

MARCH 2, 2026

# Oversight of the California High-Speed Rail Project

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PRESENTED TO: Assembly Committee on Transportation  
Hon. Lori D. Wilson, Chair



LEGISLATIVE ANALYST'S OFFICE

## Background

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### ***Voters and Legislature Have Provided Statutory Direction to Project.***

Roughly 30 years ago, Chapter 796 of 1996 (SB 1420, Kopp) established the High-Speed Rail Authority (HSRA) to plan and construct a high-speed rail system that would link the state's major population centers. Since then, the voters and Legislature have provided additional direction to HSRA including through the following actions:

- ***Voters Provided Initial Funding and Statutory Direction for HSRA in 2008.*** Voters approved Proposition 1A in November 2008, which authorized \$9 billion for HSRA and specified certain criteria and conditions for the system.
- ***Legislature Made Statutory Changes Affecting HSRA in 2022.*** Chapter 71 of 2022 (SB 198, Committee on Budget and Fiscal Review) included statutory changes, including to enhance project oversight and prioritize the completion of the Merced-to-Bakersfield segment (which it defined as an electrified dual-track segment between Bakersfield and a station in downtown Merced that also serves the Gold Runner and Altamont Corridor Express).

***State Law Requires HSRA to Provide Annual Plans.*** State law requires HSRA to prepare two recurring plans:

- ***Business Plans Required Every Even Year.*** HSRA is required to adopt a business plan by May 1 of every even year, following a 60-day review and comment period. These plans are required to provide an estimate and description of the total anticipated funds HSRA plans for construction and operation and the level of confidence for obtaining each type of funding.
- ***Project Update Reports Required Every Odd Year.*** HSRA is required to prepare a project update report (PUR) by March 1 of every odd year that provides certain updated information, such as related to costs and schedule. Senate Bill 198 expanded the required elements of the PUR, including to include specified updates on the cost and schedule for the Merced-to-Bakersfield segment.



# Background

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***HSRA Released Two Plans in 2025, With Another Due in 2026.*** These plans include the following:

- ***March 2025 PUR Lacking Some Statutory Elements.*** HSRA released a PUR in March 2025 but deferred some statutorily required elements to the summer, as it was still working on a comprehensive project review.
- ***August 2025 Supplement Provided Additional Information.*** HSRA released a Supplemental PUR (SPUR) in August 2025, which provides various updates about the project and its direction.
- ***Draft Business Plan Due by March 2026.*** HSRA is required to provide a draft Business Plan by March 2026 for review and comment prior to the May 1, 2026 adoption deadline.



# Major Features of the 2025 SPUR

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## Analyzes Five Alternatives for Project Scope

### ***Presents Merced to Bakersfield, Along With Four Alternatives.***

Instead of focusing just on Merced to Bakersfield as the initial operating segment—as has been HSRA’s approach since the 2019 PUR—the 2025 SPUR compares Merced to Bakersfield to four other options that involve going from the Bay Area to either Bakersfield or Palmdale.

***SPUR Finds That Other Alternatives Have Various Advantages Over Merced to Bakersfield.*** The SPUR highlights advantages of other options such as higher projected ridership and operating revenues. However, because existing statutory direction is to focus on Merced to Bakersfield, the SPUR does not propose any specific alternative to that segment.

## Discusses Proposed Concepts for Statutory Changes

***Proposed Changes Aimed at Various Goals.*** The SPUR discusses conceptual ideas for several potential statutory changes aimed at expediting project delivery, reducing costs, facilitating financing, and increasing the agency’s flexibility, including:

- ***California Environmental Quality Act (CEQA) Exemption and Streamlining for Electricity Generation.***
- ***Streamlined Environmental Permitting.***
- ***Court Resources Dedicated to HSRA.***
- ***Third-Party Streamlining, Such as Requiring Binding Time Lines for Reviews.***
- ***Changes to Help Facilitate Borrowing Against the Greenhouse Gas Reduction Fund (GGRF), Such as Non-Impairment Language.***
- ***Removal of SB 198 Requirement to Focus on Merced to Bakersfield.***



# Major Features of the 2025 SPUR

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## Updates Projected Project Funding, Costs, and Schedule

**Updates Available Funding to \$43 Billion.** This total includes \$15 billion from cap-and-invest—\$1 billion annually from 2030 through 2045—and all the federal funds that have been awarded to the project (even though in July 2025 the federal government notified the state it was rescinding \$4 billion in grant funds).

**Updates Cost Estimates for Merced to Bakersfield and Other Alternatives.** The SPUR estimates the cost of Merced to Bakersfield is now \$37 billion, up from the prior (2024) estimate of \$35 billion (and states that it would have been \$51 billion but for \$14 billion in cost savings).

### HSRA's Cost Estimates for Various Alternatives<sup>a</sup>

From 2025 Supplemental Project Update Report (In Billions)

Segment	Cost
Merced – Bakersfield	\$37
San Francisco – Gilroy – Bakersfield	54
San Francisco – Gilroy – Bakersfield (including Merced)	58
San Francisco – Gilroy – Palmdale	87
San Francisco – Gilroy – Palmdale (including Merced)	91

<sup>a</sup> Excludes \$3-\$6 billion in estimated costs associated with the Gilroy to San Jose segment and any necessary borrowing costs.

