



Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

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August 3, 2018

SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Railroads, Pipelines, and Hazardous Materials
FROM: Staff, Subcommittee on Railroads, Pipelines, and Hazardous Materials
RE: Subcommittee Field Hearing on “Continued Oversight of the California High-Speed Rail Project”

PURPOSE

The Subcommittee on Railroads, Pipelines, and Hazardous Materials will meet on Thursday, August 9, 2018, at 10:30 a.m. (PST) in the John E. Moss Federal Building, located at 650 Capitol Mall, Sacramento, California, in the Sonora Conference Room, to receive testimony regarding the status of the California High-Speed Rail Project (project). The project is the largest in the High-Speed Intercity Passenger Rail (HSIPR) program administered by the Federal Railroad Administration (FRA). The Subcommittee will receive testimony from the U.S. Department of Transportation Office of Inspector General, the California High-Speed Rail Authority (CHSRA), the California High-Speed Rail Peer Review Group, and the State Building and Construction Trades Council of California.

BACKGROUND

In General

In 1996, CHSRA was created as an independent state entity charged with designing a high-speed train system for the state. CHSRA first introduced a plan in 2000 for a system that would link all of California’s major population centers, including the San Francisco Bay Area, Los Angeles, and San Diego. In 2008, California voters passed the *Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century*, Assembly Bill 3034, which provided for the issuance of \$9.95 billion in general obligation bonds for passenger rail in the state. Though previous versions of this bond proposal were originally to appear on the 2004 and 2006 ballots,

the bond measure (Proposition 1A) finally went to the voters on November 4, 2008, and was approved with 52.7 percent of the vote.¹

Proposition 1A Finances

Proposition 1A authorized the state to sell \$9.95 billion in general obligation bonds, \$9 billion for the high-speed rail project and \$950 million for investments in regional, commuter, and intercity rail. The bonds would be available when appropriated by the legislature. However, the bond funds can only be used for one-half of the total cost of construction of each corridor or segment of a corridor. Proposition 1A requires CHSRA to seek private and other public funds to cover the remaining costs and also limits the amount of bond funds that can be used to fund certain pre-construction and administrative activities. CHSRA applied for and was awarded public funds from FRA's HSIPR grant program.

High-Speed Intercity Passenger Rail Funding

The California High-Speed Rail project is the single largest beneficiary of federal funding through the HSIPR program under the *American Recovery and Reinvestment Act of 2009* (P.L. 111-5, ARRA)² and the *Consolidated Appropriations Act, 2010* (P.L. 111-117).³ In total, the project has been awarded \$3.879 billion in federal funds, of which \$400 million from ARRA is for the San Francisco Transbay Terminal project, \$2.55 billion from ARRA is for the Central Valley portion of the project, and \$929 million from the *Consolidated Appropriations Act, 2010* is for the Central Valley portion of the project. This represents almost 39 percent of the total HSIPR grant funding awarded by the FRA.

While the \$3.48 billion awarded to CHSRA for the Central Valley has been obligated, only \$2.55 billion has actually been spent as of June 5, 2018. The full \$2.55 billion in ARRA funding was expended by CHSRA before the September 30, 2017 deadline, and FRA is currently in the process of verifying state match expenditures. The \$929 million from *Consolidated Appropriations Act, 2010* remains unspent. The full \$400 million from ARRA for the San Francisco Transbay Terminal project, which was awarded to the Transbay Joint Powers Authority, not CHSRA, has also been spent.

The Authority has received both one-time funding from California's Cap-and-Trade program, as well as a 25 percent continuous funding appropriation also through the Cap-and-Trade program. The one-time funding provided \$650 million in proceeds to the Authority. The quarterly auctions have delivered variable amounts each quarter since August 2015. With the Cap-and-Trade program due to expire in 2020, the California Legislature passed Assembly Bill 398 in July 2017, which extends the horizon of the Cap-and-Trade program through December 31, 2030. While California's Cap-and-Trade program has yielded varying levels of funding through auctions each quarter, the 2018 Business Plan assumes that annual receipts for the project will be around \$750 million. Since June 2018, the Authority has received \$1.218 billion from the program, which is below the 2016 Business Plan estimated amount of \$5.341 billion.

