

APRIL 27, 2026

High-Speed Rail Draft 2026 Business Plan

PRESENTED TO:

Senate Committee on Transportation
Hon. Dave Cortese, Chair



LEGISLATIVE ANALYST'S OFFICE

Background

Voters and Legislature Have Provided Statutory Direction to Project.

Roughly 30 years ago, Chapter 796 of 1996 (SB 1420, Kopp) established the High-Speed Rail Authority (HSRA) to plan and construct a high-speed rail system that would link the state's major population centers. Since then, the voters and Legislature have provided additional direction to HSRA including through the following actions:

- ***Voters Provided Initial Funding and Statutory Direction for HSRA in 2008.*** Voters approved Proposition 1A in November 2008, which authorized \$9 billion for HSRA and specified certain criteria and conditions for the system, such as requiring that it be designed to travel between San Francisco and Los Angeles in 2 hours and 40 minutes.
- ***Legislature Made Statutory Changes Affecting HSRA in 2022.*** Chapter 71 of 2022 (SB 198, Committee on Budget and Fiscal Review) included various statutory changes, including to enhance project oversight and prioritize the completion of the Merced-to-Bakersfield segment (which it defined as an electrified dual-track segment between Bakersfield and a station in downtown Merced that also serves the Gold Runner and Altamont Corridor Express [ACE]).

State Law Requires HSRA to Provide Annual Plans. State law requires HSRA to prepare a business plan every even year and a project update report every odd year. These reports are required to provide key information about the planned high-speed rail system, such as related to funding, costs, and schedule.

- ***Legislature Recently Added Additional Requirements to Annual Plans.*** Senate Bill 198 required annual plans to provide additional information on the Merced-to-Bakersfield segment. Additionally, Chapter 81 of 2025 (AB 377, Tangipa) requires the 2026 Business Plan to provide specified information, including (1) an updated estimate of the funding gap for completing the Merced-to-Bakersfield segment and (2) a strategy for addressing that gap that includes specific components.



Major Features of the Draft 2026 Business Plan

Assumes Significant Reductions in Scope for Initial Operating Segment

Focuses on Shortened Segment From South Merced to North Bakersfield. The Draft 2026 Business Plan (Draft Plan) focuses on a shorter segment than was previously contemplated—162 miles rather than 171 miles. (As we discuss later, this change is included in the Draft Plan’s assumptions but not explicitly highlighted.) The new segment—which we refer to as South Merced to North Bakersfield (SM to NB)—is assumed to have the following terminuses:

- ***South Merced.*** Northern terminus at a new location about 3.5 miles south of the downtown Merced location specified by SB 198. This station would not serve ACE and Gold Runner, so high-speed rail would connect to them at the Madera station instead.
- ***North Bakersfield.*** Southern terminus at a location on the outskirts of Bakersfield, about 6 miles north of the previously planned station.

Assumes Single Track and Basic Stations. HSRA now assumes 144 of 162 miles will be single tracked. It also assumes more modest stations than previously planned. For example, the South Merced and North Bakersfield stations would now be simple, at-grade stations with single-side platforms.

Assumes Significant Reductions in Scope for Phase I

Assumes More of the System Shares Existing Tracks. Assumes high-speed rail would share existing tracks (such as Metrolink tracks) south of Palmdale, rather than dedicated high-speed rail tracks from Palmdale to Burbank. Also assumes the San Jose to Gilroy segment uses existing Union Pacific Railroad tracks, sharing with freight.

Assumes Work Will Be Completed by Other Entities. Assumes other entities will construct portions of the scope, such as the entire segment between San Jose and Gilroy (estimated at between \$2 billion and \$5 billion) and significant Los Angeles-to-Anaheim segment infrastructure (over \$7 billion).



Major Features of the Draft 2026 Business Plan

(Continued)

Assumes Approval of Various Statutory Changes

Assumes Legislature Makes Statutory Changes. Assumes the Legislature will make various changes to statute aimed at expediting project delivery, reducing costs, facilitating financing, and increasing the agency's flexibility. The Draft Plan discusses conceptual ideas for such changes, which include:

- **California Environmental Quality Act (CEQA) Exemption for Electricity Generation and Grid Interconnections.**
- **Streamlined Environmental Permitting.**
- **Encroachment Permitting Authority.**
- **Priority for Court Resources.**
- **Third-Party Streamlining, Such as Requiring Binding Timelines for Reviews.**
- **Changes to Help Facilitate Borrowing Against Greenhouse Gas Reduction Fund (GGRF), Such as Non-Impairment Language.**

Updates Projected Project Funding, Costs, and Schedule Assuming Changes to Scope and Statute

Updates Available Funding to \$39 Billion. This is less than the \$43 billion assumed in the Supplemental Project Update Report (SPUR), as it reflects the recent loss of \$4 billion in federal funds. Notably, this total includes \$15 billion from the recent extension of cap-and-invest (\$1 billion annually from 2030 through 2045).

