

**Senator Jim Beall, Chair**  
**Senator Jim Nielsen**  
**Senator Hannah-Beth Jackson**



**Thursday, April 3, 2014**  
**9:30 a.m. or Upon Adjournment of Session**  
**Hearing Room 112**

**Consultants: Farra Bracht**

**PART B**

**PROPOSED DISCUSSION**

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**Resources—Environmental Protection—Energy—Transportation**

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## 2665 High-Speed Rail Authority

**Department Overview:** The California High-Speed Rail Authority (HSRA) is responsible for directing the development and implementation of an intercity high-speed rail service that would be fully coordinated with other public transportation services. In November 2008, the voters approved Proposition 1A—the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century—which allows the state to sell up to \$9.95 billion in general obligation bonds to partially fund the development (such as planning and environmental review) and construction of a high-speed rail system.

HSRA is led by a Chief Executive Officer, and governed by a nine-member board, five of whom are appointed by the Governor, two by the Senate Committee on Rules, and two by the Speaker of the Assembly. It currently has 177 authorized staff positions. The size of the department has more than tripled since 2012-13 and, as a result, has 60 vacancies that it is in the process of filling.

**Budget Summary:** The Governor's budget proposes a total of \$1.4 billion to HSRA for the high-speed rail project in 2014-15. Of this amount, \$250 million is from cap-and-trade auction revenue and \$1.1 billion in federal funds. This is a funding increase of \$770 million from the 2013-14 level. Most of the funding proposed for the budget year would be for the construction of high-speed rail.

**Background:** Under Proposition 1A, approximately \$9.9 billion in general obligation bond funding is authorized for the project. Of this amount, \$9.0 billion is for the high-speed rail system and \$950 million to improve the connectivity of existing passenger rail systems with high-speed rail. Up to \$450 million of the \$9.0 billion is available for general administration and up to \$675 million is available for initial construction activities, such as environmental studies and preliminary engineering; no match is required for this \$1.1 billion. The remaining \$8 billion is available for construction; however, a non-bond match of at least 50 percent is required for each corridor or segment. Since the approval of Proposition 1A, HSRA has been awarded \$3.5 billion in federal funds from the Federal Railroad Administration (FRA). These federal funds require a substantial state match and \$2.3 billion of these funds must be spent by September 30, 2017.

The bond act specifies certain characteristics for the design of the system, including electrified trains capable of sustaining speeds of no less than 200 miles per hour and capacity to achieve travel times between San Francisco and Los Angeles Union Station of two hours, 40 minutes.

The anticipated route of high-speed rail, including early investments in the Caltrain corridor in Northern California and in the Metrolink corridors in Southern California, is shown in the following figure.



Source: High-Speed Rail Authority

The Legislature has appropriated approximately \$5.9 billion (\$2.7 billion in Proposition 1A funds and \$3.3 billion federal funds) for the high-speed rail project to begin development, right-of-way acquisition, and construction of the 130-mile Central Valley segment from Madera to just north of Bakersfield. However, Proposition 1A funding has not been available for expenditure because the State Treasurer's Office will not sell Proposition 1A bonds until legal uncertainties regarding the project are resolved through a "validation action" that was filed on the recommendation of the Attorney General. In the meantime, federal funds are being used for the project, and a loan of \$26.2 million from the Public Transportation Account (PTA) was made in 2013-14 to provide short-term funding for the cost of state operations.

In an effort to better ensure that the federal funds (\$2.3 billion) are spent by 2017, the HSRA and FRA negotiated an amendment to their existing grant agreement in 2012. Rather than having state funds match federal dollars as initially agreed upon, the amendment provides for a "tapered match" in which the FRA would reimburse the HSRA for up to 100 percent of project costs at the beginning of the project. This agreement provides sufficient federal funds for the initial construction of the project, particularly those costs that were planned to be funded with Proposition 1A funds.

