



DEPARTMENT OF
FINANCE
OFFICE OF THE DIRECTOR

Gavin Newsom ■ Governor

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December 20, 2022

Brian Kelly
Chief Executive Officer
California High-Speed Rail Authority
770 L St, Suite 620
Sacramento, CA 95814

2022 Proposition 1A Funding Plan

Dear Mr. Kelly,

In 2008, California voters approved \$9.9 billion in bond funding for high-speed rail with the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (Proposition 1A). Under Proposition 1A, as outlined in Streets and Highways Code Section 2704.08(d), the Director of Finance must review a funding plan for each corridor or segment to determine if “the plan is likely to be successfully implemented as proposed” prior to the High Speed Rail Authority’s (Authority’s) expenditure of Proposition 1A bonds for construction under that plan.

The Authority submitted a 2022 Proposition 1A Funding Plan (Funding Plan) for the Central Valley Segment to the Department of Finance on September 16, 2022. Proposition 1A requires that an independent consultant prepare a report assessing each funding plan. Finance has received and reviewed the independent consultant’s report on the Funding Plan. Finance also received and reviewed comments by the Peer Review Group.

Requirements under the Funding Plan

Under Proposition 1A, the Funding Plan is required to specify the usable segment, estimate segment construction costs, identify funding sources, provide a report on projected ridership and operating revenue, describe changes since the request for resources, and outline contract terms. These elements are described below.

Usable Segment and Construction Costs

The Funding Plan identifies the Central Valley Segment (CVS)—between Madera on the north end and Poplar Avenue in Shafter on the south end—that was the subject of a previous funding plan approved in 2017. That plan estimated that construction costs for the CVS would total \$7.8 billion. The Funding Plan submitted now estimates the construction of the CVS will total \$13.855 billion.

Funding Sources

The Authority has identified three funding sources totaling \$13.885 billion to complete the CVS, \$7.4 billion of which has already been expended. They are:

- **Federal:**
 - **Already expended:** \$2.080 billion in federal grants authorized under the American Recovery and Reinvestment Act of 2009 (ARRA).
 - **Available to spend:** \$929 million from the High-Speed Intercity Passenger Rail Program for federal fiscal year 2010 (FFY10).
- **State Bonds:**
 - **Already expended:** \$2.609 billion in state general obligation bonds authorized by the previous 2017 Funding Plan.
 - **Available to spend:** \$4.200 billion authorized under this Funding Plan.
- **State Greenhouse Gas Reduction Funds:**
 - **Already expended:** \$2.711 billion in Cap-and-Trade funds resulting from the statutory allocation of 25 percent of the total quarterly auction proceeds received between 2015-16 and May 2022 and \$650 million in Cap-and-Trade funds appropriated by the 2014 Budget Act.
 - **Available to spend:** \$1.371 billion in previously received Cap-and-Trade proceeds.

Finance notes that \$7.4 billion of the funds listed above have already been expended on the CVS against the total construction cost estimate of \$13.9 billion. Therefore, \$6.5 billion in expenditures remain to complete the CVS. This amount will be split between the \$4.2 billion in Proposition 1A bond funds requested by the Funding Plan, \$1.4 billion in already received Cap-and-Trade proceeds, and \$929 million in FFY10 funds. This Funding Plan for the 119-mile CVS does not include, or depend upon, the award of new federal funds. Rather, any such additional awards would cover scope and costs beyond this Funding Plan for full Merced to Bakersfield segment construction.

The Authority is currently updating costs for the 2023 Project Update Report, as required by Chapter 71, Statutes of 2022 (SB 198). The Authority and the Peer Review Group note that it is feasible to complete the CVS within existing and projected resources, including the project's share of forecasted Cap-and-Trade proceeds through 2030.

Ridership and Operating Revenue

Proposition 1A requires that the Funding Plan address any ridership or operating costs for the Authority's operation of high-speed rail on the CVS segment. The Funding Plan does not specifically address operating costs because the CVS is a 119-mile part of the larger 171-mile Merced to Bakersfield section, on which the Authority plans to operate early interim service until the Silicon Valley to Central Valley line can be completed. Previous studies conducted by the independent consultant in 2017 and 2020 have determined that ridership revenue will outpace operating costs both for the Silicon Valley to Central Valley line and for Phase 1 from San Francisco to Anaheim. Therefore, no operating subsidy will be required.