Updates Cost Estimates for Revised Scopes. For example, it estimates:

- **\$36 Billion for SM to NB.** This is slightly less than the SPUR's \$37 billion estimated costs for the longer Merced-to-Bakersfield segment.
- **\$126 Billion for Phase I.** This is slightly less than the 2024 estimate of \$128 billion. HSRA indicates that absent optimizations such as the scope changes discussed above, Phase I would cost \$231 billion.



Major Features of the Draft 2026 Business Plan

(Continued)

Identifies Need to Borrow and Mentions Plan to Pursue a Public Private Partnership (P3). Borrowing would address a timing mismatch between receiving cap-and-invest revenues and the project's funding needs. The Draft Plan identifies using a P3 as a potential alternative to conventional borrowing and project delivery but provides few details.

Provides Updated "Unconstrained" Schedule. Identifies a target of starting service on SM to NB in 2033 and Phase I in 2040. These dates assume the project does not face funding constraints and that all of HSRA's proposed statutory changes are adopted.



Draft Plan Raises Several Issues for Legislature to Consider

Draft Plan Fails to Meet Many Statutory Requirements, Impeding Decision-Making

Many Required Elements Are Omitted From Draft Plan, Including All of AB 377's Requirements. According to a review by the HSRA's Office of the Inspector General, the Draft Plan does not include any of the elements required by AB 377. For example, it does not include an updated estimate of the funding gap for completing the statutorily defined Merced-to-Bakersfield segment or any of the required elements of a strategy for addressing the funding gap. It also fails to include various elements required by other legislation.

Lack of Required Information Impedes Decision-Making. The Legislature added requirements to annual plans—such as through the recent passage of AB 377—so it would have the information it needs to oversee the project and make decisions on its future. Failure to provide this information makes it more difficult for the Legislature to perform its roles and responsibilities.

Draft Plan's Approach Lacks Transparency

Draft Plan Fails to Highlight Some Key Scope Change Assumptions. For example, the Draft Plan does not mention that it assumes changes to the Merced and Bakersfield station locations—instead only including that information in a separate, subsequently-released technical supporting document—even though these changes have important implications (such as related to costs, ridership, and compliance with state law).

Lack of Identification of Key Scope Changes Reduces Transparency and Utility of Draft Plan. The decision not to highlight information on key scope changes in the document—instead stating that cost savings are from unspecified “optimization measures”—obscures the nature of these changes and makes comparisons between annual plans difficult.



Draft Plan Raises Several Issues for Legislature to Consider

(Continued)

Draft Plan Fails to Recognize Legislative Prerogative to Define Project Scope

Draft Plan Is Inconsistent With Legislative Direction on Scope. The Draft Plan assumes a location for the Merced station that is not consistent with SB 198. It also assumes most of the alignment will be single tracked rather than double tracked, as had been specified in SB 198.

Lack of Adherence to Legislative Direction Fails to Acknowledge Legislature's Important Role. By unilaterally assuming (rather than proposing) changes to the existing legislatively-defined project scope, the Draft Plan fails to acknowledge the Legislature's important role in guiding the project's future.

Draft Plan Assumes Changes to State Law

Cost and Schedule Estimates Assume Various Changes to Statutory Authority. Assumes that the identified statutory changes are made and indicates that failure to do so could increase project costs by approximately 10 percent. (The Draft Plan does not provide detail sufficient to allow us to verify this estimate.)

Assuming Statutory Changes Is Premature. It is unclear which of HSRA's desired statutory changes, if any, will actually be enacted. As a result, HSRA basing its cost and schedule estimates on the assumption that these changes are made is premature.



Draft Plan Raises Several Issues for Legislature to Consider

(Continued)

Significant Risk That Funding Will Be Insufficient for SM to NB

Available Funding Is Likely Insufficient When Borrowing Costs Are Included. Estimated available funding is \$39 billion—more than HSRA's \$36 billion in estimated costs for the smaller SM-to-NB segment. However, that estimate does not include any borrowing costs (previously estimated at \$4 billion, resulting in a roughly \$1 billion funding gap). The estimate also makes various other assumptions that might not be realistic, such as:

- **All Proposed Statutory Changes Are Implemented.** HSRA indicates its proposed statutory changes are necessary for it to achieve its proposed schedule and cost estimate.
- **Project Savings Materialize.** Assumes project savings that were first identified in the SPUR materialize, including from design changes that HSRA may not be able to implement unilaterally.
- **Project Stays on Budget.** Staying on budget may be difficult, particularly given the project's history, its size and complexity, uncertainty regarding federal tariffs and other policies, and the relatively small contingency amount assumed in the project budget.

Available Funding Inadequate to Fund Larger Segments, Including Merced to Bakersfield

Insufficient Funding Available to Complete Merced to Bakersfield. The Draft Plan does not provide a cost estimate for the Merced-to-Bakersfield segment as defined by SB 198 and presented in previous plans. However, it is likely to cost a few billion dollars more than SM to NB, thereby exceeding currently estimated funding.

Even with Revised Scope, Very Large Funding Gap to Go Beyond Central Valley. Even with the changes to the scope of Phase I, the project has a projected funding gap in the tens of billions of dollars for alternatives that extend beyond the Central Valley, with no clear plan for filling them. The private sector is unlikely to take revenue or ridership risks, at least until service is operational. State funds, including GGRF and the General Fund, have limited—if any—capacity to take on additional commitments.