## Items Proposed for Discussion (Informational Only)

### Item 1: Update on High-Speed Rail Project Construction, Environmental Clearances, and Expenditures

**Construction to Start in Central Valley in 2014.** A notice to proceed was issued for construction package 1 (CP 1), a 29-mile stretch between Madera and Fresno, in October 2013, for an amount up to \$78 million. This project is approaching final design. Appraisals have been completed for 317 of the 381 parcels needed for CP 1 and first offers have been made on 156 parcels, as of March 1, 2014. Other work currently being done in this area includes finalizing permits from partner agencies, working with Caltrans to realign portions of State Route 99, and continuing to pursue environmental clearances on a preferred alternative alignment for the Central Valley Wye. According to HSRA, it is on schedule to complete the first construction section by 2018.

Work is also being done on other segments in preparation for future construction. For example, for the 60-mile Fresno to Bakersfield segment, five teams qualified to submit formal design-build proposals in 2014. In addition, alignment alternatives are being explored for the Bakersfield to Palmdale segment.

**Work on Obtaining Environmental Clearances Continues.** Obtaining environmental clearances in the requisite time necessary is important in order to avoid delays to construction. However, as can be seen in the table below, HSRA continues to experience delays partially due to review periods taking longer than anticipated. After some delays, the Fresno to Bakersfield draft environmental impact statement continues to move towards certification. This action will allow HSRA to begin negotiations with impacted land owners for property acquisition, purchase real property, and subsequently award design-build contracts.

**Projected Dates for Environmental Review Process Completion**

<b>Section</b>	<b>Record of Decision</b>	<b>Complete Construction</b>
Merced-Fresno	June 2012 (COMPLETED)	2018
Fresno-Bakersfield	December 2012 Spring 2014 (REVISED)	2018
San Francisco-San Jose	December 2014 Summer 2017 (REVISED)	2028
San Jose-Merced	December 2013 Fall 2016 (REVISED)	2026
Bakersfield-Palmdale	February 2014 Fall 2015 (REVISED)	2021
Palmdale-Los Angeles	October 2013 Summer 2015 (REVISED)	2028
Los Angeles-Anaheim	December 2014 Spring 2016 (REVISED)	TBD
Merced-Sacramento (Phase 2)	TBD	TBD
Los Angeles-San Diego (Phase 2)	TBD	TBD

**Expenditures to Increase Significantly in Budget Year.** High-speed rail expenditures are expected to increase by \$770 million to \$1.4 billion in 2014-15, as shown below. Most of this increase is for capital outlay expenditures for the initial operating segment. By the end of 2013-14, HSRA estimates it will have spent about \$1.2 billion on capital outlay and administrative expenditures combined. This amount includes \$1.1 billion for capital outlay expenditures and \$116 million on administration or project support costs.

**High-Speed Rail Authority Expenditures  
(In Millions)**

	2010-11	2011-12	2012-13	2013-14	2014-15
<b>State Operations</b>					
Various fund sources	\$56.6	\$14.7	\$17.8	\$26.4	\$29.3
<b>Local Assistance</b>					
Federal funds					32.0
<b>Capital Outlay</b>					
Proposition 1A	92.5	64.2	27.3	22.0	
Greenhouse Gas Reduction Fund					250.0
Federal Funds	84.7	57.9	185.8	571.3	1,078.7
<b>Totals</b>	<b>\$233.8</b>	<b>\$136.8</b>	<b>\$230.9</b>	<b>\$619.7</b>	<b>\$1,390.0</b>

**Questions:**

1. *Please provide an update on the project's construction progress, including the acquisition of right-of-way, and environmental approvals.*
2. *What are the greatest risks to the project, at this time?*

**Item 2: Update on Connectivity and Bookend Investments**

**Background and Detail.** In 2012, the Legislature passed SB 1029 (Committee on Budget and Fiscal Review), Chapter 152, Statutes of 2012, which appropriated nearly \$2 billion in Proposition 1A bond funds for transit, commuter, and intercity rail projects that strengthen and improve existing rail networks, while also eventually connecting them with high-speed rail. These funds will be used to leverage approximately \$5 billion in additional funding for these projects. At this time, however, the pending lawsuit regarding the use of Proposition 1A bond funds has prevented the issuance of any bonds and, as a result, some of these funds cannot be spent.

