

Date of Hearing: April 27, 2015

**ASSEMBLY COMMITTEE ON TRANSPORTATION**

Jim Frazier, Chair

AB 397 (Mathis) – As Amended April 14, 2015

**SUBJECT:** Bonds: transportation: water projects

**SUMMARY:** Prohibits the sale of any additional bonds for high-speed rail and redirects the remaining bonding authority to fund the construction of water capital projects. Specifically, **this bill:**

- 1) Prohibits the sale of any additional bonds for high-speed rail purposes pursuant to the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century.
- 2) Exempts from the above prohibition an existing appropriation for high-speed rail in the Budget Act of 2012 for early improvement projects in the Phase 1 blended system.
- 3) Requires the unspent proceeds from any outstanding bonds issued and sold for any other high-speed rail purpose to be redirected, upon appropriation, for use in retiring the debt incurred from the issuance and sale of those outstanding bonds.
- 4) Authorizes the remaining unissued bonds from the high-speed rail bond act to be issued and sold, with the proceeds to be made available, upon appropriation, to fund construction of water capital projects, including the construction of desalination facilities, wastewater treatment and recycling facilities, reservoirs, water conveyance infrastructure, and aquifer recharge.
- 5) Leaves in place the authorization under the high-speed rail bond act for the issuance and sale of \$950 million in bonds for rail purposes other than high-speed rail.
- 6) Requires voter approval at the next statewide election for these provisions to become effective.

**EXISTING LAW:**

- 1) Establishes the California High-Speed Rail Authority (Authority) and vests with it the responsibility to develop and implement a high-speed rail system in California.
- 2) Authorizes the sale of \$9 billion in general obligation bonds to partially fund the development and construction of the high-speed rail system.
- 3) Authorizes the expenditure of an additional \$950 million in general obligation bonds for capital projects on other passenger rail lines to provide connectivity to the high-speed rail system, as well as for capacity enhancements and safety improvements to those lines.

**FISCAL EFFECT:** According to the Authority, \$705 million in Proposition 1A bonds have been issued to date. Of that total, \$400 million (of \$9 billion) have been issued for the high-speed rail project and \$305 million (of \$950 million) have been issued for connectivity projects.

**COMMENTS:** In 2008, voters approved Proposition 1A, the Safe, Reliable High-Speed Passenger Train Bond Act, a \$9.95 billion general obligation bond to fund the proposed California high-speed rail project and related improvements. As envisioned at the time of the ballot measure, the project was to consist of an 800-mile dedicated high-speed passenger rail system capable of speeds up to 220 miles per hour, initially serving San Francisco through the Central Valley into Los Angeles and Orange County (Phase 1) with service eventually extended to Sacramento, the Inland Empire, and San Diego.

When voters approved the bonds in 2008, the Authority estimated the cost for the entire project to be \$45 billion, to be paid by a mix of state bonds, federal grants, and private investments. Since then, estimated costs for the project have risen markedly. The Authority's most recent business plan estimates costs for just Phase 1 to be \$68 billion using a "blended approach" - relying in part on existing tracks - rather than a fully built-out system of dedicated rail lines. Furthermore, federal contributions to date have been limited to \$3.3 billion and there have been no private investments.

In 2012, the Legislature passed and the Governor signed SB 1029 (Committee on Budget and Fiscal Review), Chapter 152, Statutes of 2012, to appropriate \$8 billion (\$4.7 billion in Proposition 1A bond funds and \$3.3 billion in federal funds) to the Authority to initiate construction of the high-speed rail project. This amount included \$1.1 billion of Proposition 1A bond funding for bookend projects on the San Francisco Peninsula and in the Los Angeles Basin. Additionally, last year's Budget allocated \$250 million in cap-and-trade revenues to high-speed rail for the 2014-15 fiscal year and dedicated 25% of all cap-and-trade revenues to the project on an ongoing basis.

This bill proposes to ask voters to redirect roughly \$8 billion in bond capacity away from high-speed rail and towards the construction of water capital projects, such as desalination facilities, wastewater treatment and recycling facilities, reservoirs, water conveyance infrastructure, and aquifer recharge.

*Committee concerns:* While there is no doubt that the state is facing tremendous challenges related to water, it is not clear why the funding for additional water infrastructure needs to come at the expense of the high-speed rail project. California needs both a modern water system and modern transportation system. While the funding hurdles facing high-speed rail are daunting, the project is proceeding and its unsteady beginning is not without precedent among mega-projects. The project may not be progressing as smoothly as hoped, but it is progressing and is better off today than it was three years ago when the Legislature committed to the project. Stopping the project now by redirecting the bonds will cause hundreds of millions of dollars of work and study to be wasted. Instead, the Legislature should redouble its resolve to the project and thereby improve the likelihood of its success in luring federal and private investors.

*Related legislation:* AB 6 (Wilk) prohibits the sale of any additional bonds for high-speed rail and redirects the remaining bonding authority to fund the construction of school facilities for K-12 and higher education. AB 6 is set for hearing in this committee on April 20, 2015.

AB 1087 (Grove) provides that the cap-and-trade funds that have been continuously appropriated to high-speed rail are for specified components of the initial operating segment and Phase 1 blended system, as described in the Authority's 2012 business plan. AB 1087 is set for hearing in this committee on April 20, 2015.

AB 1138 (Patterson) prohibits the Authority, or the State Public Works Board acting on behalf of the Authority, from commencing an eminent domain proceeding to acquire property for the high-speed rail system unless it identifies the sources of all funds to be invested in the segment of the system the property is needed for and certifies that it has completed all project-level environmental clearances necessary to proceed to construction. AB 1138 is set for hearing in this committee on April 20, 2015.

*Previous legislation:* This bill is the latest in a string of bills aimed at reducing the amount of authorized indebtedness for high-speed rail. Other similar bills have included:

- 1) AB 2650 (Conway) of 2014, which failed passage in this committee;
- 2) AB 1501 (Patterson) of 2014, which failed passage in this committee;
- 3) SB 901 (Vidak) of 2014, which failed passage in the Senate Transportation and Housing Committee;
- 4) AB 842 (Donnelly) of 2013, which failed passage in this committee;
- 5) AB 1455 (Harkey) of 2012, which failed passage in this committee;
- 6) SB 22 (LaMalfa) of 2012, which failed passage in the Senate Transportation and Housing Committee;
- 7) AB 76 (Harkey) of 2011, which failed passage in this committee; and
- 8) AB 2121 (Harkey) of 2010, which died in the Senate Rules Committee.

**REGISTERED SUPPORT / OPPOSITION:****Support**

None on file

**Opposition**

State Building and construction Trades Council of California

**Analysis Prepared by:** Anya Lawler / TRANS. / (916) 319-2093