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L E G I S L A T I V E A N A L Y S T ' S O F F I C E

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Review of High-Speed Rail Draft 2016 Business Plan

Presented to:
Assembly Committee on Transportation
Hon. Jim Frazier, Chair





Overview of Presentation

- State law requires the California 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. On February 18, 2016, HSRA released a draft of its 2016 business plan.

- This presentation (1) provides background information on the planned high-speed rail system, (2) describes the major changes proposed in the draft 2016 business plan, and (3) identifies issues for legislative consideration.



Overview of Planned High-Speed Rail System

- Proposition 1A Established System Criteria.** Proposition 1A (2008) specified certain criteria and conditions that the high-speed rail system must ultimately achieve. For example, the measure requires electric trains capable of operating speeds of at least 200 miles an hour and specifies minimum travel times along specific routes. Proposition 1A also requires that the system operate without requiring a subsidy.

- Construction of Project Divided in Two Phases.** Phase I of the system would provide service for about 500 miles from San Francisco to Anaheim. Phase II would connect the system to Sacramento in the north and San Diego in the south. In 2014, HSRA estimated that Phase I of the system would be completed in 2028 and cost about \$68 billion. The authority has not provided estimates of the cost or schedule for Phase II.



Background

- ☑ ***First Operable Segment Planned to Go South.*** Since 2012, HSRA has reported that the first operation of high-speed rail in the state will be after the construction of an initial operating segment (IOS) of Phase I, which would connect Merced to the San Fernando Valley (commonly referred to as the “IOS South”). In 2014, HSRA reported that the IOS South would cost about \$31 billion and be completed by 2022.

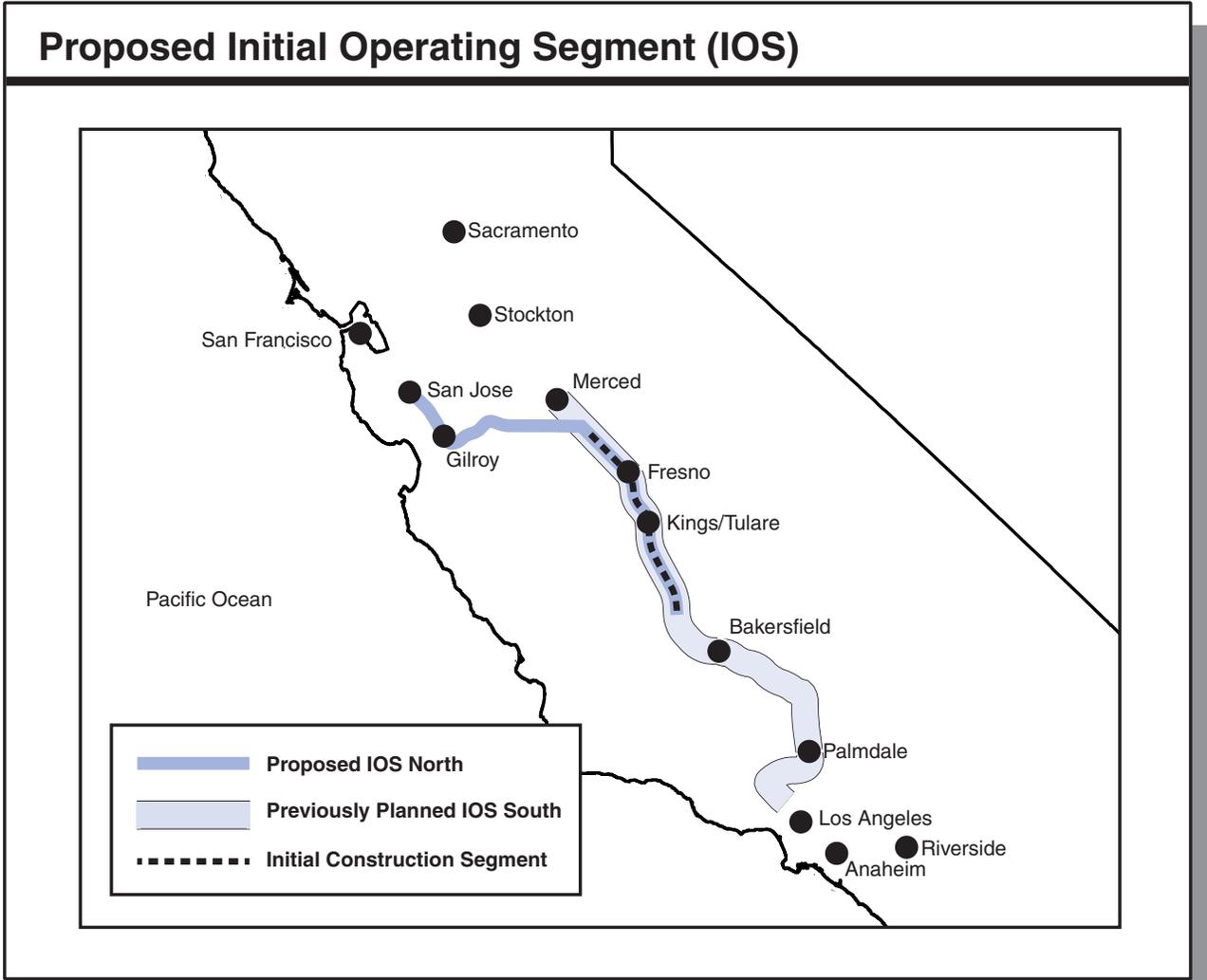
- ☑ ***Initial Construction Began in the Central Valley.*** Construction of the IOS South began on a segment—commonly referred to as the initial construction segment (ICS)—extending 130 miles from Madera to an area north of Bakersfield. The HSRA initially estimated that the ICS would be completed by 2017 and cost \$5.9 billion.

