

CALIFORNIA LEGISLATURE

STATE CAPITOL
SACRAMENTO, CALIFORNIA
95814

SENATE TRANSPORTATION COMMITTEE & SENATE BUDGET SUB-COMMITTEE #5 JOINT INFORMATIONAL HEARING

REVIEW OF THE CALIFORNIA HIGH-SPEED RAIL AUTHORITY REVISED DRAFT 2020 BUSINESS PLAN

MARCH 16, 2021
AGENDA

- I. Opening Remarks
 - Senator Lena A. Gonzalez, Chair, Senate Transportation Committee
 - Senator Maria Elena Durazo, Chair, Senate Budget Subcommittee #5
- II. California High-Speed Rail Authority
 - Brian Kelly, Chief Executive Officer, California High-Speed Rail Authority
 - Brian Annis, Chief Financial Officer, California High-Speed Rail Authority
- III. Fiscal and Program Analysis
 - Helen Kerstein, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
 - Lou Thompson, Chair, High-Speed Rail Peer Review Group
- IV. Regional Partners
 - Stacey Mortensen, Executive Director, San Joaquin Regional Rail Commission
 - Jim Hartnett, Executive Director, Caltrain
 - Jeanet Owens, Senior Executive Officer for Program Management/Regional Rail, Los Angeles Metropolitan Transportation Authority
- V. Public Comment

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BACKGROUND PAPER

Introduction

The purpose of this hearing is to review the California High-Speed Rail Authority's (Authority) Revised Draft 2020 Business Plan (Plan). Hearing panelists include representatives from the Authority, the Legislative Analyst's Office (LAO), the High-Speed Rail Peer Review Group (PRG), and partner transportation agencies responsible for projects that will become part of the high-speed rail system. The high-speed rail program is facing its biggest challenge to date. The Authority remains committed to the completion of a high-speed operating segment in the Central Valley, as costs continue to rise and schedules continue to slip. The high-speed rail project is the largest public works project in the country and has a major impact on the economy, especially in the Central Valley. To date, high-speed rail investments have generated over 55,000 job-years of employment, with over \$4 billion in labor income, and \$11 billion in economic output.

Today's hearing is an opportunity for Legislators and the public to gain a better understanding of the costs, funding sources, and associated risks facing the project; the Authority's renewed relationship with Washington D.C.; and the ongoing investments in projects in the Bay Area and Southern California. The Legislature may be asked to take budget action on the project this year, as the Authority plans to request appropriations of the remaining Proposition 1A bonds. The hearing will help Legislators and the public get a clear picture of the scope of the project being funded, the timeline for delivery, and its value in meeting the state's infrastructure, environmental, and economic goals.

Background

The Business Plan Delayed

The Authority is statutorily required to prepare, publish, and adopt a Business Plan every two years outlining key required elements of the high-speed rail project. Those elements include project development information, including a description of the type of service being developed; the timing and sequencing of project phases and segments; estimated capital costs; ridership estimates; and a discussion of reasonable foreseeable risks and strategies to manage those risks. Additionally, the Business Plan is required to contain estimates and descriptions of the total anticipated federal, state, local, and other funds the Authority intends to access for the construction and operation of the system. The Business Plan is required to be published in draft form for public comment and submitted to the Legislature for review.

The Draft 2020 Business Plan was released on February 12, 2020 to begin a 60 day public comment period. However, shortly thereafter, the nation shut down due to COVID-19. The Authority, following state agency guidelines, shifted away from in-person operations and moved to a virtual format for meetings. The Authority postponed the final adoption of the Plan. Since then, there have been dramatic changes in the operation of public agencies, construction projects, and revenue estimations. Therefore, the Authority updated many of the projections and released the Revised Draft 2020 Business Plan on February 9, 2021. This began an additional 30 day public comment period, with a planned adoption date of March 25, 2021 by the Authority Board of Directors.

History of High-Speed Rail in California

Development of high-speed rail in California began more than 20 years ago. SB 1420 (Kopp), Chapter 796, Statutes of 1996, created the Authority to direct development and implementation of intercity high-speed rail service that would be fully coordinated with other public transportation services. The Authority reports to the California State Transportation Agency and is governed by an eleven-member Board of Directors. The Governor appoints five members of the board, the Senate Rules Committee appoints two, and the Assembly Speaker appoints two. Additionally, the board includes two ex-officio, non-voting members, one member of the Assembly and one member of the Senate.

