropriated \$1.1 billion for investment in the “bookends” — the San Francisco Bay Area and Los Angeles Basin regions — including electrification of Caltrain between San Francisco and San Jose and various projects to improve the existing rail corridor between the San Fernando Valley and Los Angeles/Anaheim. These projects would provide near-term benefits to commuters and existing rail systems, while preparing these heavily-trafficked urban corridors for high-speed rail. HSRA originally planned to complete the ICS by 2017. However, due to litigation and other delays, groundbreaking for the ICS did not occur until January 6, 2015. HSRA now expects to complete the ICS in 2020 or shortly thereafter. This segment of the project is being constructed using a series of design-build contracts.

HSRA Business Plan

Pursuant to state law, beginning in 2012 and every two years thereafter, HSRA is required to prepare and submit to the Legislature a business plan outlining key elements of the high-speed rail project. At minimum, the plan must include project development information, including a description of the type of service being developed, the timing and sequence of project phases and segments, and estimated capital costs. It must also include estimates and descriptions of the total anticipated federal, state, local, and other funds that HSRA intends to access to construct and operate the system, forecasts of financial scenarios based on projected ridership levels, and maintenance and operations costs. Additionally, it must identify all reasonably foreseeable risks to the project and outline HSRA's strategies for managing those risks.

HSRA has always planned to develop the project in phases, with Phase I connecting San Francisco to Anaheim over a distance of approximately 500 miles. A subsequent Phase II would extend the system to San Diego in the south and add a separate link to Sacramento in the north. When the HSRA adopted its 2012 Business Plan it outlined a framework for development of Phase I at a cost of approximately \$68 billion, including an IOS that would connect the Central Valley with the Los Angeles Basin within 10

years. The 2012 plan proposed to accelerate the benefits of high-speed rail through a “blended approach” which utilizes and upgrades existing rail infrastructure wherever possible, combined with increased early investment in the bookends. The purpose of this early investment was to enhance regional rail service in two major population centers while simultaneously paving the way for future high-speed rail service. At that time, the primary rationale for a southern-oriented IOS (as opposed to a northern connection to San Francisco) was that the densely populated Los Angeles Basin could provide the high levels of ridership needed to operate the system without a subsidy. The intent was to complete the northern connection to San Francisco once the IOS was operational and ridership levels could be demonstrated. However, the 2012 plan did not specifically identify funding for this portion of the project.

HSRA’s next business plan, presented and adopted in 2014, updated the project’s cost estimates and revised HSRA’s ridership and revenue forecasts, but did not significantly alter the construction plan. The 2014 plan continued to peg total costs of Phase 1 at \$68 billion. It proposed a number of potential revenue sources to fund the project but did not definitively identify any new funds beyond the Proposition 1A and federal resources previously identified.

The 2016 Business Plan

As noted above, the 2016 Business Plan (plan) is the first provided by HSRA since construction has commenced on the ICS and the Legislature appropriated a portion of revenues from the Cap and Trade program to the project. It provides updated cost and schedule information informed by lessons learned through the work completed to date. In addition, it proposes significant changes to the construction plan and sequencing originally outlined in the 2012 Business Plan. Key elements of the plan include the following:

- Change to northern orientation for IOS – now to travel from the central valley to San Francisco
- Full funding plan for northern IOS
- Updated cost and schedule estimates for Phase 1 (including projected savings)
- Expanded project scope in Burbank-to-Anaheim Corridor (using projected savings)
- Concepts for full funding of the total Phase 1

HSRA Project Update Report

In July 2012, the California Legislature approved — and Governor Brown signed into law — SB 1029 (Committee on Budget and Fiscal Review, Chapter 152, Statutes of 2012) which appropriated almost \$8 billion in federal and state funds to construct the first high-speed rail segments in the Central Valley and fund 15 bookend and connectivity projects throughout California. The bill also put into place extensive

reporting requirements to ensure legislative oversight over the progress of the project. As a result, the Project Update Report is to be provided to the Legislature every two years commencing 2013. The requirements of the project update report, include, but are not limited to, the following:

- A summary describing the overall progress of the project.
- The baseline budget for all project phase costs, by segment or contract, beginning with the California High-Speed Rail Program Revised 2012 Business Plan.
- The current and projected budget, by segment or contract, for all project phase costs.
- Expenditures to date, by segment or contract, for all project phase costs.
- A comparison of the current and projected work schedule and the baseline schedule contained in the California High-Speed Rail Program Revised 2012 Business Plan.
- A summary of milestones achieved during the prior year and milestones expected to be reached in the coming year.
- Any issues identified during the prior year and actions taken to address those issues.
- A thorough discussion of various risks to the project and steps taken to mitigate those risks.