The Funding Plan provides details of the projected ridership during interim service and during initial service from Silicon Valley to Bakersfield. Those details have been reviewed

by the independent consultant and the Peer Review Group who have confirmed the estimates as reasonable.

Changes from the 2021 Request for Resources

Proposition 1A requires the Authority to describe any changes in this Funding Plan that differ materially from the request for resources required under Streets and Highways Code section 2704.08(c), submitted in February 2021. The Funding Plan includes a summary of the material changes which include the following:

- As of June 2021, the Federal Railroad Administration and the Authority have reached a settlement agreement for restoration of the \$929 million in FFY10 federal grant funds, which had been the subject of litigation between the parties. The Cooperative Agreement, dated June 15, 2021, between the two parties also extends the project performance period and federal funding period by four years, to December 31, 2026.
- The Authority received a 2021 federal grant award in the amount of \$24 million under the Rebuilding American Infrastructure with Sustainability and Equity (RAISE) program for safety, efficiency, and construction projects in and around the city of Wasco, including adjustments and enhancements to State Route 46 and enhancements to adjacent properties affected by the project.
- The Authority received a 2022 federal grant award in the amount of \$25 million for a \$41 million design contract on the extension from Madera to Merced, which is consistent with SB 198.
- Chapter 71, Statutes of 2022 (SB 198) requires an appointment of a High-Speed Rail Authority Inspector General, and the reporting on certain costs and grant applications. The legislation also set conditions for specified funds to be used on the Merced to Bakersfield corridor.
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Contract Terms

The Funding Plan includes a summary of the terms and conditions of the agreements the Authority has entered into for the construction or operation of the system.

Risk Management

The independent consultant reviewed the project and Funding Plan, identified risks, and offered strategies to address these risks. It noted that "risks are identified by the Authority, a comprehensive risk management program is in place and is being finalized. The ongoing trend of schedule slippages, cost increases and high escalation warrants the Authority to re-examine budget contingency," but that the overall cost and contingency for the CVS "appear adequate for the immediate term ... except for escalation, and measures are being taken to mitigate or account for those risks in the project budget."

Finance notes that while escalation may increase the construction cost estimate, \$7.4 billion of the \$13.9 billion has already been spent, so any escalation would occur only on the portions remaining to be constructed.

Although the independent consultant notes that some construction bids across the United States are exceeding estimates by 20 to 80 percent, the Authority and the Peer

Review Group note that the Authority's available funding from future Cap-and-Trade auction proceeds is likely sufficient to complete the CVS.

Conclusion

Any transportation infrastructure project of this magnitude involves major risks-- including possible funding shortfalls, cost overruns, and engineering challenges. The risks associated with this project are no different. The specific risks associated with successfully completing the CVS are more limited because the funding has been received, and much work has already been completed.

The Authority has indicated it will continue to monitor risks to the project overall and the segment identified in the plan in its biennial Business Plans and Project Update Reports. Additionally, Proposition 1A requires the Authority to promptly update the Administration and Legislature when events occur that could endanger the completion of the segment outlined in the plan and provide options to address these challenges. SB 198 also establishes an Office of the Inspector General in addition to other reporting requirements.

Finance will continue to monitor the Authority's management of the risks in the construction segment outlined in the plan by various means, such as:

- Regular review of project costs and progress through monthly Authority Board meetings and Quarterly Federal Funding Contribution Plans.
- Review and monitoring of funding through quarterly Cap-and-Trade auction results, biannual bond sales, and the annual budget development process.
- The Authority's ongoing risk management process, which includes continuous updates of cost analysis models for review by the Authority Board's Finance and Audit Committee.

Consequently, after review, I find that the 2022 Proposition 1A Funding Plan submitted by the Authority is likely to be successfully implemented as proposed. The Authority may therefore enter into commitments to expend bond funds and accept offered commitments from private parties in support of the Central Valley Segment.

Sincerely,



JOE STEPHENSHAW
Director