Assembly Bill 3034 (Galgiani), Chapter 267, Statutes of 2008, placed before the voters the Safe, Reliable High Speed Passenger Train Bond Act for the 21st Century (Proposition 1A) in November of 2008. California voters approved the initiative, which authorized \$9.9 billion in general obligation bonds for two distinct purposes: \$9 billion to develop and construct a high-speed rail system connecting San Francisco Transbay Terminal to Los Angeles Union Station and Anaheim; and \$950 million for connecting intercity and commuter rail systems that would enhance those systems' capacity, safety, or connectivity to the high-speed rail system.

Proposition 1A prescribes specific route and design requirements for the high-speed rail system including that it must be electrified, be capable of sustaining speeds of no less than 200 miles per hour, and have the capacity to achieve travel times between San Francisco and Los Angeles of 2

hours and 40 minutes. Additionally, Proposition 1A requires a one to one match of all bond funds from other sources and lays out specific requirements the Authority must meet in order to access and spend the bond funds, including submission of detailed funding plans to the Legislature and Department of Finance. Furthermore, Proposition 1A requires high-speed rail to operate without government subsidies. At the time of the passage of Proposition 1A, estimates for the cost of the system varied. The analysis by the LAO that accompanied the ballot measure referenced a 2006 estimate from the Authority that the total cost to develop and construct the entire high-speed rail system would be about \$45 billion.

In July 2012, the Legislature approved SB 1029 (Committee on Budget and Fiscal Review), Chapter 152, Statutes of 2012, that appropriated nearly \$8 billion in federal and state funds to begin the construction between Madera and Bakersfield. SB 1029 funded three components of the project, including \$5.8 billion (\$3.2 billion federal grants and \$2.6 billion Proposition 1A) to fund the construction of the high-speed rail “backbone” in the Central Valley; \$819 million of Proposition 1A bonds for “connectivity” projects on existing rail and transit systems throughout the state; and \$1.1 billion for the “bookends” projects in the Bay Area and Southern California (\$600 million for the electrification of Caltrain and \$500 million for projects in the Los Angeles Basin) to improve existing rail corridors for eventual use by the high-speed rail system.

Further, a 2014-15 state budget trailer bill [SB 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014], continuously appropriated 25 percent of the revenues derived from the state’s Cap-and-Trade program to the project. In July 2017, the Legislature extended the state’s Cap-and-Trade program through 2030, in AB 398 (Garcia), Chapter 135, Statutes of 2017. The Authority estimates that this equates to a range of \$500 to \$750 million annually in funding for the program.

In 2015, the Authority broke ground on the first construction segment in the Central Valley, starting work on 119 miles from Madera to Poplar Avenue outside of Shafter. This work was reflected in the Authority’s grant agreement with the Federal Railroad Administration (FRA) to spend the federal and state monies appropriated in SB 1029. The FRA grant agreements require the Authority to complete construction of this section by December 2022.

Evolution of the Project

Overall, the project is to be built in two phases, with Phase I covering roughly 500 miles from San Francisco to Anaheim. Phase II would extend the system to Sacramento in the north and San Diego in the south. The delivery of the project is broken into segments, including an Initial Operating Segment (IOS), which over the years has changed from a southern-focused route to Los Angeles, to the current northern-focused route from San Francisco to Bakersfield, the so-called Silicon Valley to Central Valley Line (Valley to Valley).

Specifically, the 2016 Business Plan unveiled this new northern-focused route defining the Valley to Valley Line to run from 4th and King Streets in San Francisco south through the Silicon Valley turning east across the Pacheco Pass to Madera and then south to Bakersfield at a cost of roughly \$20.7 billion and would be up and running by 2025. The funding plan for the Valley to Valley segment includes existing sources of Proposition 1A bonds, federal funds,

continued Cap-and-Trade pay-as-you-go funding and a Cap-and-Trade financing plan to 2050. The Cap-and Trade financing plan continues to be a major source of possible revenue for the project. The Authority continues to request three things from the Legislature to make it successful: an extension of the Cap-and-Trade program through 2050, no-impairment of their current dedicated appropriation of 25 percent of Cap-and-Trade proceeds, and a minimum guarantee of funding. The Authority proposes that these factors would allow them to securitize the future stream of revenues to receive up front funds to continue construction.

