



California High-Speed Rail **BRIEFING: September 15, 2022, Board Meeting** **Agenda Item #3**

TO: Chairman Richards and Board Members

FROM: Brian Annis, Chief Financial Officer

DATE: September 15, 2022

RE: Consider Approving the 2022 Proposition 1A Funding Plan

Summary

Staff is recommending that the Board of Directors approve the attached final Funding Plan for the commitment and expenditure of an additional \$4.2 billion of Proposition 1A bond proceeds appropriated in AB 180 in June 2022 for construction of the Central Valley Segment (CVS), which consists of 119 miles of civil works as well as related track and systems for the operation of high-speed rail. Access to these bond funds is required in fiscal year 2022-23 to fund currently-underway construction work in the Central Valley and will allow the Authority to strategically use the more flexible Cap-and-Trade funds for other program priorities over time. Staff also is recommending that the Board of Directors approve the attached Independent Consultant Report. Staff is further recommending that the Board of Directors authorize the CEO to finalize and submit the Funding Plan and the Independent Consultant Report to the Director of Finance and the Chairperson of the Joint Legislative Budget Committee. This Funding Plan is submitted pursuant to provisions of Proposition 1A contained in the Streets and Highways (S&H) Code Section 2704.08, subdivision (d)(1).

Background

Funding Plan for Central Valley Segment

The Central Valley Segment (also known as the Madera to Poplar Segment) consists of the 119-mile project currently under construction between Madera and Poplar Avenue in Shafter. The Central Valley Segment includes two stations, at Fresno and at Kings/Tulare (both are environmentally cleared). The segment will be a fully electrified high-speed rail segment suitable and ready for high-speed train operations and, upon completion, could be put into use by one or more passenger rail service providers. The segment initially will serve as the nation's first test track for high-speed trains (over 200 mph), and later be utilized to provide high-speed passenger service between Merced and Bakersfield, and ultimately high-speed service between San Francisco and Los Angeles / Anaheim.

Assembly Bill 180, Chapter 44 of 2022 (AB 180), was passed by the California State Legislature and signed by Governor Newsom in June 2022. This legislation amends the 2021 Budget Act and appropriates \$4.2 billion in Proposition 1A bond funds for the 119-mile Central Valley Segment. A budget trailer bill, Senate Bill 198, Chapter 71 of 2022 (SB 198), includes certain statutory provisions on legislative intent, expenditure priorities and limitations, and new oversight and reporting. Among other things, SB 198 requires that the new \$4.2 billion Proposition 1A appropriation be limited in expenditure to the Central Valley and that Cap-and-Trade proceeds be prioritized to the following: (A) Merced to Bakersfield segment until completion of this segment, (B) meeting legal and funding commitments made as of June 1, 2022, and (C) completing planning and environmental work

required under federal grant agreements as of June 1, 2022. Expenditures outside these areas are limited and require additional notification and reporting. The newly appropriated Proposition 1A funds supplement the previous appropriations of bond proceeds, federal grants, and Cap-and-Trade Program proceeds directed to the Central Valley Segment.

Independent Consultant Report

Proposition 1A also requires preparation of an Independent Consultant Report, as provided in S&H Code Section 2704.08, subdivision (d)(2). In September 2015, after conducting a public competitive procurement, the Authority selected the firm of Project Finance Advisory Limited (PFAL) to prepare the Independent Consultant Reports, as required by law. PFAL has conducted an extensive independent review of the 2022 Proposition 1A Funding Plan and related information to prepare their Report, which is attached to this memorandum. The Authority provided factual information and answered questions, but all conclusions were developed by PFAL independently. The Independent Consultant Report includes discussion of the following topics required by S&H Code Section 2704.08, subdivision (d)(2):

- A. Construction of the corridor or usable segment thereof can be completed as proposed in the plan submitted pursuant to paragraph (1) (i.e., the CVS),
- B. If so completed, the corridor or usable segment thereof would be suitable and ready for high-speed train operation,
- C. Upon completion, one or more passenger service providers can begin using the tracks or stations for passenger train service,
- D. The planned passenger train service to be provided by the authority, or pursuant to its authority, will not require operating subsidy; and,
- E. An assessment of risk and the risk mitigation strategies proposed to be employed.