¹ Under California law, any bill that calls for the issuance of general obligation bonds must be adopted by each house of the state Legislature by a two-thirds vote, signed by the Governor, and approved by a majority of voters.

² Pub. L. No. 111-5, 123 Stat. 208.

³ Pub .L. No. 111-117, 123 Stat. 3056.

Changes to the FRA Funding Agreement

On May 18, 2016, FRA and CHSRA signed the most recent amendment to the Cooperative Grant Agreement for ARRA funding, Amendment 6. This amended grant agreement maintains a tapered match approach,⁴ but also includes several new substantive changes:

1. *Extension of the Performance Period.* Under the original grant agreement and subsequent amendments, ARRA funding was required to be expended by September 30, 2017 and FRA required CHSRA to report on project performance through September 30, 2018— assuming activities (e.g., major construction, testing of equipment) supported by that funding would continue beyond that timeframe. Amendment 6 acknowledged that the grant’s scope of work would likely take longer to complete – leading to the agreed-upon extension of the period of performance through 2022.
2. *Authorizes Advance Payments.* Under FRA’s normal processes for capital grants, grantees perform work, and then seek reimbursement of those expenditures from FRA. Due to the requirements of California’s right-of-way acquisition process, and the timing of state and ARRA funding, FRA agreed to create a temporary working capital advance to allow CHSRA to move forward on the project by acquiring needed right-of-way to begin construction. CHSRA successfully used the working capital advance twice during the ARRA timeframe.
3. *Positive Train Control Spectrum Acquisition.* Amendment 6 authorized ARRA funds to be used by CHSRA to acquire spectrum necessary for positive train control (PTC). This acquisition occurred in fiscal year (FY) 2016.

Changes to the Business Plan

The project has undergone a number of different business plans with costs that have varied greatly over time. The first estimate contained in the 2000 Business Plan was \$25 billion with a completion date in 2020. The 2008 Business Plan estimated the project would cost \$33 billion, with \$12-16 billion in federal funds, and a completion date of 2020. One year later in 2009, the estimate jumped to \$43 billion, assuming \$17-19 billion in federal funds, with a completion date of 2020. The 2012 Business Plan estimated the project would cost \$68 billion, with \$42 billion in federal funds, and a completion date of 2028. The 2014 Business Plan maintained the total Phase 1 lifecycle cost of \$68 billion, but envisioned 25 percent of the cost coming from proceeds under California’s Cap and Trade program. The 2016 Business Plan estimated a total cost of \$64 billion, and, while it continued to assume federal funding, it did not identify a specific amount of additional federal funding needed.

⁴ “Tapered match” means federal funding would be spent at a higher rate early on in the project in order to meet the 2017 deadline, with the state match “tapering in” later in the project and even beyond the 2017 deadline.

In addition to changing costs, the business plans over time have shown a significant change in the direction of the overall program. The 2012 and 2014 business plans envisioned a blended approach, under which an initial operating segment would be constructed in the Central Valley, and then would connect to the north (Bay Area) and south (Los Angeles Basin) by tying into existing rail infrastructure (for example, the Caltrain system in the Bay Area). The 2016 Business Plan took the project in a new direction: rather than connect to both the north and the south, CHSRA planned to focus on the north in the near term. The plan envisioned building a rail line connecting the Central Valley with Silicon Valley, and then electrifying Caltrain's corridor into San Francisco (See Figure 1.) Under that plan, CHSRA would begin service between the Central and Silicon Valleys by 2025.

2018 Draft Revised Business Plan

In June 2018, CHSRA released its 2018 Business Plan for the project. Apart from the 119-mile Central Valley Segment that is under construction, most of the system is in the environmental review and preliminary design stage, which is still very early in the project lifecycle process.

As indicated in Table 1, the schedule for completing some of the segments has slipped by several years. The 2016 Business Plan projected the Valley to Valley segment (defined in the 2018 Business Plan as San Francisco to Bakersfield) to be completed in 2025 and Phase 1 in 2029. The 2018 plan now projects the Valley to Valley segment to be completed in 2029 and Phase 1 in 2033. In addition, the schedule for environmental reviews has slipped. In the 2016 Business Plan it was anticipated that CHSRA would complete the environmental approvals for all portions of Phase 1 of the system by 2017, but in the 2018 Business Plan several of those dates have become 2019 or 2020, or "subject to change." The CHSRA projects completion of the environmental reviews for all project segments statewide (Merced/San Francisco-Los Angeles/Anaheim) by 2022.

