JOINT INFORMATIONAL HEARING

High Speed Rail: An Overview of the 2018 Draft Business Plan

April 3, 2018 at 1:30 pm
John L. Burton Hearing Room (4203)
State Capitol Building

AGENDA

I. Opening Remarks:

- Senator Beall
- Senator Wieckowski

II. High Speed Rail Authority Business Plan:

- Brian Kelly, Executive Director, High Speed Rail Authority
- Joseph Hedges, Chief Operating Officer, High Speed Rail Authority
- Blake Konczal, Executive Director, Fresno Regional Workforce Development Board

III. High Speed Rail Peer Review Group and Legislative Analyst Office:

- Lou Thompson, Chair, Peer Review Group
- Tom Van Heeke, Fiscal & Policy Analyst, LAO

IV. Local Agencies

- Jim Hartnett, CEO, Caltrain
- Kimberly Yu, Deputy Chief Operating Officer, Metrolink
- Jeanet Owens, Senior Executive Officer for Project Management and Regional Rail, Los Angeles Metropolitan Transportation Authority

V. Public Comment

Informational Hearing

Senate Transportation and

Housing Committee and Senate Budget Subcommittee #2

Jim Beall, Chair
Bob Wieckowski, Chair

Tuesday, April 3, 2018

1:30pm – John L. Burton Hearing Room (4203)

High Speed Rail: 2018 Draft Business Plan

BACKGROUND INFORMATION

Purpose:

The purpose of this hearing is to review the Draft 2018 Business Plan prepared by the California High-Speed Rail Authority (HSRA) and provide an opportunity to hear feedback from stakeholders and the public on the contents of the draft plan while currently under the 60-day comment period. The intent of this hearing is to create a forum to help HSRA with development of the final 2018 Business Plan, which aims to serve as the funding plan to deliver a high-speed passenger rail system in California.

Introduction:

State law requires that the 2018 Business Plan be published, adopted, and submitted to the Legislature no later than May 1, 2018. This year, due to several significant organizational changes, the draft plan was released on March 9, 2018, potentially delaying the final approval of the business plan until mid-May at the very minimum. The current draft plan is the fourth biennial edition and the second since the HSRA has begun to award contracts for construction (Construction Packages or "CP" 1-4) of the first phase of the project in the Central Valley. Presently, all four construction packages have been executed with varying degrees of construction now ongoing within the 119 mile Central Valley segment.

In many respects, the current draft builds on the 2016 plan, providing refined cost, schedule, and ridership projections as well as increased detail on lessons learned so far. However, in other respects, the 2018 plan departs from earlier plans.

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 imposes 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 limits funding to no more than 50 percent of the construction cost of any corridor or usable segment of the system and further requires that the system operate without a public subsidy. The project has received approximately $3.5 billion in federal funds, including $2.6 billion in federal stimulus funds which had to be expended by September 30, 2017. Additionally, 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 119 mile segment, known as the Initial Construction Segment (ICS), running from Madera to an area north of Bakersfield. HSRA intended to construct the remainder of the 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 from federal funds) to complete the ICS. At the same time the Legislature also appropriated $1.1 billion for investment in the bookends, including electrification of Caltrain between San Francisco and San Jose and various projects to improve travel times along Metrolink's Antelope Valley corridor between Palmdale and the San Fernando Valley. 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 2022. This segment of the project is being procured 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 a 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 San Francisco Bay Area and Los Angeles Basin regions. 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 San Fernando Valley 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 between Anaheim and Fresno 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.

As previously noted, the 2016 Business Plan was the first provided by HSRA since construction commenced on the ICS. It provided cost and schedule information provided by lessons learned through the work completed to that point in time. Additionally, it proposed significant changes to the construction plan and sequencing originally outlined in the 2012 Business Plan. Key elements of the 2016 plan included:

- Change to northern orientation for IOS;
- 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); and,

- Concepts for full funding of Phase 1.

Overall, the 2016 Business Plan pegged the total cost for Phase 1 at an estimated \$64.2 billion with a scheduled completion date of 2029. The 2016 further estimated the "Valley to Valley" line (San Jose to north of Bakersfield) would cost approximately \$20.6 billion with construction completed in 2024 and service commencing in 2025. Lastly, the estimated cost for the 119 mile Central Valley portion was \$7.8 billion.