Prior Board Action

- **Initial Funding Plan under S&H Code Section 2704.08(c) (C Plan).** Approved by Resolution #HSR11-23, on November 3, 2011. Proposition 1A bond proceeds in the amount of \$2.6 billion were appropriated by the Legislature in Senate Bill 1029 (SB 1029), Chapter 152 of 2012.
- **Final Funding Plan under S&H Code Section 2704.08(d)(1) (D Plan).** Approved by Resolution #HSRA 16-28, December 13, 2016. Submitted to Department of Finance and Joint Legislative Budget Committee in January 2017. Approved by Director of Finance on March 3, 2017.
- **Additional Initial Funding Plan under S&H Code Section 2704.08(c) (C Plan).** Approved by Resolution #HSRA21-01, on February 9, 2021. Proposition 1A bond proceeds in the amount of \$4.2 billion were appropriated by the Legislature in Assembly Bill 180, Chapter 44 of 2022.

Discussion

Funding Plan Meets Statutory Requirements

This Funding Plan scope is construction of the 119-miles segment in the Central Valley. The total baseline project budget for the Central Valley Segment is \$13.9 billion, which is consistent with the 2022 Business Plan. Costs will be re-estimated for the 2023 Project Update report as required by SB 198.

Pursuant to the requirements of S&H Code Section 2704.08(d)(1), the Authority has prepared a funding plan that describes the following:

A. Central Valley Usable Segment; The Authority proposes to direct the remaining \$4.2 billion to fund on-going construction work on the Central Valley Segment on the 119-mile segment between Madera to Poplar Avenue, north of Bakersfield. This Usable Segment is part of the future Merced to Bakersfield Interim High-Speed Service.

B. Sources of funding and anticipated time of receipt;

Funding Sources	Total (in millions)
Federal ARRA Grant – Construction Share	\$2,080
Proposition 1A - Construction (2017)	\$2,609
Proposition 1A - Construction (2022)	\$4,200
Federal FY10 Grant	\$929
Cap-and-Trade (includes actuals thru May 22)	\$4,036
TOTAL SOURCES - CAPITAL OUTLAY	\$13,855

Note: The Authority's total available funding is higher than CVS total cost. Additional Cap-and-Trade funds are available to mitigate future cost inflation risks.

C. Projected ridership and operating revenue; The Authority does not plan to run stand-alone high-speed rail service on the 119-mile Central Valley Segment between Madera and Poplar Avenue. Instead, this segment is the first construction segment of early interim service between Merced and Bakersfield. It also will serve as the high-speed rail test track that will be necessary to test high-speed rolling stock before passenger service can begin. Ridership information is included from the Early Train Operator's projections of Merced to Bakersfield Service.

D. Construction cost projection

Item	Total Budget (in millions)
Construction Package 1 and State Route 99	\$5,133
Construction Package 2-3	\$3,836
Construction Package 4	\$1,208
CVS Track and Systems, Stations, and Support Facilities	\$2,362
Project-wide Support *	\$687
Interim Use / Project Reserve	\$208
Unallocated Contingency	\$420
Total Uses**	\$13,855

* Central Valley Usable Segment Budget excludes planning costs, as they are appropriated separately from construction costs under Proposition 1A.

**Cost figures are consistent with the 2022 Business Plan.

E. Material changes since the funding plan previously submitted under S&H Code Section 2704.08(c); Key material changes highlighted in the Plan include: Improved Cap and Trade auction results; settlement reached with the FRA on \$929 million in Federal Fiscal Year 2010 (FY10) grant funds; Merced to Madera and the Fresno to Bakersfield LGA design services agreements were awarded; the Authority received two separate RAISE grants for a total of \$49 million; the 2022 Business Plan was submitted to the California State Legislature; the Authority submitted two applications for federal grant funds for a total ask of \$1,266 million; AB 180 was enrolled which appropriated the entire \$4.2 billion in remaining Proposition 1A Bond Funds; and inflation has escalated to 40-year highs in the United States.

F. Terms and conditions of agreements; The key terms and conditions of various types of significant agreements are summarized, including, but not limited to, the following: Federal Grant / Cooperative Agreements, including Amendments; Environmental Authority MOU; Regional Interagency Agreements and Memoranda; Construction Agreements; Other Agreements (e.g., third-party, early train operator, rail delivery partner); Proposed Future Agreements (e.g., track and systems, interim service).

Independent Consultant Report Findings:

Below are summarized key findings of PFAL's Report pursuant to S&H Code Section 2704.8(d)(2) as highlighted in the Background section above:

A. Constructability: The segment can be constructed as set forth in the Plan, subject to the Authority implementing its ERM policies and plan to mitigate risks to ongoing and future construction, and successfully awarding, managing, and delivering the Track and Systems contract. The current cost and schedule metrics should be reevaluated with the 2023 Project Update to verify that adequate contingency is available to complete the Segment as currently planned.

B. Suitability: When completed as planned, the Segment will be suitable and ready for high-speed rail operations.

C. Usability: The Segment is expected to facilitate passenger train service through agreement with one or more regional providers.