Draft Plan Raises Several Issues for Legislature to Consider

(Continued)

Borrowing Would Present Additional Costs, Challenges, and Risks

HSRA's strategy is predicated on borrowing, which it assumes it can do at low interest rates. However, that approach has multiple uncertainties.

GGRF Uncertainties Make it Poorly Suited for Conventional Borrowing Approaches. The cap-and-invest extension provided HSRA with a greater level of funding certainty than was previously the case, which could help it seek financing support. However, GGRF is still not well-suited to conventional financing for reasons including:

- ***Revenues Can Be Affected by Changes to Program Structure.*** The California Air Resources Board can adopt changes to the cap-and-invest program that affect revenues. For example, some changes the board currently is considering could reduce GGRF revenues markedly, which highlights the possibility that GGRF may not be adequate to support \$1 billion annually for HSRA every year.
- ***Cap-and-Invest Auction Revenues Are Volatile.*** Historically, the cap-and-invest program has experienced periods—such as during the COVID-19 pandemic and shortly before its reauthorization—when auctions have been undersubscribed and revenues have been very low, making it harder to provide investors with certainty they will be repaid.

If State Wanted to Facilitate Borrowing, Changes Likely Would Be Necessary. The state could choose to offer guarantees—such as agreeing not to make major changes to the cap-and-invest program that might impair HSRA's GGRF allocation—to facilitate securitization of GGRF. Additionally, to attract investors, the state might have to pay a higher interest rate to compensate for the risk that revenues might not materialize. Such choices would come with trade-offs.

P3s Could Involve Risks and Costs. HSRA could pursue financing through a P3, but this has the potential to be a relatively expensive approach, as the P3 would need to be compensated for access to its equity and any risks it absorbs.



Draft Plan Raises Several Issues for Legislature to Consider

(Continued)

Draft Plan Does Not Include Details on the Timing of Funding Needs. Supplemental information provided by HSRA suggests borrowing is likely to be needed by 2027-28. It will be important for the Legislature to have a detailed financing plan soon to ensure that there is sufficient time for appropriate vetting, legislative consideration of alternatives, and enactment of relevant statutory changes, if any, prior to moving forward.

Proposed Conceptual Statutory Changes Present Important Trade-Offs

HSRA Has Provided Few Details on Proposed Statutory Changes, Making Assessing Their Merits Challenging... HSRA has presented conceptual ideas for statutory changes but no details to date.

... But Based on Conceptual Descriptions, Statutory Changes Could Present Difficult Trade-Offs. For example, non-impairment language for GGRF could help improve investor confidence in the funding source but also constrain the state's ability to modify the program to meet its central goals (such as reducing greenhouse gases while maintaining affordability). Similarly, a CEQA exemption might expedite HSRA's electricity generation projects but could reduce opportunities for community input or raise the risk that environmental impacts are not as fully mitigated.



Some Key Near-Term Questions Facing Legislature

Given the uncertainties and challenges regarding the Draft Plan and project itself, some key questions facing the Legislature over the next couple of years include:

How, If At All, Does The Legislature Want to Respond to HSRA's Failure to Comply With Many Statutory Requirements for the Business Plan? For example, the Legislature could request that its appointees to the HSRA board to withhold approval of the Business Plan until it is compliant with state law. Alternatively, the Legislature could withhold action on some or all of HSRA's budget or policy proposals until a compliant Business Plan is submitted.

What Scope Does the Legislature Want to Commit to Funding? For example, some potential options—from shortest to longest—could include:

- ***Madera to Shafter.*** This is the 119-mile segment currently under construction. Under current estimates, it could be completed within available funding, but it would provide relatively modest transportation benefits.
- ***SM to NB.*** This is the scope presented in the Draft Plan. It is likely to require some additional state funding—beyond what the state has already set aside—and is not consistent with SB 198. It would reach the outskirts of Merced and Bakersfield rather than the city cores. This approach would save money and reduce construction impacts but also would likely limit transportation benefits.
- ***Merced to Bakersfield.*** This option envisioned in SB 198 would require additional funding beyond what is needed for SM to NB—potentially a few billion dollars more.
- ***Gilroy to Bakersfield.*** Expanding beyond the Central Valley likely would increase ridership, but this option would require significant additional funding—potentially in the low tens of billions of dollars. Identifying the specific source(s) of these additional funds would be important prior to the Legislature moving forward with this approach.



Some Key Near-Term Questions Facing Legislature

(Continued)

Is Legislature Comfortable With HSRA Undertaking Its Proposed Borrowing and P3 Approach? The Legislature will want to have sufficient information to fully understand when additional funding will be needed, as well as HSRA's proposed approach to aligning its anticipated costs and revenues. This should involve ensuring that the Legislature has sufficient information to assess any potential risks and benefits involved in entering into a P3.

Is Legislature Comfortable With HSRA's Proposed Conceptual Statutory Changes? The Legislature will want to ensure that HSRA provides adequate information on its proposed statutory changes, as well as time to assess the associated trade-offs, before it considers approving them.