- ☑ ***Funding Provided for the Project.*** Through 2015-16, HSRA will have received an estimated \$8.1 billion to build the system. The specific funding sources include:
 - \$3.7 billion of Proposition 1A bond funds that have been appropriated.
 - \$3.5 billion in federal funds.
 - \$850 million in cap-and-trade auction revenues. The Legislature adopted legislation to continuously appropriate, beginning in 2015-16, 25 percent of cap-and-trade auction revenues.



Major Features of the Draft 2016 Business Plan

Changes IOS From South to North. As shown below, the plan changes the IOS to a 239-mile segment from the Central Valley to Silicon Valley (referred to as “IOS North”), rather than from the Central Valley to the San Fernando Valley. The plan estimates that in 2025, the first year of operation, the IOS North would carry between 2.2 million and 4.1 million passengers. A primary reason for the change in the IOS is because of insufficient funding to complete the planned IOS South.





Major Features of the Draft 2016 Business Plan

(Continued)



Updates Capital Cost and Schedule for Phase I. The plan estimates Phase I will have capital costs of \$64 billion, including costs for the proposed IOS as well as the remainder of Phase I, as shown in the figure. The plan assumes that the IOS will be complete in 2025 and the remainder of Phase I would be complete and operational in 2029.

Phase I Capital Cost—2016 Draft Business Plan^a	
<i>(In Billions)</i>	
Segment	
IOS North—Silicon Valley to Central Valley	
North of Shafter to Madera (ICS)	\$7.3
Madera to San Jose	13.4
Subtotal	(\$20.7)
Remainder of Phase I	
IOS North extension to San Francisco and Bakersfield	\$2.9
Other Phase I segments	40.6
Subtotal	(\$43.5)
Total	\$64.2

^a Estimated dollar amounts are in year of expenditure.
IOS = initial operating segment and ICS = initial construction segment.



Major Features of the Draft 2016 Business Plan

(Continued)

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- ☑ **Identifies Full Funding for Proposed IOS North.** The draft plan identifies \$28 billion from various sources—\$20.7 billion to fully fund capital costs and \$7.3 billion presumably related to financing costs. These sources include:
 - \$6.8 billion from Proposition 1A (\$4.2 billion of which has not yet been appropriated).
 - \$3.2 billion in federal funds already appropriated to HSRA.
 - \$17.8 billion in cap-and-trade auction revenues through 2050, including (1) \$5.3 billion through 2024 that would support pay-as-you-go expenditures on the project, and (2) \$12.5 billion from 2025 through 2050 to support financing. The \$12.5 billion would be securitized to generate \$5.2 billion in financing proceeds.

 - ☑ **Assumes Additional Funding Will Become Available for Phase I.** The plan assumes that additional funding will become available to pay for the \$43.5 billion in construction costs for the remainder of Phase I. The plan also assumes that funding would be available in order to begin construction of the remainder of Phase I in 2018, so that the entire Phase I system would be completed and operational by 2029. While the plan does discuss some potential sources that might be able to partially fund additional portions of Phase I (such as seeking additional federal funds and securitizing operating revenues), it does not include a full funding plan.



Issues for Legislative Consideration



Uncertainties Regarding Funding Plan for Phase I

- ***Availability of Future Cap-and-Trade Revenue Could Require Legislative Actions.*** About half of the funding identified for the proposed IOS is from cap-and-trade auction revenues after 2020. Current law does not appear to authorize the program's continuation beyond 2020. Thus, without legislative action, the cap-and-trade funds HSRA plans to use to build the IOS would likely not be available. The Legislature will want to consider whether to approve the cap-and-trade program beyond 2020 based on the merits of that program. The Legislature would also need to take steps to facilitate the securitization of cap-and-trade auction revenues.
- ***No Complete Funding Plan for Remainder of Phase I.*** While the draft business plan discusses the possibility of securitizing the net operating revenues once the proposed IOS North is complete to support part of the costs to complete Phase I, it is unclear whether the system will actually generate an operating surplus. Moreover, the plan estimates that the amount of funding that could be generated would fall significantly short of the level needed to complete Phase I and does not identify how this shortfall would be met.

**Scope of IOS**

- ***Weigh Trade-Offs of Proposed IOS Scope Change.*** While the previously planned IOS South would have connected a more populous region of the state and had higher projected ridership, it is not possible to be completed as scheduled due to insufficient funding. To the extent that the Legislature wants to ensure the continued development of a high-speed rail system, the proposed IOS North has some merit. Since the proposed IOS North has construction costs of about \$10 billion less, it is much more likely that a full funding package to complete the segment could be achieved.
- ***Ensure IOS Has Stand-Alone Value.*** The Legislature will want to consider whether the IOS has stand-alone value to the extent that the remaining parts of Phase I are not built due to a lack of available funds. For example, the southern terminus of the proposed IOS North does not appear to be an effective approach, because it would not have the necessary facilities to support train passengers. The Legislature could direct HSRA to limit work beyond the last permanent station (Kings/Tulare) or could make it a priority to identify the additional \$2 billion necessary to extend the IOS to Bakersfield.

**Adequate Legislative Oversight****■ *Ensuring Project Is on Schedule and Within Budget.***

Given the state's significant investment in the high-speed rail project, it will be important for the Legislature to maintain oversight of the project to help ensure it is completed as planned and within budget.

- *More Detailed Information Needed.***
- However, information provided by HSRA can be difficult to compare over time, for example the cost, scope, and schedule of each construction segment. The Legislature may want to consider defining specific segments of the system and requiring future business plans and reports to provide information on the cost and schedule of these fixed scopes of work. The Legislature will also want to consider requiring future business plans to include all costs associated with the planned system, such as financing and administrative costs.