D. Subsidy: The Authority does not contemplate HSR passenger train service in the Plan; other passenger rail service will not be managed by the Authority. Therefore, PFAL does not analyze the need for an operating subsidy as part of their report.

E. Risk Assessment: Risks are identified by the Authority and a comprehensive risk management program is in place and being finalized.

Deploying Appropriated Funding Sources to Meet Cash Flow Needs of the Project

The Authority has \$4.2 billion available in remaining, appropriated, Proposition 1A bond funds for continued advancement of project activities. The Funding Plan proposes to direct \$4.2 billion to fund on-going construction work on the Central Valley Segment (Madera to Poplar Avenue). The Authority fully expended federal American Recovery and Reinvestment Act (ARRA) funds directed to the Central Valley Segment. Proposition 1A bond funds requested by this Funding Plan are needed in 2022-23 and beyond to fund on-going construction in the Central Valley. The Authority is forecast to receive between \$5 billion and \$7.5 billion from quarterly Cap-and-Trade auctions over the next decade. However, due to the flexibility of Cap-and-Trade funding and the long timeline for the full receipt of future Cap-and-Trade proceeds, the requested Proposition 1A bond funds will allow the Authority to re-sequence its funding to maintain funding stability for on-going construction and project development activities. This funding sequence allows for future Cap-and-Trade funds to be available for project commitments in later years.

Roughly \$7.4 billion in construction funds were received and expended by June 2022. This includes the full ARRA grant, Cap-and-Trade and most of the Proposition 1A bond proceeds already previously appropriated. The future Proposition 1A bond proceeds, made possible in part with this Funding Plan, will be applied as needed in order to be available in the fiscal year in which expenditures are made. The Authority anticipates Proposition 1A bond proceeds will be expended starting in 2022-23 and ending in 2024-25.

Maintaining the Economic Engine of the Project

One of the high-speed rail project's signature benefits is the on-going creation of jobs in designing, planning and constructing the system. From July 2006 through June 2021, high-speed rail supported the equivalent of up to 70,500 full-time jobs and \$13.7 billion in economic impact in California, with the majority of the economic activity stemming from construction of the Central Valley Segment. In 2020-21 alone, the project supported the equivalent of approximately 10,100 full-time jobs, including direct, indirect and induced jobs. In the Central Valley, the project's economic impact has been especially meaningful to the region. By May 31, 2022, the Authority had surpassed 7,983 construction workers dispatched since the start of construction. Fifty-seven percent (57%) of the investment in the system in 2020-21 occurred in designated disadvantaged communities throughout California, spurring economic activity in these areas. Additionally, over half (56%) of the total program investment from July 2006 through June 2021 occurred in designated disadvantaged communities.

The expenditure of Proposition 1A bond funds will allow job growth to continue. On-going construction will continue to contribute to the economic stability of the Central Valley, producing about 116,000 projected job-years in the Merced to Fresno project section and about 87,000 projected job-years in the Fresno to Bakersfield project section through construction completion.

Access to the Funds

To generate the \$4.2 billion, future Proposition 1A bonds will be issued by the State Treasurer. The Authority's Finance Office (FINO) will coordinate with the Department of Finance to include the projected expenditures in the cash flow forecasts prepared as part of the periodic bond survey process that is used by the State Treasurer's Office (STO) in scheduling sales of general obligation bonds and commercial paper for all bond-funded projects.

Legal Approval

The Authority Chief Counsel's office has reviewed the requested action and affirms the Authority's ability to take the action under applicable law.

Budget and Fiscal Impact

Approval of the Funding Plan is a required final step toward commitment and expenditure of the \$4.2 billion in additional Proposition 1A bond funds appropriated through Assembly Bill 180. The budget of \$13.9 billion for the Madera to Poplar Avenue segment is consistent with 2022 Business Plan adopted by the Board in April 2022.

REVIEWER INFORMATION	SIGNATURE
Reviewer Name and Title: Brian Annis Chief Financial Officer	Signature verifying budget analysis:
Reviewer Name and Title: Alicia Fowler Chief Counsel	Signature verifying legal analysis:

Recommendations

Staff recommends that the Board of Directors approve the attached Funding Plan for the commitment and expenditure of additional Proposition 1A bond proceeds in the amount of \$4.2 billion for construction of the Central Valley Segment.

Staff recommends that the Board of Directors approve the attached Independent Consultant Report.

Staff further recommends that the Board of Directors authorize the CEO to finalize and submit the Funding Plan and the Independent Consultant Report to the Director of Finance and the Chairperson of the Joint Legislative Budget Committee.

Attachments

The attached presentation, Funding Plan, and Independent Consultant Report have been prepared for the Board of Directors' consideration.