



## **BRIEFING: February 9, 2020 BOARD MEETING AGENDA ITEM #3**

**TO:** Chairman Richards and Board Members

**FROM:** Brian Annis, Chief Financial Officer

**DATE:** February 9, 2021

**RE:** Consider Approving the 2021 Proposition 1A Funding Plan

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### **Summary**

Staff is recommending that the Board approve the attached funding plan for the appropriation of an additional \$4.1 billion of Proposition 1A (Prop 1A) bond proceeds 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 needed in 2021 to fund currently-underway construction work in the Central Valley and will allow the Authority to use the more flexible Cap-and-Trade funds for other program priorities over time. Staff is further recommending that the Board authorize the CEO to finalize and submit the funding plan to the Director of Finance, the peer review group, and the policy committees with jurisdiction over transportation matters and the fiscal committees in both houses of the Legislature.

This funding plan is submitted pursuant to provisions of Prop 1A contained in the Streets and Highways (S&H) code section 2704.08, subdivision (c). The funding plan relates to the request for appropriation of Prop 1A bond proceeds in the amount of \$4.1 billion. Previous funding plans approved by the Board related to appropriation and commitment of \$2.609 billion of Prop 1A bond proceeds (which is in addition to “matching” federal grant funds and state Cap and Trade proceeds) for expenditure for construction activities and real property and equipment acquisition. Once these monies are appropriated but before they can be spent, the Board will review and be asked to approve a detailed plan under S&H code section 2704.08, subdivision (d).

This memo and associated presentation to the Board provide details regarding the need for and the benefits of the additional Prop 1A funding.

### **Background**

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. The characteristics of the Central Valley Segment

also are described in the Final Environmental Impact Reports/Environmental Impact Statements (FEIR/EIS) for the Merced-Fresno and Fresno-Bakersfield sections of the system.

### **Prior Board Action**

The Authority previously selected the Central Valley Segment as a Usable Segment for construction in accordance with the criteria specified in Streets and Highways (S&H) Code Section 2704.08, subdivision (f). Previous funding plans approved for the Central Valley Segment between Madera and Poplar are as follows:

- **Initial Funding Plan under S&H Code section 2704.08(c) (C Plan).** Approved by Resolution #HSR11-23, on November 3, 2011. Prop 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.
- **Expenditure Funding Plan under S&H Code section 2704.08(d) (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.

### **Discussion**

#### ***Deploying Available Funding Sources to Meet Cash Flow Needs of the Project***

The Authority has \$4.2 billion available in remaining Proposition 1A bond funds for continued advancement of project activities. Of this \$4.2 billion, the Funding Plan proposes to direct \$4.1 billion, the subject of this Part C Funding Plan, 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 funds directed to the Central Valley Segment, and is expected to fully expend cash balances from the Cap and Trade Program funds during the 2021-22 fiscal year. Proposition 1A bond funds requested by this Funding Plan are needed in 2021-22 to fund ongoing construction in the Central Valley and avoid the layoff of construction labor and the closure of construction sites. The remaining \$100 million of Proposition 1A bond funds will be directed to on-going project development work on the San Francisco to Los Angeles / Anaheim Phase I sections, including initial design and the completion of environmental documents.

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 volatility of Cap-and-Trade funding – as evidenced in 2020 with a decline in revenue caused by COVID 19 – 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 recover to projected levels and be available for project commitments in later years as the quarterly auctions occur. Slide 9 of the attached PowerPoint presentation illustrates the re-sequencing of Proposition 1A Bond Funds and Cap-and-Trade funds. The known costs of Central Valley construction underway are about \$330 million above prior estimates, and, with an enhanced risk reserve of \$1.04 billion, the total revised budget has increased to \$13.8 billion. Moreover, to mitigate risk affecting the track and systems procurement, these estimates include proposed changes to the timing, approach to construction, and phasing of track and system installation. These actions will mitigate cost risks and improve construction efficiency.

### ***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. Through June 2020, high-speed rail created the equivalent of about 60,000 full-time jobs and \$11.4 billion in economic impact, with the majority of the economic activity stemming from construction of the Central Valley Segment. In FY 2019-20 alone, the project supported the equivalent of almost 10,000 full-time jobs. In the Central Valley, the project's economic impact has been especially meaningful to the region. By the close of 2017, more than 1,400 craft laborers had been dispatched to work on building high-speed rail on the 119-mile Central Valley Segment. By December 2020, the Authority had surpassed 5,000 construction workers dispatched since the start of construction, with 77 percent of the men and women residing in the Central Valley. The appropriation of Proposition 1A bond funds will allow job growth to continue. Without the bond funds, project sites will have to be closed and workers laid off.

### **Legal Approval**

The Authority has the legal authority to approve the Funding Plan.

### **Budget and Fiscal Impact**

This is a required first step toward obtaining the appropriation of \$4.1 billion in additional Proposition 1A bond funds through the FY 2021-22 state budget.

<b>REVIEWER INFORMATION</b>	
Reviewer Name and Title: <b>Brian Annis</b> <b>Chief Financial Officer</b>	Signature verifying budget analysis: <b>Original Signed February 4, 2021</b>
Reviewer Name and Title: <b>Alicia Fowler</b> <b>Chief Counsel</b>	Signature verifying legal analysis: <b>Original Signed February 4, 2021</b>

### **Recommendations**

Staff recommends that the Board approve the attached funding plan for the appropriation of additional Proposition 1A (Prop 1A) bond proceeds in the amount of \$4.1 billion for construction of the Central Valley Segment. Staff further recommends that the Board authorize the CEO to finalize and submit the funding plan to the Director of Finance, the peer review group, and the policy committees with jurisdiction over transportation matters and the fiscal committees in both houses of the Legislature.

### **Attachments**

Board Resolution #HSRA 21-01  
PowerPoint presentation