

California High-Speed Rail
INFORMATIONAL BRIEFING: JULY 15, 2021 BOARD MEETING
AGENDA ITEM #2

TO: Board Members
FROM: Brian Annis, Chief Financial Officer
DATE: July 15, 2021
RE: 2021-2022 Budget Update

Informational Update on the 2021-2022 Budget

The California High-Speed Rail Authority (Authority) Board Policy HSRA11-001 directs Board approval of the budget.

Budget adoption will include:

- The 2021 Program Baseline Budget – the revised multi-year budget; and
- The 2021-2022 Fiscal Year Budget

Since the Legislature deferred budget action on proposals related to High-Speed Rail, this item is presented as an information item, and Staff will return to the Board when the budget is finalized before the Legislature adjourns on September 10th, 2021.

Status of Legislative Actions

The Legislature appropriated \$73.6 million for the Authority's State Operations budget for FY 2021-2022, but deferred action on all budget change proposals. The Legislature also approved a statutory extension of National Environmental Policy Act (NEPA) Assignment for rail to January 1, 2025.

The Authority has a continuous appropriation of Cap-and-Trade funds that allows expenditure of future auction proceeds as those are received.

The Legislature deferred action on a new \$4.2 billion Proposition 1A budget appropriation for construction and project development. The Governor's May Revision Budget has requested this funding as part of a comprehensive transportation investment package, and both sets of investments are on hold pending a negotiated budget package.

The Budget is Contingent on Legislative Action

The Authority's FY 2021-2022 Capital Budget assumes the Legislature appropriates the remaining Proposition 1A funds – expenditure of these funds is contingent on the Legislature's budget approval.

The additional Proposition 1A funds are assumed to be available starting in November 2021 and would be the primary revenue source for the remainder of the fiscal year.

If Proposition 1A funds are not available in November, the Cap-and-Trade cash balance would be utilized; however, with current revenue and expenditure estimates, the Cap-and-Trade cash balances would be exhausted in February or March 2022.

If the Legislature does not appropriate the remaining Proposition 1A funds, Staff will present a revised budget in September that would:

- Update revenues and expenditures
- Propose slowdowns in contract work, deferral of new contract execution, the shut-down of worksites and other measures, as necessary

Program Baseline Budget Discussion

The total Program Baseline Budget is unchanged from the 2020 Business Plan. However, updates in detail have been made for the following:

- Updates for actuals (through the end of January 2021, updated from September 2020), included executed change orders
- Updates to estimates of Potential Change Orders (PCOs)/Trends
- Corrections, such as Right of Way assignments to Construction Packages
- Re-allocation of Central Valley Segment (CVS) Balance into specific cost categories, such as allocation of the “CVS Balance”

The updated Program Baseline reflects a Total Program Budget of \$18.250 billion, an increase of \$2.614 billion from the previous Program Baseline of \$15.636 billion.

On March 25, 2021, the Board adopted the 2020 Business Plan which proposed increasing the current 2020 Program Baseline of \$15.636 billion to \$18.250 billion. This increase of \$2.614 billion includes \$1.283 billion to complete the Central Valley Segment and \$1.331 billion for Enhanced Scope as follows:

Central Valley Segment

The costs to complete the Central Valley Segment has increased due to COVID-19, scope changes by local jurisdictions/stakeholders, and revised estimates. This \$1.283 billion includes:

- \$600 million in cost changes including COVID 19, scope changes that have been made to address requests by local jurisdictions and other stakeholders, and revised estimates
- \$809 million in additional contingency due to risks that could further affect both schedule and costs
- (\$126) million in other cost reductions

Enhanced Scope

Enhanced Scope costs of \$1.331 billion includes:

- \$155 million to advance design for the Merced and Bakersfield extensions and the Merced, Fresno, Kings/Tulare and Bakersfield stations
- \$389 million for trainsets; trainsets are required to initially test and certify the system and to subsequently be used for early interim service
- \$787 million for program-wide costs that will support all aspects of the program starting in 2022-2023, including advancing design work, full completion of existing civil contracts, the future track and systems contract, and acquiring trainsets.

2021-2022 Budget Discussion

The fiscal year budget includes \$3.2 billion for the Capital Budget and \$73.6 million for the Administrative Budget.

Background and Prior Board Action

At its May 21, 2019 meeting, the Authority's Board approved the updated Program Baseline of \$15.613 billion. The Program Baseline was updated to reflect the scope, schedule and cost of the Authority's priorities, including the refined scope of:

- Construction of the Central Valley Segment (Madera to Poplar Avenue), including track and systems; Completion of the Phase 1 environmental approvals; Early "Bookend" investments; and Program-wide support and contingency.

At its June 25, 2020 meeting, the Authority's Board accepted the updated Program Baseline of \$15.636 billion. The Program Baseline was updated to add:

- Pre-construction activities for those sections where the environmental process is completed. Examples include preliminary engineering, right-of-way mapping, and design advancement.

Also at the June 25, 2020 meeting, the Authority's Board adopted the annual budget for FY 2020-2021 of \$2.9 billion for the Capital Budget and \$73.0 million (as adjusted for the enacted State budget) for the Administrative budget.

