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## **California High-Speed Rail** **BRIEFING: September 23, 2021, Board Meeting Agenda Item #3**

**TO:** Board Chair Richards and Board Members  
**FROM:** Brian Annis, Chief Financial Officer  
**DATE:** September 23, 2021  
**RE:** Fiscal Year 2021-2022 Budget Presentation

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### **Recommended Actions**

In accordance with existing Board Policy HSRA11-001, which directs Board approval of the budget, Staff recommends Board approval of:

- The FY 2021-2022 Capital Budget of \$2.313 billion.
- The FY 2021-2022 Administrative Budget of \$91.1 million.

This action item does not include an adjustment to the Program Baseline – that issue will be brought to the Board separately at a future meeting.

### **FY 2021-2022 Capital Outlay Budget**

The Legislature deferred budget action until January 2022 on the Governor's budget request for new Proposition 1A funding for capital outlay. This requires the Authority to reduce its planned \$3.221 billion FY 2021-2022 capital expenditure budget to match available cash resources.

To match the capital budget to expected revenues, the Authority utilized the following methodology:

- Staff made updates since the July Board presentation to account for actual revenues and expenditures since then.
  - August Cap-and-Trade revenues were \$127 million above forecast
  - Cash expenditures for July were \$201 million below forecast
- Establish a prudent cash reserve of \$300 million to account for uncertainty in future Cap-and-Trade revenue. (The remaining three auctions this fiscal year are budgeted to conservatively assume the auction floor price and full sale of allowances.)
- Expenditures for a future track and systems contract and future Merced and Bakersfield extension design contracts are deferred to July 2022, reducing planned FY 2021-2022 expenditures by \$300 million. Note, these new contracts must be approved by separate board action.
- Reduced planned expenditures on two construction packages and other capital activities to maintain an estimated prudent cash reserve of \$300 million through June 2022.
  - Specifically, reduced the budgeted expenditure by an additional \$407 million to maintain a prudent cash reserve.
- The budget will be monitored closely and reported monthly at Finance and Audit Committee meetings.
- Work will continue to progress without delay of activity; however, if expenditures or revenue trend in a direction that would reduce the prudent cash balance below \$300 million, Staff will report to the Board with additional recommended budget actions.

- Overall, the FY 2021-2022 informational budget presented at the July 2021 Board meeting of \$3.221 billion has been reduced by \$908 million to the recommended budget of \$2.313 billion. Reductions are summarized as follows:

	(\$ in millions)
July Cash Expenditures	\$201
Track & Systems and Merced & Bakersfield Extension Design	\$300
Construction Packages	\$407
<b>Total Reductions</b>	<b>\$908</b>

### **FY 2021-2022 Administrative Budget**

The Administrative budget is **\$91.1** million consistent with what was proposed by the Governor and approved by the Legislature through passage of Senate Bill 170 on September 9th. Note, the Department of Finance may make technical adjustments to this budget amount as it makes broad-based adjustments for issues such as employee compensation.

### **Background and Prior Board Action**

At its May 21, 2019 meeting, the Authority's Board approved the updated Program Baseline of \$15.613 billion. The Program Baseline was updated to reflect the scope, schedule and cost of the Authority's priorities, including the refined scope of:

- Construction of the Central Valley Segment (Madera to Poplar Avenue), including track and systems; Completion of the Phase 1 environmental approvals; Early "Bookend" investments; and Program-wide support and contingency.

At its June 25, 2020 meeting, the Authority's Board accepted the updated Program Baseline of \$15.636 billion. The Program Baseline was updated to add:

- Pre-construction activities for those sections where the environmental process is completed. Examples include preliminary engineering, right-of-way mapping, and design advancement.

Also, at the June 25, 2020 meeting, the Authority's Board adopted the annual budget for FY 2020-2021 of \$2.903 billion for the Capital Budget and \$73.0 million (as adjusted for the enacted State budget) for the Administrative budget.

