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Thomas Fellenz
Interim Chief Executive Officer
California High-Speed Rail Authority
770 L Street, Suite 620
Sacramento, CA 95814

Los Angeles to Anaheim Segment Incremental Capital Investment (#1) Funding Plan

Dear Mr. Fellenz:

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 Authority's expenditure of Proposition 1A bonds for construction under that plan.

The High-Speed Rail Authority submitted an Incremental Capital Investment (#1) funding plan for the Rosecrans / Marquardt Grade Separation Project on the Los Angeles to Anaheim Usable Segment to the Department of Finance on June 16, 2017. 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 Joint Legislative Budget Committee, the Legislative Analyst's Office, and members of the California State Senate Republican Caucus.

Requirements under the Funding Plan
Proposition 1A requires the Authority to submit a funding plan that specifies the usable segment, estimates segment construction costs, identifies funding sources, provides a report on projected ridership and operating revenue, describes changes since the preliminary funding plan, and outlines contract terms. These elements are reviewed below.

Usable Segment and Construction Costs
The Incremental Capital Investment (#1) funding plan identifies the segment as from the existing Los Angeles Union Station to the Anaheim Regional Transportation Intermodal Center train stations. Amtrak and Metrolink currently operate passenger service on the segment, and the tracks are also part of the BNSF East-West freight corridor, which facilitates cargo movements to and from the Ports of Los Angeles and Long Beach, the nation's two busiest ports based on container traffic.

This first capital investment between the two stations leading to implementation of the usable segment is a grade separation located at the intersection of Rosecrans and Marquardt Avenues in Santa Fe Springs, CA. The railway corridor through this intersection serves approximately 52 passenger trains and 60 freight trains per day. The funding plan estimates that it will cost $155.33 million to separate the roadway from the existing railroad tracks crossing the intersection.

Funding Sources

The funding plan for this segment identifies the amount, source, and estimated time of receipt for all construction funding. State, local, federal, and private funding will be used in the construction of the Rosecrans / Marquardt grade separation.

Of the $500 million of Proposition 1A bond funds appropriated by the Legislature for early investment projects in Southern California, the Authority will commit $76.665 million to this project. Proposition 1A states that, where feasible, the system should be placed within existing transportation corridors. The High-Speed Rail Authority's 2012 Business Plan outlined "bookend" projects in existing rail corridors where the Caltrain and Metrolink services operate which, after suitable investments are made, could accommodate high-speed rail service. The Legislature appropriated $1.1 billion in bond funds for these "bookend" projects in Chapter 152, Statutes of 2012 (SB 1029). Chapter 216, Statutes of 2013 (SB 557), apportioned $500 million of this amount for projects in Southern California. The Rosecrans / Marquardt grade separation project is one of these "bookend" projects that prepares the Los Angeles to Anaheim segment for eventual high-speed train operation.

In addition to the $76.665 million in Proposition 1A funding, the state is expected to commit $8.135 million in National Highway Freight Program funds through the California Freight Investment Program, $7 million from the Interregional Transportation Improvement Program, and $15 million of Section 190 Grade Separation Program funds. The federal government granted $15 million of Transportation Investment Generating Economic Recovery (TIGER) funds to the project in July 2016. A total of $26.5 million in local Measure R funds have also been committed to the project. Finally, BNSF Railway will commit $7 million based on statutory requirements.

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 segment. The funding plan does not specifically address operating costs because the Authority is not planning to operate high-speed rail passenger service until Phase 1, which is outlined in the 2016 Business Plan and includes additional investments on the Los Angeles to Anaheim segment, is completed. Instead, the funding plan notes that the inclusion of the Los Angeles to Anaheim segment in Phase 1 brings projected 2040 ridership to 42.8 million riders, or 8.3 million higher than if the system did not include the segment. As the independent consultant notes, the project is one "element of the Authority's development plan to provide high-speed train operations in the Los Angeles to Anaheim corridor." Chapter 744, Statures of 2016 (AB 1889), clarifies that the Authority may use Proposition 1A for:

> *"capital cost for a project that would enable high-speed trains to operate immediately or after additional planned investments are made on the corridor or useable segment thereof and passenger train service providers will benefit from the project in the near-term."*

The independent consultant concluded that the project "will generate near-term benefit for passenger rail providers, such as [Metrolink] and Amtrak, by improving safety and reducing rail and roadway delays." In response to requests for additional analysis, the independent consultant prepared a supplemental report evaluating the operations and maintenance costs and ridership and revenue forecasts for the Phase 1 system. This report concluded that there is a high degree of likelihood that the Phase 1 service commencing in 2029 can operate without subsidy.

The funding plan also cites increased levels of service for all passenger rail currently operating on this segment by Amtrak and Metrolink, due the completion of the Triple Track Project, which can only be finished once the Rosecrans / Marquardt Grade Separation is completed. The Triple Track Project adds 15 miles of new track between the cities of Commerce and Fullerton, benefiting both passenger and freight rail operators due to increased capacity.

Changes from the 2011 Funding Plan
Proposition 1A requires the Authority to describe any changes in this funding plan that differ materially from the funding plan required under Streets and Highways Code section 2704.08(c). However, because the Legislature appropriated the funding for the project without this plan, there is nothing against which to compare this funding plan.

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, including a summary of the terms and conditions of the agreements that the Authority has entered into with Los Angeles County Metropolitan Transportation Authority (LACMTA, also known as Metro) for the project. In addition, the funding plan includes a summary of the construction agreements that LACMTA has entered into with other parties.

Risk Management
The independent consultant reviewed the project and funding plan, identified risks, and offered strategies to address these risks. It noted that "although many of the major risks are captured, we would expect to see a much more comprehensive risk register that captures a wider spectrum of project risks." The risk management plan and register, however, are and will be continually updated by LACMTA as the project gets closer to construction. The consultant thus concluded that the risk items identified in the risk management plan and risk register are expected to be adequate given updated and ongoing management by LACMTA. The consultant found that if a risk-informed process is fully implemented and if the risks are properly managed moving forward, the project can be completed within project schedule and budget. It further observed that the 30 percent contingency in place for the project is likely to cover the identified project risks.

The Authority indicates that a key component of the Project Management and Funding Agreement (PMFA) currently being negotiated with LACMTA will require LACMTA to sell land acquired for the project to pay back Proposition 1A bond proceeds if the project does not move forward. In addition, the PMFA will require all funding sources to be committed in a manner that is reasonably certain before any Proposition 1A construction dollars are used for the project. Finally, 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 funding plan and provide options to address these challenges.

Conclusion
After thorough review, I find that the Incremental Capital Investment (#1) 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 Rosecrans / Marquardt grade separation project.

Sincerely,

Erama Artiga for

MICHAEL COHEN
Director