HSRA = High-Speed Rail Authority

**Identifies Need to Borrow and Mentions Plan to Pursue a Public Private Partnership (P3).** Identifies need to borrow to address a mismatch in the timing of receiving cap-and-invest revenues and the project's funding needs. Identifies a P3 as a potential alternative to conventional borrowing and project delivery but provides few details.

**Provides Updated "Unconstrained" Schedule.** Identifies a target of 2032 for completing Merced to Bakersfield (which is within the estimated completion window identified in 2024) and a target of 2038 for Gilroy to Bakersfield or Palmdale. These dates assume the project does not face funding constraints and that all HSRA's proposed statutory changes are adopted.



## Notable Developments Following Release of the SPUR

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**Legislature Continuously Appropriated \$1 Billion Annually.** With Chapter 121 of 2025 (SB 840, Limón), in September 2025, the Legislature extended the cap-and-invest program through 2045 and allocated HSRA \$1 billion annually. (Historically, the project received 25 percent of revenues, resulting in varying annual amounts depending on auction results.) The legislation did not include the statutory changes HSRA had proposed to facilitate borrowing, such as non-impairment language.

**HSRA Discussed Desire for Additional Statutory Changes Beyond Those in SPUR.** In public meetings, HSRA has discussed its desire for additional statutory changes—beyond those presented in the SPUR—including to exclude material purchases from sales taxes and grant it land-use permitting and zoning authority within half a mile of stations.

**HSRA Indicated Interest in Securing Additional Long-Term Funding.** After the passage of SB 840, in public meetings HSRA has indicated a desire to seek additional sources of long-term funding.

**HSRA Began Process of Securing a P3 Partner.** In December 2025, HSRA released a solicitation for a P3 partner to help advise it on the development of a P3, as well as to receive contracts.

**HSRA Abandoned Effort to Retain Federal Funds.** In late December 2025, HSRA announced that it was abandoning efforts to retain \$4 billion in disputed federal grant funds.

**HSRA Discussed Concept of Moving Location of Merced Station.** In recent public meetings, HSRA has discussed the concept of saving project costs by moving the Merced Station from downtown Merced (the site required by SB 198) to a location roughly four miles south.



## SPUR Highlights Key Uncertainties

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### Available Funding Likely Insufficient to Fund Merced to Bakersfield

**HSRA Indicated GGRF Extension Would Enable It to Complete Merced to Bakersfield...** The estimated \$15 billion from SB 840 will provide the largest single infusion of funding the project has ever received. HSRA indicates it expects this funding to enable it to complete the construction of the Merced-to-Bakersfield segment.

**...But This Is Unlikely, Particularly Given Loss of Federal Funds.** With the loss of federal funds, available funding drops to \$39 billion (under SPUR estimates), somewhat over the \$37 billion in estimated costs for Merced to Bakersfield. However, that estimate does not include any borrowing costs (previously estimated by HSRA at \$4 billion, which result in a \$2 billion funding gap for the segment). The estimate also makes various other assumptions that might not be realistic, such as:

- **All Proposed Statutory Changes Are Implemented.** HSRA indicates its proposed statutory changes are necessary for it to achieve its proposed schedule and cost estimate. The implications for these estimates if the Legislature were not to approve the proposed statutory changes are unclear.
- **Assumed Project Savings Materialize.** Whether the roughly \$14 billion in assumed project savings will materialize is uncertain, particularly since some savings rely on design changes that HSRA may not be able to implement unilaterally.
- **Project Stays on Budget.** Staying on budget may be difficult, particularly given the history of the project, its size and complexity, uncertainty regarding federal tariffs and other policies, and the relatively small contingency amount assumed in the project budget.



# SPUR Highlights Key Uncertainties

(Continued)

## Merced-to-Bakersfield Segment Estimated Funding and Costs

From 2025 SPUR (In Billions)

### Estimated Funding

Projected Funding in SPUR <sup>a</sup>	\$43
Less Rescinded Federal Funds	(4)
<b>Total Revised Estimated Funding</b>	<b>\$39</b>

### Estimated Costs

Projected Costs in SPUR	\$37
Plus HSRA's Estimate of Borrowing Costs <sup>b</sup>	4
<b>Total Revised Estimated Costs</b>	<b>\$41</b>

<b>Estimated Funding Gap</b>	<b>-\$2</b>
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<sup>a</sup> Assumes \$1 billion annually from the cap-and-invest program through 2045.

<sup>b</sup> For illustrative purposes, reflects HSRA's estimated borrowing costs, which assume \$8.6 billion is financed at interest rates at or below 4.3 percent.

SPUR = Supplemental Project Update Report and HSRA = High-Speed Rail Authority



# SPUR Highlights Key Uncertainties

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## **Borrowing Would Present Additional Costs, Challenges, and Risks**

HSRA's strategy is predicated on borrowing, which it assumes it can do at interest rates that are similar to tax-exempt state bonds (4.3 percent or lower). However, multiple uncertainties associated with that approach exist.