In February 2019, Governor Newsom delivered his State of the State address and he appeared to signal a change in the project, shifting emphasis to completing a workable rail line in the Central Valley, but casting doubt over the completion of the full Phase I. Specifically, Newsom noted, “the project, as currently planned, would cost too much and take too long. There’s been too little oversight and not enough transparency.” He outlined a new Central Valley construction plan, including extending the current line north to Merced and south to Bakersfield, stating, “High-Speed Rail is much more than a train project. It’s about economic transformation and unlocking the enormous potential of the Valley.”

The statement caused serious confusion about the future of the project and created a public schism with the Trump Administration over the federal funding agreement and ongoing federal participation and commitment to the project. Specifically, the FRA moved to de-obligate \$929 million awarded to California stating that the Authority “failed” to comply with the terms of the agreement, and has failed to make reasonable progress on the project.” Additionally, the FRA stated that they would possibly attempt to claw back, the remaining \$2.6 billion in federal grants which had already been expended. Subsequently, the State of California sued the FRA over the de-obligation. This issue is still without resolution. The FRA also continued a pattern of “disengagement” with the Authority, including delaying approvals of environmental documents and financial reimbursements to meet the matching requirements of the grant agreement.

Newsom’s Valley Vision

Governor Newsom’s new focus on the Valley construction was detailed in the 2019 Project Update Report (PUR). The PUR committed the Authority to completing an initial “building block” of a high-speed system in the Central Valley. Specifically, the new Central Valley Line was a 171 mile high-speed rail line from Merced to Bakersfield, with stations planned for Merced, Madera, Fresno, Kings/Tulare, and Bakersfield F Street. The Central Valley Line included all of the current Central Valley construction (119 miles), with extensions to Merced and Bakersfield. In 2019, the Central Valley construction was estimated to cost \$12.4 billion and the complete new Central Valley Line was estimated to cost \$20.4 billion to be completed by 2028. The Central Valley Line scope included the extensions in the north and south, double track and systems, new high-speed trains, and several maintenance facilities. The new line would be operated by an interim passenger rail operator, likely a partnership with the existing San Joaquins service.

2020 Revised Draft Business Plan

The 2020 Revised Draft Business Plan continues to focus on the Governor's two main objectives: completion of the 119 miles Central Valley Segment from Madera to Shafter, in compliance with the FRA grant agreement; and the path forward for the Central Valley Line for high-speed train service from Merced to Bakersfield. In addition to costs increasing for the two segments, the Plan changes the scope of the project including planning for a single track to start, instead of full double tracking outlined in 2019; changes to potential station design; and the possible purchase or lease of high-speed trains.

As mentioned, the 2020 Draft Business Plan adoption was delayed due to COVID-19. The Authority details the effects of COVID-19 on the ongoing construction and other planning, design, and environmental review activities. Specifically, the Authority shifted 90 percent of its administrative workforce to telework, public meetings are conducted in a virtual format, and they have implemented safety standards to protect essential workers at construction sites. Additionally, COVID-19 has affected project costs, schedules, and revenues, with delays adding \$330 million to the current construction packages with completion now expected by 2023. As noted, the Authority relies on funding from the state's Cap-and-Trade program and they estimate a loss of \$288 million in funding over the last year due to lower auction proceeds.

Specifically, the Plan focuses on and provides updated estimates for the two main projects. The Central Valley Segment is 119 miles from Madera to Shafter with a single track, no stations, and trainsets either purchased or leased. The estimate for the segment is \$13.8 billion with civil works complete by 2023 and track installed by 2025. The full Central Valley Line is a 171 mile high-speed rail line from Merced to Bakersfield with a single track, stations at Fresno and Kings/Tulare, and more trainsets to be purchased. The Central Valley Line is estimated to cost between \$21.3 and \$22.8 billion and be completed by the end of the decade. This scope is substantially diminished from the previous plans, with a single track and reduced station design. The Authority estimates that the double tracking of the full Central Valley Line would cost an additional \$1.1 billion.