Some of the specific projects funded by SB 1029 are described below. In addition, various improvements to the state's Amtrak lines are being funded.

**Caltrain Electrification and Positive Train Control.** SB 1029 includes \$705 million to install an electric rail system that will enable the replacement of diesel trains and connect the system with high-speed rail, resulting in cleaner, faster travel. The state investment will leverage funding bringing the total investment to \$1.5 billion. SB 1029 also provides \$42 million (\$106 million total including Bay Area Rapid Transit (BART) and the Santa Clara Valley Transportation Authority contributions) for the design, installation, testing, and training for an intelligent network of signals. This system is required by federal regulations to improve train safety at higher speeds.

**BART-Millbrae Station Track Improvements and Car Purchase.** SB 1029 provides \$145 million to lengthen track at the Millbrae Station and for the purchase of new BART cars. This state investment will be matched with other funding for a total investment of \$290 million.

**San Francisco Muni-Central Subway.** SB 1029 provides \$61 million to construct a 1.7 mile extension of the light rail line from the 4<sup>th</sup> and King Streets to Chinatown. The state investment helps leverage a total of \$1.6 billion.

**Southern California Memorandum of Understanding.** SB 1029 provides \$500 million for regional rail projects that improve local networks and facilitate high-speed rail travel to Southern California. Projects will be selected by local transit agencies, along with HSRA, and state funding will be matched with additional investments to make the total investment in these projects \$1 billion.

**Questions:**

1. *Please provide an update on connectivity and bookend investments.*
2. *What is the impact on bookend projects of Proposition 1A bond funds not being available for expenditure at this time?*
3. *Would the Governor's cap-and-trade expenditure proposal allow for the use of cap-and-trade funds for bookend or connectivity projects?*



**Item 3: Update on Legal Challenges**

In the High-Speed Rail Project Update Report, issued March 1, 2014, the HSRA provided the following update on three major court challenges to the project:

***High-Speed Rail Authority v. All Persons Interested (Filed in Sacramento Superior Court on March 19, 2013.)*** On November 25, 2013, the Court denied HSRA a validation judgment. On January 24, 2014, HSRA filed a Petition for Extraordinary Writ with the California Supreme Court to revise the Superior Court's denial to validate the bond funds. On February 14, 2014, the appellate court announced that it will take up the state's request for expedited review. The opposition brief was due on March 17, 2014, and HSRA's reply is due April 1, 2014.

***John Tos, Aaron Fukuda, and the County of Kings v. California High-Speed Rail Authority (Filed in Sacramento Superior Court on November 14, 2011.)*** On November 23, 2013, Judge Kinney ordered that the HSRA rescind its November 2011 funding plan. In January 2014, the HSRA, the Department of Finance, the State Treasurer, and the Transportation Agency filed a Supreme Court Extraordinary Writ to overturn the Superior Court Ruling. On February 14, the appellate court announced that it will take up the state's request for expedited review. The opposition brief was due on March 17, 2014, and HSRA's reply is due April 1, 2014.

***Town of Atherton v. California High-Speed Rail Authority (Appealed to the Third Appellate District, April 13, 2012.)*** In November 2011, the Sacramento County Superior Court ruled HSRA had complied with the environmental review requirements in CEQA for the Bay Area to Central Valley EIR/EIS and that the public was adequately engaged in the environmental review process. The plaintiffs are appealing this ruling. The HSRA has since provided notice that the Surface Transportation Board decision to take over jurisdiction of the project which may preempt State laws, including CEQA.

**Questions:**

1. *Please provide an update on the three legal challenges described above.*

## Items Proposed for Discussion

### Item 4: Public Transportation Account (PTA) Loan to Cover State Operations Costs (Governor's January BCP #1)

The HSRA is requesting the use of \$29.3 million from the PTA to fund its 2014-15 state operations budget which includes administration, program management, outreach and communications, and fiscal and other external contracts.