The Draft 2018 Business Plan

Similar to the 2016 plan, the Draft 2018 Business Plan (plan) continues to focus on completing the northbound Valley to Valley section with final completion to Los Angeles/Anaheim finished after trains are operating between Bakersfield and San Francisco. The plan further identifies three primary categories that have led to project cost increases since the release of the 2016 Business Plan which include: project contingency increases, inflation, and revised Central Valley Segment project costs. Lastly, in order for Valley to Valley to be completed, the plan calls for more certainty in funding and providing a funding framework that allows HSRA the ability to securitize Cap-and-Trade dollars.

<u>Valley to Valley:</u>

The 2018 plan builds on the 2016 Business Plan by redefining the Valley to Valley line to now start from the 4th and King Caltrain station in San Francisco and end in downtown Bakersfield. In switching the IOS construction northbound, the 2016 Business Plan identified the new IOS to provide service between San Jose and a temporary station north of Bakersfield off Poplar Avenue near Shafter. The 2018 plan asserts that redefining the Valley to Valley line from San Francisco to Bakersfield will generate higher revenue due to stronger ridership potential than the previous line identified in the 2016 plan. The 2018 plan claims that with increased ridership, the potential for higher revenue can provide another funding source to assist in completing Phase 1 into Southern California. Based on the plan, the 119 mile Central Valley segment (Madera to Poplar Ave.) is scheduled to be completed in 2022. The plan also diverges from the 2016 plan by proposing to continue construction south to Bakersfield and also expanding electrification of the Caltrain corridor to Gilroy (currently only planned from San Francisco to San Jose Diridon station). This approach will allow for dual operation of express service in both the Central Valley and Silicon Valley by 2027, leaving the connecting tunnel through the Pacheco Pass to be constructed as future funding sources are identified.

Tunnels:

As specified in the 2018 plan, the connecting Pacheco Pass tunnels coupled with the Merced Wye will be the final portions to be constructed and serve as the last critical link to complete the Valley to Valley segment. It's important to note that, on top of significant costs, the 15.2 miles of tunneling through the pass also encompasses a variety of environmental planning, geotechnical, and scheduling challenges. The plan identifies the total estimated cost of the 46 mile segment from Gilroy to Carlucci Road (which includes tunneling) to range anywhere from $8.1 to $13.3 billion as seen in table 3.9 on page 40 of the plan. This range also serves as the approximate funding gap necessary to complete the last portion of the Valley to Valley segment. A key difference between the 2016 and 2018 Business Plans is that the 2018 plan provides detail as to which portions of the Valley to Valley segment will be complete whereas the 2016 plan merely indicated that construction would now be carried out northbound to San Jose rather than southbound to Los Angeles/Anaheim.

Updated cost estimates:

The 2018 plan provides updated project cost estimates for the high-speed rail project. In comparison to the 2016 Business Plan, both the project costs and project schedules have increased and been extended. A notable change from the 2016 plan is that the 2018 plan now displays the project costs for each segment in ranges to reflect uncertainties and various risks. The plan notes that as each segment continues to be developed through the completion of environmental planning and design, right-of-way acquisition, etc., over time, HSRA will be able to provide more accurate estimates of each project segment. Below is a table with the cost ranges and projected completion dates as identified in the 2018 plan.

Cost Range	Completion Date	Segment
$63.2 - $98.1 billion	2033	Phase 1 (S.F. to L.A./Anaheim)
$25.1 - $36.8 billion	2029	Silicon Valley to Central Valley Segment
$10.1 - $12.2 billion	2022	Central Valley Segment (119 miles)

The draft plan acknowledges that the identified Proposition 1A, Federal, and Cap-and-Trade funding will cover most of the Valley to Valley segment leaving only the Pacheco Pass tunnel to require an additional funding source. In order to close the gap, the plan asserts other revenue sources will need to be identified such as ridership concessions and/or future federal funds that can be used to complete both Valley to Valley and Phase 1 construction. Lastly, the plan suggests that future legislation will also be needed to allow HSRA to securitize Cap-and-Trade funding in order to ensure the Authority is able to meet its project schedules.