At its March 25, 2021 meeting the Authority's Board adopted the 2020 Business Plan. The 2020 Business Plan restates the importance of fulfilling the mission set forth in Proposition 1A to deliver the full Phase 1 system and enable the state to meet its mobility, environmental, and economic objectives. It presents a vision for delivering high-speed rail in California focused on three key principles:

- Initiate high-speed rail service in California as soon as possible.
- Make strategic, concurrent investment that will be linked over time and provide mobility, economic and environmental benefits at the earliest possible time.
- Position ourselves to construct additional segments as funding becomes available.

The 2020 Business Plan lays out priorities as follows:

- Complete construction of the 119-mile Central Valley Segment and lay track, fulfilling our federal grant agreements with the Federal Railroad Administration (FRA);
- Meet our federal commitment to environmentally clear the entire 500-mile system between San Francisco and Los Angeles/Anaheim;

- Advance construction on the “bookend” projects that we have committed funding to in the Los Angeles Basin and the Bay Area – projects valued at more than \$3 billion
- Commence testing of the electrified high-speed system in 2025, certify trains by 2027, and put electrified high-speed trains in service by the end of the decade;
- Expand the 119-mile segment in the Central Valley to develop 171 miles of electrified high-speed rail service by advancing design, funding pre-construction work and constructing extensions to Merced and Bakersfield, connecting downtown Merced, Fresno and Bakersfield with additional stops at Madera and Kings/Tulare;
- Advance project design in each segment, including the four Southern California segments between Bakersfield and Anaheim and the two Northern California segments between San Francisco and Merced as each segment is environmentally cleared; and
- Pursue federal and private funds prospectively to “close the gaps” and expand electrified high-speed rail service to the Bay Area and Los Angeles/Anaheim, completing the Phase 1 system approved by the voters in 2008.

**Legal Approval**

The Legal Office has reviewed this action item and has no legal concerns to report.

**Budget and Fiscal Impact**

The FY 2021-2022 budgets reflect programmed and funded projects necessary to progress the Authority’s commitments and priorities. In addition, the FY 2021-2022 Administrative Budget is reflected below.

**Capital Outlay Budget (\$ in millions) - FISCAL YEAR 2021-2022 PROGRAM BUDGET**

FY2020-21 Budget	FY2020-21 YTD Expenditures as of June 2021	FY2021-22 Budget	\$ Change increase/ (decrease)	% Change increase/ (decrease)
\$2,903	\$1,198	\$2,313	\$(591)	(20.3%)

**Administrative Budget (\$ in millions) - FISCAL YEAR 2021-2022 BUDGET**

	FY2020-21 Budget	FY2020-21 YTD Expenditures as of June 2021	FY2021-22 Budget	\$ Change increase/ (decrease)	% Change increase/ (decrease)
<b>Budget</b>	<b>\$73.0</b>	<b>\$50.1</b>	<b>\$91.1</b>	<b>\$18.0</b>	<b>24.7%</b>
POSITIONS	356		429	73	20.5%

<b>REVIEWER INFORMATION</b>	
Reviewer Name and Title: <b>Brian Annis</b> <b>Chief Financial Officer</b>	Signature verifying budget analysis: September 16, 2021
Reviewer Name and Title: <b>Alicia Fowler</b> <b>Chief Counsel</b>	Signature verifying legal analysis: September 16, 2021

**Recommendations**

In accordance with existing Board policies, Staff recommends Board approval of the modified FY 2021-2022 budget as follows:

- The FY 2021-2022 Capital Budget is \$2.313 billion.
- The FY 2021-2022 Administrative Budget is \$91.1 million (subject to adjustments by the Department of Finance to the enacted State budget)

**Attachments**

- Exhibit A – Current Program Baseline Cost Summary
- Exhibit B – Capital Outlay and Expenditures Report—FY 2021-2022
- Exhibit C – Administrative Budget for FY 2021-2022