**Background.** The PTA typically provides state funding for highways, local roads, and transit programs. Funds in the PTA come from the sales tax on diesel and are split between the state and local transit agencies according to a statutory formula that is applied by the State Controller. In 2013-14, the HSRA borrowed \$26.2 million from the PTA to support its operations.

The current fund condition statement for the PTA in the Governor's January budget shows a reserve of \$305.2 million in 2014-15, after the proposed loan to HSRA. This amount takes into account revenue projections and current cash needs of existing projects. In addition, the forecast of the fund condition for the PTA through 2017-18 estimates a fund balance of \$235.7 million in 2017-18.

**LAO Comment.** To help ensure that the high-speed rail project can be completed as planned, while balancing other priorities such as maximizing GHG emission reductions, the LAO recommends the following:

- **Require Administration to Provide Complete Funding Plan.** The LAO recommends the Legislature require the Administration and HSRA to provide a funding plan that identifies all the funding sources (including cap-and-trade auction revenues), by amount and year, that would be used to complete the IOS.
- **Withhold Action on Various Proposals.** Pending the receipt of the above funding plan, the LAO recommends that the Legislature withhold action on the Governor's high-speed rail proposals (including those proposed for the California Public Utilities Commission and the Department of Conservation).

**Staff Comment.** If this additional PTA loan is approved, HSRA will have borrowed a total of \$55.5 million from the PTA to support its operations. The current PTA balance is sufficient to meet the cash-flow needs of existing projects and a delayed PTA loan repayment would not result in a delay to current projects. The LAO recommends that the Legislature hold this item open until it has received a funding plan from HSRA that identifies all the funding sources (including cap-and-trade auction revenues), by amount and year, that would be used to complete the IOS (\$31 billion).

**Questions:**

1. *According to the Department of Finance, there is enough funding on hand in the Public Transportation Account to fund the current cash needs of existing projects. What does that mean?*
2. *If the PTA funds were not borrowed by HSRA, could additional projects be completed?*
3. *Must this loan be repaid? If Proposition 1A bonds are not able to be sold to fund the repayment of this loan, what would be the source of funding for repayment?*

**Staff Recommendation.** Hold open.

**Item 5: Southern California Improvements (Governor's January BCP #2)**

The HSRA is requesting \$32 million in federal local assistance funds for infrastructure projects and improvements that will prepare the Southern California passenger rail corridors for connectivity to high-speed rail service.

**Background and Detail.** In the original ARRA grant award for high-speed rail with the Federal Railroad Administration (FRA), \$32 million was set aside for the HSRA and the Los Angeles County Metropolitan Transportation Agency (Metro) to purchase the Los Angeles Union Station (LAUS). However, this purchase did not go forward as intended and Metro purchased LAUS with its own funds. Improvements to the site are still necessary to accommodate high-speed rail and facilitate connectivity between high-speed rail and regional passenger rail service.

The Authority has proposed a grant amendment (Amendment #6) to the FRA which would allow HSRA and Metro to use the \$32 million for improvements necessary to accommodate high-speed rail along the corridor into the LAUS site, as well as for improvements at the LAUS site. These one-time ARRA funds would be supplemented with a local agency match of \$48 million as required by the grant agreement. The ARRA funds must be spent by September 30, 2017. The HSRA anticipates this agreement will be in place by July 1, 2014.

Projects that could be funded include the Doran Street Grade Separation and the Southern California Regional Interconnector Project.

**Staff Comment.** Without the transfer of these dollars to fund improvements in the Southern California passenger rail corridors, the \$32 million in federal funds would go unexpended until another project is identified, or the funding would revert back to the FRA. The use of these funds is consistent with the steps that the Legislature has already taken to provide funding specifically for projects in the bookends that support the implementation, ridership, and operations requirements for high-speed rail service.

**Questions:**

1. *When would construction of these improvements begin?*
2. *Who determines which projects receive funding?*
3. *What actions are being taken to ensure that these ARRA funds are spent by September 30, 2017?*

**Staff Recommendation.** Hold open.