

Date of Hearing: April 18, 2016

ASSEMBLY COMMITTEE ON TRANSPORTATION

Jim Frazier, Chair

AB 2847 (Patterson) – As Amended April 11, 2016

SUBJECT: High-Speed Rail Authority: reports

SUMMARY: Adds additional required elements for inclusion in the California High-Speed Rail Authority's (Authority) Business Plan and Project Update Report. Specifically, **this bill:**

- 1) Requires the Authority to include projected financing costs, for a proposed segment or combination of segments, in the business plan.
- 2) Requires the Authority to identify any significant changes in scope for segments identified in the previous business plan or project update report, and provide an explanation of adjustments in cost and schedule attributable to those changes.

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) Enacts the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (High-Speed Rail Bond Act). The High-Speed Rail Bond Act, approved as Proposition 1A in November 2008, provides \$9.95 billion in general obligation bond authority to fund the planning and construction of a high-speed passenger train system and complementary improvements to other specified rail systems in the state.
- 3) Continuously appropriates 25% of the state's cap and trade program funds for the high-speed rail project.
- 4) Requires the Authority to prepare a business plan by March 1, 2014, and every two years thereafter, that includes:
 - a) The types of services it expects to develop and a chronology for construction;
 - b) A forecast of the expected patronage, service level, and operating and maintenance costs for Phase I of the system;
 - c) Alternative financing scenarios for different levels of service;
 - d) Expected schedule of completing environmental review and initialing and completing construction for segments of Phase I;
 - e) An estimate, description, and confidence level of the total anticipated federal, state, local and other funds;
 - f) Any written agreements with public and private entities to fund components of the system;

- g) Alternative public-private development strategies for Phase I; and,
 - h) Risks associated with construction, technology, financing and other aspects of the project, and the Authority's strategy for managing risks.
- 5) Requires the Authority to prepare a Project Update Report on March 1, 2017, and every two years thereafter that includes:
- a) A summary of the progress on the project;
 - b) The baseline budget for all project phase costs by segment or contract;
 - c) The current and project budget for all project phase costs;
 - d) All expenditures to date for all project costs;
 - e) A comparison of the current and projected work schedule and the baseline schedule contained in the Revised 2012 Business Plan;
 - f) A summary of milestones achieved during the prior two-year period and ones expected in the future;
 - g) Any issues identified in the prior two year period and actions taken to address them; and,
 - h) A discussion of risks to the projects and steps taken to mitigate them.

FISCAL EFFECT: Unknown

COMMENTS: On February 18, 2016, the Authority released its Draft 2016 Business Plan, which signaled a major shift in its proposed planning and construction of the high-speed rail system. Rather than pursue a south-oriented Initial Operating Segment (IOS) from the City of Merced in the Central Valley through the Tehachapi Mountains to the San Fernando Valley in Los Angeles County, the Authority is now proposing a north-oriented IOS, from the Central Valley to San Jose. The Authority also updated its plans, cost estimates, and schedule for the remainder of Phase I (San Francisco to Los Angeles/Anaheim by 2029) and eventually Phase II (Sacramento and San Diego).

On March 17, 2016, the Legislative Analyst Office's (LAO) released a report, "*Review of the High-Speed Rail Draft 2016 Business Plan.*" The LAO recommended additional items that could be added to the business plan to better inform the Legislature and help maintain oversight of the project. AB 2847 will implement these recommendations. Specifically, AB 2847 will add some new requirements for the Authority to include in both the biennial business plan and project update report.

According to the author, AB 2847 will improve the quality of information reported to the Legislature so that oversight can actually be provided in a meaningful way and track the accuracy and ability of the Authority to stay within a budget over time. He further states that to expand the type of costs that are reported to the Legislature so that an accurate and complete

picture of the costs to construct the high-speed rail project can be better understood not only for policymakers, but for the people who are paying for this project.

Specifically, the Authority would be required to identify any significant changes in scope of segments described in previous reports and provide an explanation of any adjustments of costs and schedule attributable to the changes. The LAO notes that “the information provided by HSRA [High-Speed Rail Authority] in the business plan and other documents can be difficult to compare over time.” The LAO cites a specific example, “since beginning work on the ICS [initial construction section], the scope, cost, and schedule of the project has changed, making it difficult to determine how well HSRA is adhering to the budget for that segment. The length of the ICS was reduced to 118 miles from 130 miles. The projected cost of the ICS assumed in the draft 2016 business plan is \$7.3 billion, compared to the initially planned \$5.9 billion cost. However, based on the information provided by HSRA, it is difficult to determine the extent to which the change in costs is related to the changes in scope or other factors.” Essentially, if the scope of project segments change from one report to the next, it is impossible to make an “apples-to-apples” comparison of costs and schedule and to identify any concerns or trends.

Second, AB 2847 requires the Authority to include all projected finance costs, for any financing proposed for a segment or combination of segments. The main funding source for the project is \$9 billion in general obligation bonds approved by the voters in Proposition 1A. At the time of the passage of the proposition, the LAO noted that debt service on the bonds would be roughly \$19.4 billion or \$647 million per year over 30 years. Additionally, the Draft 2016 Business Plan proposes to fund part of the IOS by financing future cap and trade proceeds continuously appropriated for the project. Specifically, \$5.2 billion would be generated by utilizing some type of financing mechanism, possibly revenue bonds or federal loans, to be paid back over 25 years. Providing detailed information about financing costs will help the Legislature understand the complete funding picture.

The business plans and the project updates reports are the Legislature’s, and the public’s, most complete source of information about the high-speed rail project. The state, through a voter approved initiative and appropriations, have committed billions of dollars in public resources to this endeavor. Requiring the Authority to include more details of scope, schedule and financing costs in these reports will help ensure that future decisions about the oversight, management, and funding of the project are made by a fully informed Legislature and public.

Previous legislation: AB 528 (Lowenthal), Chapter 237, Statutes of 2013, added new elements to the California state rail plan and the Authority’s business plan.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file

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