***GGRF Uncertainties Make It Poorly Suited for Conventional Borrowing Approaches.*** HSRA's new set amount of annual GGRF may help it seek financing support. However, GGRF is still not well-suited to conventional financing for reasons including:

- ***Revenues Can Be Affected by Changes to Program Structure.*** The California Air Resources Board can adopt changes to the cap-and-invest program that can affect revenues. For example, some changes the board currently is considering could reduce GGRF revenues markedly, which highlights the possibility that GGRF may not be adequate to support \$1 billion annually for HSRA every year.
- ***Cap-and-Invest Auction Revenues Are Volatile.*** Historically, the cap-and-invest program has experienced periods—such as during the COVID-19 pandemic and shortly before its reauthorization—when auctions have been undersubscribed and revenues have been very low, making it harder to provide investors with certainty they will be repaid.

***If State Wanted to Facilitate Borrowing, Changes Likely Would Be Necessary.*** The state could choose to offer guarantees—such as agreeing not to make major changes to the cap-and-invest program that might impair HSRA's GGRF allocation—to facilitate securitization of GGRF. Additionally, to attract investors, the state might have to pay a higher interest rate to compensate for the risk that revenues might not materialize. Such choices would come with trade-offs.

***P3s Could Involve Risks and Costs.*** HSRA could pursue financing through a P3, but this has the potential to be a relatively expensive approach, as the P3 would need to be compensated for access to its equity and any risks it absorbs. Ensuring the state gets the lowest price in P3 procurements is also difficult, as the agreements can be complex, and firms do not directly compete on price.



## SPUR Highlights Key Uncertainties

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### **Project Still Lacks Funding Path to Extend Outside of Central Valley**

***GGRF Clearly Insufficient to Get Beyond Merced to Bakersfield.***

Even with \$1 billion annually from cap-and-invest, the project has a projected funding gap in the tens of billions of dollars for other alternatives that extend beyond the Central Valley, with no clear plan for filling them. The private sector is unlikely to take revenue or ridership risks, at least until service is operational. State funds, including GGRF and the General Fund, have limited—if any—capacity to take on additional commitments.

***Completing Work Outside of Merced to Bakersfield Would Divert Needed Funding.*** Absent funding to complete a larger segment, spending on activities outside of Merced to Bakersfield would leave less money to complete that initial segment and potentially result in stranded assets.

### **Proposed Conceptual Statutory Changes Present Important Trade-Offs**

***HSRA Has Provided Few Details on Proposed Statutory Changes, Making Assessing Their Merits Challenging...*** HSRA has presented conceptual ideas for statutory changes but no details to date.

***...But Based on Conceptual Descriptions, Statutory Changes Could Present Difficult Trade-Offs.*** Based on HSRA's conceptual descriptions, the proposed statutory changes likely present important trade-offs. For example, non-impairment language for GGRF could help improve investor confidence in the funding source but also constrain the state's ability to modify the program to meet its central goals (such as reducing greenhouse gases while maintaining affordability). Similarly, a CEQA exemption might expedite HSRA's electricity generation projects but could reduce opportunities for community input or raise the risk that environmental impacts are not as fully mitigated.



## Some Key Near-Term Questions Facing Legislature

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Given the uncertainties and challenges regarding the project, some key questions facing the Legislature over the next couple of years include:

***What Scope Does the Legislature Want to Commit to Funding?*** For example, some potential options could include:

- ***Downtown Merced to Bakersfield.*** This option envisioned in SB 198 is likely to require some additional funding. (Current estimates suggest a \$2 billion funding gap.)
- ***Outskirts of Merced to Bakersfield.*** While costs for this option could be somewhat lower—potentially by about \$1 billion according to statements made by HSRA—it still likely would require additional funding beyond what the state has set aside.
- ***Madera to Bakersfield.*** Costs could be about \$4 billion less if the segment does not go all the way to Merced—thus increasing the chances that the scope could be funded within the project’s existing funding—but Merced would not see project benefits.
- ***Gilroy to Bakersfield.*** Expanding beyond the Central Valley likely would increase ridership, but this option would require significant additional funding—potentially in the low tens of billions of dollars. Identifying the specific source(s) of these additional funds would be important prior to the Legislature moving forward with this approach or allowing HSRA to undertake significant spending outside of the Merced-to-Bakersfield segment.

***Is Legislature Comfortable With HSRA Undertaking Its Proposed Borrowing and P3 Approach?*** The Legislature will want to have sufficient information to fully understand HSRA’s proposed approach to aligning its anticipated costs and revenues. This should involve ensuring that the Legislature has sufficient information to assess any potential risks and benefits involved in entering into a P3.

***Is Legislature Comfortable With HSRA’s Proposed Conceptual Statutory Changes?*** The Legislature will want to ensure that HSRA provides adequate information on its proposed statutory changes, as well time to allow the Legislature to assess the associated trade-offs.