Long term funding challenges:

While the 2018 plan lays out how existing funds will be used for the Central Valley and overall Valley to Valley segment, HSRA will face significant funding challenges in the near future. For example, while several options are provided, the plan does not identify a definite funding source to complete Phase 1 to Los Angeles/Anaheim. The plan details the challenges with constructing a megaproject of this nature with limited bond funds and "pay-as-you-go" (pay-go) Cap-and-Trade funding. Proposition 1A authorizes approximately $9 billion in general obligation bonds to be used for the entire project while Cap-and-Trade auctions have generated approximately $500 million annually to be used on the project. So far, HSRA has received $1.036 billion in Cap and Trade funds. To put these figures into perspective, the 2018 plan's updated cost estimates of the Central Valley segment alone will cost anywhere between $10.1 to $12.2 billion.

The 2018 plan clearly identifies the existing revenues sources and the amounts of federal, bond, and state dollars that have already been expended. However, to cover some of the funding shortfalls, the plan assumes cap and trade revenue will continue until 2050, which, under existing law, remains in effect until 2030. Furthermore, while the Legislative Analyst has forecasted HSRA Cap-and-Trade allocations ranging from $2 to $4 billion in 2018 to $2 to $7 billion in 2030, overall, Cap-and-Trade revenues have proven to be a volatile source of funding. The abovementioned forecast range would result in HSRA receiving anywhere from $500 million to $1 billion in 2018 alone. For purposes of making financial assumptions and forecasting, in order to establish a reasonable benchmark, HSRA assumes the project will receive somewhere from $500 to $750 million annually from the Cap-and-Trade program. However, the 2018 plan proposes to remedy some of these funding challenges by assuming a mechanism will be in place to allow HSRA to securitize Cap-and-Trade dollars in order to provide a long-term and stable financing plan for the project rather than "pay-go". The plan also calls on the Legislature to enact legislation at some future time to extend the Cap-and-Trade program to 2050 and authorize HSRA to establish this financing framework.

Economic Benefits:

While HSRA funding and project challenges have been well documented, it's important to note that construction of the project has provided noteworthy economic benefits for the Central Valley and Fresno County in particular. The recent reports indicate that between 2006 and 2016, HSRA project spending has generated between $3.5 to $4.1 billion in economic output. In the Central Valley alone, over this 10 year period, project spending has resulted in $1.2 billion in economic activity (HSRA ARRA Report, October 2017). The 2018 plan reports that in March of 2016, 266 certified small businesses statewide were contracted with HSRA. As of December 2017, 427 certified small businesses are now working on the project with 117 of those small businesses located in the Central Valley.

Additionally, the project has created opportunities for many Central Valley residents through pre-apprenticeship programs, providing career-level skills training while working on the project. The 2018 plan highlights the pre-apprenticeship training program established by the Fresno Workforce Investment Board as well as identifying other workforce development programs such as Helmets to Hardhats associated with the project. Overall, on top of providing career development opportunities, project construction has served as a job creator with 1,648 construction labor employees working on the project as of December 2017. Thus, with the Central Valley region suffering one of the worst unemployment rates in the country, high-speed rail project construction is providing much-needed relief to the Central Valley's economy.

Conclusion:

2018 will be a pivotal year for high-speed rail. The Draft 2018 Business Plan attempts to provide a more realistic picture of how the Authority and project intends to move forward. However, despite this attempt, it goes without saying that HSRA and the project will encounter significant funding challenges in the near future. "Lessons learned," as described in the plan, provide clarity on a number of issues HSRA has encountered in the project's early stages. However, even with corrective action, the challenges such as right-of-way acquisition delays continue and as with any significant megaproject, unknown project risks remain. Furthermore, as this project has been a priority for the current administration, another variable to contemplate is whether the project will remain a priority for the next Governor in 2019. Regardless of these challenges, construction is underway, shovels are in the ground, and people are working. As a result, this oversight hearing will provide members with the opportunity to have a candid discussion with HSRA representatives and stakeholders about these funding and other project challenges and how members of this committee envision the project continuing.