2017 Project Update Report

On March 1, 2017 the Authority issued a new Project Update Report highlighting the progress made since 2015 in building the nation's first high-speed rail system and the nation's largest infrastructure project.

The report detailed how building high-speed rail is creating thousands of new jobs and economic benefits, especially for small and disadvantaged businesses. Achievements on this front include:

- Hundreds of workers building 119 miles of new transportation infrastructure at nine active construction sites that will bring passenger rail service to connect the Central Valley to the Silicon Valley by 2025
- Over 900 construction workers have good-paying jobs in the Central Valley, with many more coming across California
- 334 small businesses are engaged in the project right now, of which 102 are certified disadvantaged businesses and 39 are certified disabled veteran businesses

From July 2006 to June 2016, California invested \$2.3 billion in constructing high-speed rail, of which 94 percent has gone to companies and people in California — investments that have involved more than 600 companies and generated up to \$4.1 billion in economic activity, 52 percent of which occurred in disadvantaged communities.

The report also outlines the various risks to project cost and schedules, and details how the Authority is using state of the art techniques to manage those risks and protect taxpayer dollars.

Funding Plans

As required by state law, on January 3rd of this year, HSRA submitted two funding plans on specific project segments to the State Director of Finance (DOF) and the Joint Legislative Budget Committee for review. State law requires the DOF to approve the funding plans within 60 days in order to allow HSRA to proceed with financing the segments specified in the submitted plans. The first plan submitted, otherwise known as the Central Valley Segment Funding Plan, provided an overview of the funding identified for the useable segment extending from the Madera Amtrak station to Poplar Avenue in the City of Shafter with two stations (Fresno and Kings/Tulare) being constructed within this segment. On March 3rd, the DOF approved the Central Valley funding plan thus allowing HSRA to enter into commitments to expend bond funds and other funding agreements to move forward with constructing this segment.

The second funding plan submitted, otherwise known as the San Francisco to San Jose Peninsula Corridor Funding Plan, covers the segment between from the 4th and King Station in San Francisco to Tamien Station in San Jose. A major component to this plan was the electrification of this segment — totaling \$1.98 billion. The electrification of Caltrain is long overdue and has been one of the top priorities for Bay Area business groups for decades. Electrification will cut commute times, save fuel costs, improve air quality and reduce traffic congestion in the short-term, while providing a critical link between San Jose and San Francisco for the statewide high-speed rail system in the long-term.

Amongst various funding sources for the electrification project, this plan identified approximately \$600 million in Proposition 1A bond funds and \$647 million in federal “Core Capacity funds.” However, on February 17th, the Federal Transit Administration (FTA) deferred the execution of the Core Capacity grant agreement in order to be considered part of the development of the Federal budget proposal for the 2018 fiscal year, thus jeopardizing \$647 million in project funding identified in the plan. As a result, the DOF proposed to defer action on the plan to provide Caltrain with addition time to work out options with the federal authorities. While the plan would have been approved if the FTA had approved the grant, the potential loss of \$647 million prohibited the DOF from taking any action at this time.

Conclusion:

The HSR project is the largest infrastructure project ever constructed in the United States. With the final project cost hovering around \$64 billion and the geological complexities throughout the state, the project will inevitably encounter challenges. Up to this point in time, the HSRA has managed through the challenges that have arisen and the project continues to move forward. However, many challenges remain. Primarily, questions around ongoing and sufficient funding for the project continue to be raised. The federal government's commitment towards the project also remains in question. Additionally, will HSRA be able to acquire the necessary property to keep the project moving in accordance with the timeline specified in the 2016 business plan? At this hearing, the committee has the opportunity to receive an update on the project's progress from various stakeholders and at the same time, inquire about the project's next steps and financial stability.