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Funding for the High-Speed Rail Project

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Transportation and Housing Committee
Hon. Mark DeSaulnier, Chair





Background



Current Funding Available for High-Speed Rail

- In November 2008, voters approved Proposition 1A, which allows the state to sell up to \$9.95 billion in general obligation bonds to partially fund the high-speed rail system. The bond funds authorized in Proposition 1A require a match of at least 50 percent from other funding sources.
- The state has received about \$3.5 billion in federal funds for planning, engineering, and the construction of high-speed rail, which require matching funds.



Construction to Start in Central Valley in 2014

- First operation of high-speed rail is planned to begin in 2022 after construction of the Initial Operating Segment (IOS), which would extend 300 miles from Merced to the San Fernando Valley. According to the 2014 draft business plan of the High-Speed Rail Authority (HSRA), the expected cost to complete the IOS is about \$31 billion.
- Construction of the IOS will begin on a segment extending 130 miles from Madera to Bakersfield, referred to as the Initial Construction Segment (ICS). The HSRA anticipates that construction of the ICS will begin in 2014 and be completed in 2018.



Background

(Continued)



Two Major Legal Cases Involving Use of Proposition 1A Bond Funds

- On November 25, 2013, the Sacramento Superior Court found that the funding plan that HSRA submitted to the Legislature in November 2011 in conjunction with a request for an appropriation of Proposition 1A bond funds for the IOS did not meet certain requirements specified in the proposition (such as identifying all of the funds that will be invested in a usable segment of the high-speed rail system). As a result, the court ordered the HSRA to rescind the funding plan, thereby halting any Proposition 1A bond proceeds expenditures to support the construction of the IOS.
- On November 25, 2013, the Sacramento Superior Court denied the administration's request that the court validate the issuance of more than \$8 billion in Proposition 1A bond funds. Based on this ruling, the State Treasurer's Office currently does not plan to sell Proposition 1A bonds.
- The state is currently in the process of appealing both of these rulings.



HSRA Expenditures

(Dollars in Millions)

	Actual 2012-13	Estimated 2013-14	Proposed 2014-15	Change From 2013-14	
				Amount	Percent
State Operations					
Proposition 1A bond funds	\$17.7	\$26.4	\$29.3	\$2.9	11.0%
Local Assistance					
Federal funds	—	—	\$32.0	\$32.0	—
Capital Outlay					
Proposition 1A bond funds	\$27.3	\$22.0	—	-\$22.0	-100.0%
Greenhouse Gas Reduction Fund	—	—	\$250.0	250.0	—
Federal funds	185.8	571.3	1,078.7	507.4	88.8
Subtotals, Capital Outlay	(\$213.1)	(\$593.3)	(\$1,328.7)	(\$735.4)	(124.0%)
Totals	\$230.8	\$619.7	\$1,390.0	\$770.4	124.3%

- The Governor's budget proposes a total of \$1.4 billion to HSRA for the high-speed rail project in 2014-15. As shown in the above figure, this is an increase of \$770 million from the 2013-14 level.
- Most of the funding proposed for the budget year would be for the construction of high-speed rail.



Governor's Proposal to Use Cap-and-Trade Auction Revenue

- The Governor's budget proposes \$250 million in cap-and-trade auction revenue (Greenhouse Gas Reduction Fund [GGRF]) to support the development of the high-speed rail system in 2014-15. This includes (1) \$58.6 million for environmental planning for the first phase of the project and (2) \$191.4 million to purchase land and partially support construction of the IOS.
- In addition, the Governor is proposing budget trailer legislation that, beginning in 2015-16, 33 percent of GGRF revenues be continuously appropriated to HSRA for the high-speed rail system.
- The Governor is also proposing that when the remaining balance of \$400 million from a loan made from the GGRF to the General Fund in 2013-14 is repaid, the funds be directed to HSRA for the IOS.



Issues for Legislative Consideration



Using Cap-and-Trade Auction Revenues for High-Speed Rail May Not Maximize Greenhouse Gas (GHG) Reductions

- The high-speed rail project would not contribute significant GHG reductions before 2020, which is the statutory target for reaching 1990 emissions. This is because the high-speed rail system will not be operational until 2022.
- The construction of high-speed rail would actually generate GHG emissions of 30,000 metric tons over the next several years. (The HSRA plans to offset these emissions by planting thousands of trees in the Central Valley.)



No Complete Funding Plan for IOS

- In its 2014 draft business plan, HSRA identified a total of \$10 billion in funding available to support the construction of the IOS. The plan states that an additional \$21 billion will need to be identified in order to complete the IOS.
- The state will likely be the only source of additional funding to address the \$21 billion shortfall identified by HSRA.



Issues for Legislative Consideration

(Continued)



Unclear How Much Cap-and-Trade Funding Will Support High-Speed Rail in Future

- It is unclear how much cap-and-trade auction revenue will actually be allocated to high-speed rail in 2015-16 and beyond to complete the IOS under the Governor's plan. While the Governor is proposing that 33 percent of all state auction revenues be continuously appropriated to HSRA beginning in 2015-16, the administration has not provided an estimate of projected cap-and-trade auction revenues.
- Absence of a detailed plan makes it difficult for the Legislature to determine if the Governor's proposed use of cap-and-trade auction revenues, along with available federal funds and Proposition 1A bond funds, would be sufficient to fund the expected costs per year to complete the IOS.



HSRA Expending Federal Funds While Matching Proposition 1A Bond Funds Face Legal Risks

- For the remainder of 2013-14 and 2014-15, HSRA plans to spend about \$1.6 billion in federal funds, which requires a match of state funds. However, as mentioned earlier, the availability of Proposition 1A bond funds has been the subject of litigation.
- If federal funds are expended as planned, and the state does not provide matching funds, the Federal Railways Administration reserves the right to require the state to repay federal funds spent on the project.