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# Assembly California Legislature



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### **Background Paper for Assembly Transportation Committee INFORMATIONAL HEARING California High-Speed Rail Authority's 2024 Draft Business Plan Monday, March 11, 2024 Rm 1100**

#### **Summary**

The California High-Speed Rail Authority's (CHSRA) 2024 draft Business Plan provides updates on cost and funding estimates, project schedules, and milestones achieved related to the 119-mile construction segment and the 171-mile Merced-to-Bakersfield early operating segment. The CHSRA has made notable progress on the project and recently secured several billion in additional federal funds for it.

However, there is significant risk the state will not receive the amount of federal funding needed to complete the double track, fully-electrified high-speed rail line between Merced and Bakersfield. It may be prudent for the Legislature to direct CHSRA to provide an estimate of when funding that is currently available for the Merced to Bakersfield segment would be exhausted, various scenarios for how to maximize the use of this segment given funding currently on hand, and options for alternative uses if there is not enough funding to complete the segment.

#### **Introduction**

The CHSRA—an independent authority consisting of a nine-member board appointed by the Legislature and Governor—is responsible for planning and constructing an intercity high-speed train system linking the state's major population centers. State law requires CHSRA every even-numbered year to prepare a business plan that provides a description of the high-speed rail service being developed, the chronology for construction, estimated capital costs, a forecast of ridership and revenues, updated project schedules, estimated funding available for the project, and information about potential public-private partnerships.

This paper summarizes the overall progress of the project, highlights key aspects of the business plan, and offers considerations for the Legislature.

#### **Project Background**

Chapter 796 of 1996 (SB 1420, Kopp) established CHSRA to plan and construct a high-speed rail system that would link the state's major population centers. In November

2008, voters approved Proposition 1A, which authorized the state to sell \$10 billion in general obligation bonds to partially fund the system, as well as related projects. Proposition 1A also specified certain criteria and conditions that the system must ultimately achieve. For example, the measure requires that the system be designed to be capable of specified travel times along certain routes, such as nonstop travel from San Francisco to Los Angeles within two hours and forty minutes. The measure also specifies that passenger rail service operated by CHSRA, or pursuant to its authority, will not require an operating subsidy.

As part of the 2021-22 budget package, the Legislature appropriated all of the remaining Proposition 1A bond funds—\$4.2 billion—for the project. In addition, SB 198 (Committee on Budget and Fiscal Review), Chapter 71, Statutes of 2022 specified the following:

- Legislative intent to (1) prioritize funding for planning and construction of the Merced-to-Bakersfield segment until the segment is completed, and (2) complete Phase 1, which extends from San Francisco to Anaheim.
- Prohibits CHSRA from entering into new commitments of Greenhouse Gas Reduction Funds (GGRF, also known as cap-and-trade funds) outside of the Merced-to-Bakersfield segment, except as specified. This prohibition is in effect until the Merced-to-Bakersfield segment is fully funded or through June 30, 2030, whichever occurs sooner.
- Requires the \$4.2 billion Proposition 1A appropriation to be spent on the Merced-to-Bakersfield segment.
- Establishes an independent CHSRA Office of the Inspector General (OIG).
- Requires CHSRA to notify the Legislature before submitting a federal grant application and before releasing a request for proposals for certain contracts, such as for acquisition of trainsets.

### **Key Aspects of the 2024 Draft Business Plan**

This background paper focuses on the 171-mile Merced-to-Bakersfield segment, which CHSRA intends to have operational by 2030-2033. The Legislature directed CHSRA to complete this segment before doing work outside the Central Valley because the state has made the greatest investment there and has better odds of completing a portion of rail there. Funding to complete a high-speed rail line from Northern to Southern California as envisioned by Proposition 1A has not been identified.

### ***Major Accomplishments***

In the last couple of years, the CHSRA has made significant progress on acquiring additional federal funding, construction, and job creation. The CHSRA received an additional \$3.3 billion in federal funds for construction in the Central Valley in 2023.

Regarding construction, a 22.5 mile segment in the Central Valley from the Tulare-Kern County line to Poplar Avenue in Kern County is substantially complete. CHSRA has acquired most of the right-of-way for the 119-mile segment and has made notable progress to relocate utilities along this segment. In addition, designs for the extensions

to Merced and Bakersfield and the four Central Valley stations are on schedule and will reach the 30 percent design threshold in 2024.

As of the beginning of 2024, \$11.7 billion has been spent on capital expenditures, of which, \$10.1 billion has been for work between Merced and Bakersfield. Spending on the project has led to positive economic impacts in the Central Valley, with the greatest direct impacts in Madera and Fresno Counties, and indirect employment effects in Merced County and the rest of California, according to research the Mineta Transportation Institute (MTI) completed in 2018. MTI asserts that, since July 2006, the project has created more than 12,200 construction jobs, with more than 70 percent of these jobs filled by residents from disadvantaged communities, and has engaged 820 small businesses. The project continues to bolster local economies.

