



Committee on Transportation and Infrastructure
U.S. House of Representatives

Washington, DC 20515

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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 Monday, August 29, 2016, at 9:00 a.m. in the San Francisco Federal Building, located at 90 7th Street, San Francisco, CA, in room B040, 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 representatives of the FRA, the California High-Speed Rail Authority, Caltrain, the State Building and Construction Trades Council of California, and other interested parties.

BACKGROUND

In General

In 1996, the California High-Speed Rail Authority (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. *The Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century*, AB 3034, provided for the issuance of \$9.95 billion in general obligation bonds for passenger rail in the state. Though removed from the ballot twice, the bond measure (Proposition 1A) went to the voters on November 4, 2008, and was approved with 52.7 percent of the vote.¹

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.

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 the 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 of the HSIPR program under the American Recovery and Reinvestment Act of 2009 (ARRA)² and the fiscal year (FY) 2010 Consolidated Appropriations Act.³ In total, the project has been awarded \$3.879 billion, 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 FY 2010 Consolidated Appropriations Act is for the Central Valley portion of the project. This represents almost 39 percent of the total HSIPR grant funding awarded by the FRA.

Most of the funding provided for the project will be utilized in California's Central Valley on the Bakersfield-Fresno-Merced sections of the Phase 1 project or ICS. While the \$3.48 billion awarded to CHSRA for the Central Valley has been obligated, only \$1.4 billion has actually been spent as of August 10, 2016. Under the federal appropriations law "five-year rule," the \$2.55 billion in federal funds provided through ARRA must be completely spent by September 30, 2017.⁴ Of the \$400 million from ARRA for the San Francisco Transbay Terminal project, which was awarded to the Transbay Joint Powers Authority, not CHSRA, \$397 million has been spent.

A majority of the federal funding, \$2.55 billion, comes under one grant agreement that requires a near 50/50 split of federal and state funding. FRA has revised the grant agreement several times, including in December 2012, to allow for a "tapered match," of federal and state funding. "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.

Recent Changes to the FRA Funding Agreement

² Pub. L. No. 111-5, 123 Stat. 208.

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

⁴ See 31 U.S.C. §1552.

On May 18, 2016, FRA and CHSRA revised, for the sixth time, the Cooperative Grant Agreement for ARRA funding. This amended grant agreement maintains the tapered match approach, but also includes several new substantive changes:

1. *Extension of the Performance Period.* Under the original grant agreement, and the five previous amendments, the period of performance that CHSRA was required to report on to FRA was through FY 2018. In other words, while ARRA funds are required under law to be expended by the end of 2017, FRA had previously expected the activities supported by those expenditures (e.g., major construction, testing of equipment) would be completed by the end of 2018. However, the May 18th amendment now extends that performance period through 2022.
2. *Authorizes Advance Payments.* Under FRA's normal processes for capital grants, CHSRA performs work, and then seeks reimbursement of those expenditures from FRA, under the terms of the grant agreement. However, with this amendment, FRA has, for the first time, created a working capital account that would allow CHSRA to receive funds in advance of making expenditures.
3. *Positive Train Control Spectrum Acquisition.* The sixth amendment allows ARRA funds to be used by CHSRA to acquire spectrum necessary for Positive Train Control (PTC).

Recent Changes to 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.

In November 2011, the CHSRA's Draft 2012 Business Plan had the costs skyrocket to a range of \$98-118 billion, with approximately \$52 billion in federal funds, and a delayed completion date of 2033. After significant public criticism, the CHSRA adjusted its costs downward in a 2012 Draft Revised Business Plan to \$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 now envisioned significant funding coming from 25 percent of proceeds under California's Cap and Trade program. The 2016 Business Plan now estimates a total cost of \$64 billion, and, while it continues to assume federal funding, it does not identify a specific amount of additional federal funding needed.

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 takes the project in a new direction: rather than connect to both the north and the south, CHSRA is planning to focus on the north in the near term. The plan envisions building a rail line connecting the Central Valley with Silicon Valley, and then electrifying Caltrain's corridor into San Francisco. Under this plan, CHSRA would begin service between the Central and Silicon Valleys by 2025, which it hopes will develop a record of ridership to spur more private sector investment. However, this change in scope means the planned rail connection between the Central Valley and Los Angeles Basin would be further off, and the existing rail gap between the major population centers would remain for the foreseeable future.

WITNESS LIST

The Honorable Sarah Fienberg
Administrator
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Mr. Dan Richard
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California High-Speed Rail Authority

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