Additionally, the Plan stresses the need to move forward with the contract award for the track and systems, which could have a 30 year term, at an estimated cost of \$2.3 billion. This raises questions about the contract size, the risk associated with the long term and whether the contract is needed now. In December 2019, the Authority released a track and systems Request for Proposals (RFP) and bid proposals are due in April 2021.

As mentioned, after the completion of the Central Valley Line, the Plan envisions an independent operator for the interim high-speed service. This could be the San Joaquin Regional Rail Commission (SJRRRC), which currently operates the San Joaquin intercity passenger rail (Amtrak) service in the Central Valley and the Altamont Corridor Express (ACE) to the Bay Area. It is unclear how this agreement would work in practice and how much it may cost the state. Proposition 1A requires "planned passenger train service to be provided by the Authority, or pursuant to its authority," to operate without a subsidy. The Authority believes that by leasing the state rail asset to the SJRRRC to operate that they would not be in violation. However, SJRRRC may need additional subsidies from the state if revenue from the farebox does not cover

operating expenses. In November, 2020, the Authority entered into a Memorandum of Understanding with the California State Transportation Agency and SJJPA for the “cooperation and coordination in the development of an interim service plan.”

The line would connect, cross platform, with the existing San Joaquins and ACE service at Merced. In the south, the high-speed rail line would connect with Amtrak bus service to Southern California. Currently, the San Joaquins is one of the busiest Amtrak routes in the United States, connecting the Central Valley to Sacramento and Oakland, with bus connections south to Los Angeles. ACE connects nearly 1.5 million commuters per year to the Bay Area. Authority’s ridership studies of the Central Valley corridor concluded that the route would generate the largest ridership increase of 4.8 million additional system-wide riders, the highest revenue increase of \$117.2 million in additional system revenues from passenger fares, and roughly 90 minutes would be shaved off travel times. However, the Plan also relies on additional state funding, not Authority funds, to complete the construction and service plans envisioned by the San Joaquins/ACE Valley Rail Plan to extend ACE and San Joaquins service.

Where will the money come from?

The Authority identifies numerous existing sources of funding to complete the **Central Valley Line**.

Federal Funds:

- \$2.6 billion ARRA
- \$929 million FY 2010

State Funds:

- \$3.3 billion Proposition 1A (non-bookends)
- \$3.6 billion Cap-and-Trade received through November 2020
- \$4.1 billion Proposition 1A (must be appropriated by Legislature)
- \$5 — \$7 billion Cap-and-Trade future revenue through 2030

\$20.6 — \$23.1 billion total funding available

\$21.3 - \$22.8 billion estimated cost (an additional \$1.1 billion to double track)

This assumes the FRA will re-obligate the \$929 million to the project and estimates the Authority’s portion of Cap-and Trade revenue at \$500 to \$750 million/annually. The PRG notes, in their comments on the Plan, they believe the Authority will be able to complete the 119 miles as required by the federal grant, but due to substantial risks facing the Merced and Bakersfield extensions, the Central Valley Line cannot be completed without additional funding.

The Authority anticipates the potential for new funding from the federal government. The Biden Administration is currently working with Congress on a large scale infrastructure proposal, the “Build Back Better” plan. Additionally, Congress is moving forward with reauthorization of the federal surface transportation act. Both of these proposals could include billions of dollars of

funding for the nation's rail and high-speed networks. It is unclear at this time whether these proposals will be approved or how much funding California would receive.

The Next Big Step

As noted, the Plan focuses on achieving the goal of completing the two building blocks in the Central Valley. What is the next big step? The next big step would be the completion of the Valley to Valley line connecting the Central Valley with Silicon Valley. In the 2016 Business Plan the project was estimated to cost \$20.7 billion and be completed by 2025. The Authority did not provide a specific estimate for Valley to Valley in the current Plan but did break out the costs for the remaining segments of Phase I which could put Valley to Valley at roughly \$41 billion.