Design work on the Merced-to-Bakersfield extensions is 30 percent complete, which will allow work to begin on right-of-way acquisition for the extensions. In addition, environmental work outside of the Central Valley continues to advance, with the Phase 1 part of the project expected to near environmental clearance after CHSRA Board certifies the Palmdale-to-Burbank segment in 2024.

Finally, CHSRA has begun the procurement process for train tracks and operational systems. In November 2023, it released a request for qualifications to industry for designs services for track and overhead contract systems for the initial passenger services connecting Merced to Bakersfield.

***Most Costs Not Updated Since 2023 Project Update Report.*** According to CHSRA, the estimated cost to build the 171 miles between Merced and Bakersfield remains within the \$30 billion to \$33 billion range identified in the 2023 PUR. However, this cost estimate does not include updated cost estimates for the Merced to Bakersfield extensions, which are significantly into the design phase.

In addition, CHSRA has not updated construction costs for Phase 1—San Francisco-to-Anaheim.

***Funding Gap for Completion of Merced to Bakersfield.*** The total amount of funding currently available for the Central Valley segment of the project could be as much as \$26 billion, accepting CHSRA's assumption that Cap-and-Trade revenues will be roughly \$1 billion annually through 2030.

This leaves a funding gap that could range between \$4 billion and \$7 billion. CHSRA plans to submit multiple federal grant applications over the next five years with a total award target of around \$8 billion. To date, CHSRA has received \$3.3 billion and it assumes it will receive an additional \$4.7 billion from the federal government over the next few years.

If the Merced-to-Bakersfield segment remains at a cost of \$30 billion and the state receives the additional \$4.7 billion in federal funds, the cost of this segment will be fully funded. However, if the federal funds do not materialize as anticipated or costs are greater than \$30 billion, there will not be enough funding to complete this segment.

The federal Bipartisan Infrastructure Law passed in November 2021 made significant amounts of federal funds available for transportation projects nationwide, of which nearly \$48 billion has been appropriated. (In addition, nearly \$40 billion has been authorized for appropriation, but appropriation of these funds is highly uncertain.) To date, the federal government has awarded nearly \$26 billion of the \$48 billion appropriated and CHSRA has received \$3.3 billion of these funds. CHSRA seeks to obtain \$4.7 billion of the remaining \$22 billion appropriated and available to be awarded nationwide—or about 22 percent of the total funding. It is possible the High-Speed Rail project could receive this large share of the funds available nationwide, however it is highly uncertain, especially given that many other states, and even other projects within California, will be competing for these funds.

***Ridership Estimates Down.*** Ridership estimates for the Merced-to-Bakersfield segment assume hourly bi-directional service 18 hours per day, seven days a week. In California and across the nation, ridership on public transit is down. This trend is also impacting HSR: ridership estimates are somewhat below prepandemic levels and range between 9.2 million and 12.5 million annual trips (2030 forecast). According to CHSRA, this level of ridership would still more than double current rail ridership in the Valley.

### **Key Considerations for the Legislature**

***Greatest Risk Is Lack of Project Funding.*** The business plan (like prior plans) stresses that stabilized, long-term funding is needed to complete the vision of high-speed rail from Northern to Southern California. Currently, CHSRA lacks funding to complete a segment that could be used for passenger travel.

CHSRA has estimated completion of the 171 miles from Merced to Bakersfield will cost \$30 billion to \$33 billion. The total amount of funding currently available for the Central Valley segment of the project could be as much as \$26 billion. This leaves a funding gap and CHSRA assumes it will be filled by the federal government awarding an additional \$4.7 billion for this segment. This funding gap exposes the state to two primary risks. First, the state might not receive sufficient funding from the federal government. Second, costs for the project might grow beyond \$30 billion. There is also roughly an additional \$1 billion needed to complete work in Merced to fully connect the station and to operationalize connections to other rail systems.

Given these risks, The Legislature should consider proactive steps that will help ensure maximum ridership on the Merced-to-Bakersfield segment, even in the absence of sufficient federal funding. Such steps also would help to maintain jobs in

the Central Valley and, when possible and necessary, transition workers to other jobs. To these ends, the Legislature may wish to ask CHSRA to report on the following:

- The reasonableness of the \$4.7 billion federal funds target.
- When, and at what stages, additional funding would be needed to ensure completion of the Merced-to-Bakersfield segment is not delayed. (For example, at what points would CHSRA need additional funding, and in what amounts, to enable it to enter into contracts, pay contracts, or move construction forward at a pace that is insulated from inflation?)
- Alternative construction projects that could be built in the absence of funding sufficient to fully construct and electrify the Merced-to-Bakersfield segment. (For example, what could or should be built if the state has a shortfall of \$2 billion, \$5 billion and \$10 billion?)
- How, under these alternatives, major transit and other rail connections would maximize system use?
- Current and future contracts that pose the greatest risk to the state if there is not enough funding to complete Merced to Bakersfield.