At its March 25, 2021 meeting the Authority's Board adopted the 2020 Business Plan. The 2020 Business Plan restates the importance of fulfilling the mission set forth in Proposition 1A to deliver the full Phase 1 system and enable the state to meet its mobility, environmental, and economic objectives. It presents a vision for delivering high-speed rail in California focused on three key principles:

- Initiate high-speed rail service in California as soon as possible.
- Make strategic, concurrent investment that will be linked over time and provide mobility, economic and environmental benefits at the earliest possible time.
- Position ourselves to construct additional segments as funding becomes available.

The 2020 Business Plan lays out priorities as follows:

- Complete construction of the 119-mile Central Valley Segment and lay track, fulfilling our federal grant agreements with the Federal Railroad Administration (FRA);
- Meet our federal commitment to environmentally clear the entire 500-mile system between San Francisco and Los Angeles/Anaheim;
- Advance construction on the "bookend" projects that we have committed funding to in the Los Angeles Basin and the Bay Area – projects valued at more than \$3 billion
- Commence testing of the electrified high-speed system in 2025, certify trains by 2027, and put electrified high-speed trains in service by the end of the decade;
- Expand the 119-mile segment in the Central Valley to develop 171 miles of electrified high-speed rail service by advancing design, funding pre-construction work and constructing extensions to Merced and Bakersfield, connecting downtown Merced, Fresno and Bakersfield with additional stops at Madera and Kings/Tulare;
- Advance project design in each segment, including the four Southern California segments between Bakersfield and Anaheim and the two Northern California segments between San Francisco and Merced as each segment is environmentally cleared; and

- Pursue federal and private funds prospectively to “close the gaps” and expand electrified high-speed rail service to the Bay Area and Los Angeles/Anaheim, completing the Phase 1 system approved by the voters in 2008.

Legal Approval

The Legal Office has reviewed this informational item and has no legal concerns with it.

Budget and Fiscal Impact

The Program Baseline Budget and the FY 2021-2022 budgets reflect programmed and funded projects necessary to progress the Authority’s commitments and priorities. The Updated Program Baseline includes prioritization to complete construction and lay track for the 119-mile Central Valley Segment, advance design work for the Merced and Bakersfield extensions and the Central Valley stations, initial trainsets, and program wide support. In addition, the FY 2021-2022 Administrative Budget is reflected below.

Capital Outlay Budget (\$ in millions) - TOTAL PROGRAM BUDGET					
	Program Baseline as of June 2020	Program to Date Expenditures as of May 2021	Updated Program Baseline as of July 2021	\$ Change increase/ (decrease)	% Change increase/ (decrease)
Budget	\$ 15,636	\$ 8,064	\$ 18,250	\$ 2,614	16.7%

Capital Outlay Budget (\$ in millions) - FISCAL YEAR 2021-2022 PROGRAM BUDGET					
	FY2020-21 Budget	FY2020-21 YTD Expenditures as of May 2021	FY2021-22 Budget	\$ Change increase/ (decrease)	% Change increase/ (decrease)
Budget	\$ 2,903	\$ 1,023	\$ 3,221	\$ 317	10.9%

Administrative Budget (\$ in millions) - FISCAL YEAR 2021-2022 BUDGET					
	FY2020-21 Budget	FY2020-21 YTD Expenditures as of May 2021	FY2021-22 Budget	\$ Change increase/ (decrease)	% Change increase/ (decrease)
Budget	\$ 73.0	\$ 43.4	\$ 73.6	\$ 0.6	0.8%
POSITIONS	356		356	0	0.0%

REVIEWER INFORMATION	
Reviewer Name and Title: Brian Annis Chief Financial Officer	Signature verifying budget analysis: Original Signed July 7, 2021
Reviewer Name and Title: Alicia Fowler Chief Counsel	Signature verifying legal analysis: Original Signed July 7, 2021

Conclusion

Staff will return to the Board for budget approval after final action by the Legislature on the FY 2021-2022 budget, which should occur no later than September 10, 2021.

Until such time the Legislature takes final action, Staff will manage the budget as follows:

- **Program Baseline Budget:** Staff will manage within the Overall “Rev 1” contingency, with some shifts among contingency categories to advance work in the Central Valley without incurring delay.
- **FY 2021-2022 State Operation Budget:** The Authority will utilize the \$73.6 million state operations budget appropriated by the Legislature, and augment that amount later if the Legislature approves the Budget Change Proposals that are deferred.
- **FY 2021-2022 Capital Outlay Budget:** Staff will continue to report revenue and expenditure information monthly against the current estimate of \$3.2 billion in expenditures. If the additional Proposition 1A funds are not appropriated by the Legislature in the coming months, measures to slow expenditures would be needed to maintain a positive cash balance.

Attachments

- Exhibit A – Current Program Baseline Cost Summary
- Exhibit B – Updated Program Baseline Cost Summary
- Exhibit C – Capital Outlay and Expenditures Report—FY 2021-2022
- Exhibit D – Administrative Budget for FY 2021-2022