As the Authority builds in the Central Valley, they continue to do extensive work in planning, design, and environmental clearance throughout the entire San Francisco to Los Angeles, full Phase I system. As new funding becomes available, the Authority would be ready to move forward on additional segments. When the Legislature took action on SB 1029 in 2012 Phase I was estimated to cost \$68 billion and be up and running by 2029. The current Plan estimates the Phase I cost at \$83.2 billion to be complete by 2033.

To move forward with the next steps of the program, the Authority would need a large amount of additional, dedicated, stable funding. Options could include the possible financing of Cap-and-Trade revenues which has been proposed repeatedly since 2016; additional state resources; or the possibility of new federal funding. The PRG has recommended numerous state funding options over the years, such as a state sales tax or gasoline tax, to provide stable funding for the project.

Bookends – Partners in Bay Area and LA

As previously described, the so-called bookend projects were defined and funding was appropriated by SB 1029 in 2012. Specifically, the Authority has committed a total of \$714 million to the Northern California project, the electrification of Caltrain, with \$600 million in Proposition 1A bond funds and the remainder in state Cap-and-Trade funds. The Caltrain electrification project, which is scheduled to be completed by 2022, will electrify and upgrade Caltrain's commuter rail service between San Francisco and San Jose. The total cost of the Caltrain project is estimated at \$2 billion. Additionally, the Authority committed \$84 million of \$180 million total to the San Mateo Grade Separation project on the Caltrain corridor.

In Southern California, two projects have been identified for funding from the \$500 million in Proposition 1A bond funds appropriated in SB 1029. \$76.7 million was approved for the Rosecrans/Marquardt grade separation project, which is in Santa Fe Springs on the BNSF mainline tracks at the intersection of Rosecrans and Marquardt Avenues. The intersection is also on the Los Angeles/San Diego/San Luis Obispo (LOSSAN) corridor, which is utilized by Amtrak and Metrolink. The intersection sees more than 112 freight and passenger trains per day and has been rated by the California Public Utilities Commission (CPUC) as the most hazardous grade crossing in California. The project is expected to be completed by 2023.

The remainder of the Proposition 1A bonds funds for Southern California, \$423.3 million, is dedicated to Los Angeles Union Station (LAUS) for the Link Union Station (Link US) project in downtown Los Angeles. The Link US project will extend up to 10 rail tracks at LAUS to the south of the station over U.S. Highway 101, including platforms and tracks for use by future high-speed rail. The project allows trains at LAUS to “run through” the station rather than head in and back out through a single entrance. The project is planned for two phases of construction with the cost of Phase A estimated at \$950.4 million, which is fully funded including Proposition 1A bond funds, and the cost of Phase B estimated at \$1.14 billion but is not currently funded.

Conclusion

The Authority is charged with planning, designing, building, and operating the nation’s first high-speed rail system. It is a daunting task. The sheer size of the program, coupled with inadequate, unstable funding; rigid design criteria; constant legal threats; environmental and geological concerns; and difficult engineering challenges make success seem impossible. Additionally, the project has been plagued with cost increases and project delays, internal restructuring and staffing issues, and a federal government not interested in being a full partner.

The Authority’s new Plan continues the vision of Governor Newsom to complete a working high-speed rail line in the Central Valley and then looking forward to completing the remainder of the system. The Authority estimates that the Merced to Bakersfield line could be completed with funding currently projected, if the volatile Cap-and-Trade program performs well. But the project is a diminished version of the original with a single track, reduced station design, and less trains. The Legislature will be asked to take budget action on this Plan in the coming year. This approach raises questions that the Legislature may consider:

- Does the proposed project serve the transportation needs of the state? At what point will the state see the benefits of the project?
- Can the Central Valley Line be built at the current cost and schedule?
- Will all of the pieces, such as the ACE/San Joaquins build out, come together on time and provide the level of service anticipated?
- Will the Authority be able to renegotiate the current grant agreement with the federal government to loosen some impending deadlines and recover the federal funding?
- Will the Administration pursue additional funds for the Authority or its partners to ensure project success?
- Would more independent oversight of the project lead to better outcomes?

Today’s witnesses will share their expertise and insights on these and other questions.