The 2018 Business Plan estimates that the costs for each portion of the project will be significantly higher than was estimated in the 2016 Business Plan. The new estimated cost of the Central Valley is \$10.6 billion, an increase of \$2.8 billion since 2016. The new estimated cost of the Valley to Valley segment is \$29.5 billion, an increase of \$7 billion since 2016. The new estimated cost of Phase 1 is now estimated at \$77.3 billion, an increase of \$13.1 billion since 2016.

Further, in the 2018 Business Plan, CHSRA notes that the Valley to Valley segment is \$1.3 to \$9 billion dollars short of the funding needed. The estimated funding shortfall is roughly equal to the cost of building the tunnels through the Pacheco Pass to link Gilroy to the Central Valley segment. Throughout the project, tunnels will be required through the California Coast Range between Gilroy and Merced, the Tehachapi Mountains between Bakersfield and Palmdale, and the San Gabriel Mountains between Palmdale and Burbank. The alignments currently under consideration involve between 45 to 50 miles of tunnels that range in length from several thousand feet to more than 20 miles, some of which are more than 2,000 feet underground. CHSRA proposes to complete the Central Valley segments, but leave the Pacheco Pass tunnels, the extension to Madera to Merced, and the connection of Gilroy (the south end of

the Silicon Valley segment) to the Central Valley segment as the last portion of the Valley to Valley segment, completion subject to funding availability.

The 2016 Business Plan assumed that the project would have dedicated high-speed rail tracks with 220-mph service except (a) between San Francisco and San Jose it would share existing Caltrain tracks, which would be upgraded to allow 110-mph service, and (b) along segments of the Metrolink line in Southern California it would also share the Metrolink tracks. The 2018 Business Plan assumes that the project will (a) share the Caltrain tracks from San Francisco to Gilroy (upgraded to allow 110-mph service) and (b) operate on shared tracks on the Metrolink segment between Burbank and Anaheim with operating speeds up to 125 mph.

Table 1. Capital Cost Crosswalk

EXHIBIT 3.0 CAPITAL COST CROSSWALK										
	2016 CAPITAL COST	CARRYOVER INCREASE	ESCALATION IMPACT	CONTINGENCY INCREASE	NET DESIGN/ SCOPE INCREASE	CENTRAL VALLEY INCREASE	TOTAL	INCREASE SINCE 2016	EXTENSION TO SF, BAKERSFIELD	NEW TOTAL
CV	\$7.8B					\$2.8B	\$10.6B*	\$2.8B	N/A	\$10.6B
V2V	\$20.7B	\$2.8B	\$1.4B	\$1.6B	\$1.1B		\$27.7B	\$7.0B	\$1.9B**	\$29.5B
PH1	\$64.2B	\$7.0B	\$2.1B	\$3.0B	\$1.1B		\$77.3B	\$13.1B	N/A	\$77.3B
Cost Increase Drivers			\$3.5B	\$4.6B	\$2.2B	\$2.8B				

*Updated Central Valley estimate-at-complete
 **Represents minimal capital investment to extend Silicon Valley to Central Valley to San Francisco and Bakersfield; full build-out of these sections are captured in PH1 crosswalk numbers
 Notes: Totals may not sum due to rounding

Source: California High Speed Rail Authority, *2018 Business Plan*, Exhibit 3.0, p. 34

Notes: “CV”= Central Valley, “V2V”= Valley to Valley, “PH1”= Phase 1

Figure 1. Phased High Speed Rail System Implementation



Source: California High-Speed Rail Authority, *Draft Revised 2018 Business Plan*, Exhibit 2.0.

WITNESS LIST

The Honorable Calvin L. Scovel III
Inspector General
The U.S. Department of Transportation Office of Inspector General

Mr. Brian Kelly
Chief Executive Officer
California High-Speed Rail Authority

Mr. Louis Thompson
Chairman
California High-Speed Rail Peer Review Group

Mr. Robbie Hunter
President
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