



May 26, 2017

Mr. Jeff Morales
Chief Executive Officer
California High-Speed Rail Authority
770 L Street, Suite 620
Sacramento, CA 95814

San Francisco to San Jose Peninsula Corridor Funding Plan

Dear Mr. Morales:

On January 3, 2017, pursuant to Streets and Highways Code section 2704.08 (d), you submitted a funding plan for the \$1.98 billion San Francisco to San Jose Peninsula Corridor electrification project. At that time you identified all funding sources for the project, but noted that the Federal Transit Administration (FTA) had deferred execution of the Full Funding Grant Agreement to provide Core Capacity funding of \$647 million to Caltrain for the project.

I informed you on March 3, 2017, that the funding plan would likely be successfully implemented as proposed but the federal decision left a significant gap in the project's financing plan. Solely due to that federal decision, I deferred action on the Peninsula Corridor Funding Plan. In the letter, I asked that the California High Speed Rail Authority (Authority) inform me once the federal funding for the project is secured so that I could make a final determination.

I have now received your letter dated May 24, 2017, stating that the FTA has approved the Full Funding Grant Agreement, thus securing the commitment of the full \$647 million in Core Capacity funding for the electrification project. Consistent with my March letter and upon review of the executed grant agreement, I find that the Peninsula Corridor Funding Plan submitted by the Authority is likely to be successfully implemented as proposed. The Authority may now enter into commitments to expend bond funds and accept offered commitments from private parties in support of the San Francisco to San Jose Peninsula Corridor segment.

Sincerely,

MICHAEL COHEN
Director



March 3, 2017

Jeff Morales
Chief Executive Officer
California High-Speed Rail Authority
770 L Street, Suite 620
Sacramento, CA 95814

San Francisco to San Jose Peninsula Corridor Funding Plan

Dear Mr. Morales:

In 2008, California voters approved \$9.9 billion in bond funding for high-speed rail via the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (Proposition 1A). Under Proposition 1A, as outlined in Streets and Highways Code Section 2304.09(c), the Director of Finance must review a funding plan for each corridor or segment to determine if the plan is likely to be successfully implemented prior to the Authority's expenditure of Prop 1A bonds for construction under that plan.

The High-Speed Rail Authority submitted a funding plan for the San Francisco to San Jose Peninsula Corridor to the Department of Finance on January 9, 2017. Proposition 1A requires that an independent consultant prepare a report assessing each funding plan. Finance has received and reviewed the independent consultant's report on the Peninsula Corridor funding plan. Finance also received and reviewed comments by the Joint Legislative Budget Committee, other legislators, the Legislative Analyst's Office, the Legislature's California High-Speed Rail Peer Review Group, and the Community Coalition on High-Speed Rail. Finally, Finance received and reviewed the Authority's response to that Legislative Analyst's Office's analysis of the plan, which attached the independent consultant's supplemental report evaluating projections of revenue and operating profits.

Requirements under the Funding Plan

Proposition 1A requires the Authority to submit a funding plan that specifies the usable segment, estimates segment construction costs, identifies funding sources, provides a rail-to-rail protected ridership and operating revenue, describes changes since the preliminary 2011 funding plan, and outlines contract terms. These elements are reviewed below.

Usable Segment and Construction Costs

The Peninsula Corridor funding plan identifies the segment as from the 4th and King Station in San Francisco to Tamien Station in San Jose, which includes high-speed rail stations at 4th and King Station in San Francisco and Diridon Station in San Jose. As for estimated construction costs, the funding plan estimates that it will cost \$1.98 billion to design and construct the electrified infrastructure and purchase vehicles.

Funding Sources

The funding plan for this segment identifies the amount, source, and estimated time of receipt for all construction funding. State, local, and federal funding have all been committed to this Project.

The Legislature has appropriated \$600 million of Proposition 1A bond funding for the Project. Proposition 1A states that, where feasible, the system should be placed within existing transportation corridors. The High-Speed Rail Authority's 2012 Business Plan outlined "bookend" projects in existing rail corridors where the Caltrain and Metrolink services operate which, after suitable investments are made, could accommodate high-speed rail service. The Legislature appropriated \$1.1 billion in bond funds for these bookend projects in Chapter 152, Statutes of 2012 (SB 1029). Chapter 216, Statutes of 2013 (SB 657), apportioned \$600 million of this amount for the electrification of Caltrain's rail service.

In addition to \$600 million in Proposition 1A funding, the state has committed up to \$113 million in Cap and Trade auction proceeds or other Authority resources, a \$20 million grant under the Transit and Intermodal Rail Capital Program, and \$3 million of Proposition 8 bond funding. Local sources, including the County of San Diego, will contribute \$162 million. The federal government is the source of \$131 million in Federal Transit Administration Formula Program and \$64 million in Section 5303 State Capital Grants.

Caltrain will be able to start electrified service on this segment immediately upon completion of the Project, and indicates the Project will reduce overall run times and increase Caltrain ridership. The independent consultant concluded that the Project "will provide significant near term benefit to . . . [Caltrain's] passenger service operations" and that it will "provide a foundation for eventual HSR service." The Authority's 2011 preliminary funding plan and its 2016 Business Plan indicated the Authority's rail service will not require a subsidy.

Ridership and Operating Revenue

Proposition V, requires that the high-speed rail project be self-sustaining and that the project be designed to provide significant near-term benefit to the region. The project is designed to provide significant near-term benefit to the region and to provide a foundation for eventual high-speed rail service. The project is designed to provide significant near-term benefit to the region and to provide a foundation for eventual high-speed rail service. The project is designed to provide significant near-term benefit to the region and to provide a foundation for eventual high-speed rail service.

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In response to requests for additional analysis, the independent consultant prepared a supplemental report evaluating the Authority's projections of revenue and operating profit/loss for the funding plan. This report confirms the Authority's conclusion that the planned level of service on the Peninsula is likely to be sufficient to operate without a subsidy after an initial start-up period.]

Changes from the 2011 Funding Plan

Proposition 1A requires the Authority to describe any changes in this funding plan that differ materially from the funding plan required under Streets and Highways code section 2704.08(c). However, because the Legislature appropriated the funding for the Project without a plan, there is nothing against which to compare this funding plan.

Contract Terms

The funding plan includes a summary of the terms and conditions of the agreements the Authority has entered into for the construction or operation of the system, including a summary of the terms and conditions of the agreements that the Authority has entered into with Caltrain for the Project. Additionally, the Plan includes a summary of the construction agreements that Caltrain has entered into for the Project.

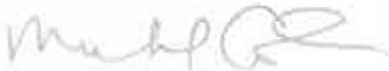
Risk Management

The independent consultant reviewed the Project and funding plan, identified risks, and offered strategies to address these risks. Additionally, the consultant concluded that Caltrain "has a well-developed Risk Management Process." The Authority has indicated it will continue to monitor risks to the project overall and the segment identified in the plan in its biennial Business Plans and Project Update Reports. Finally, Proposition 1A requires the Authority to promptly update the Administration and Legislature when events occur that could endanger the completion of the segment outlined in the funding plan and provide options to address these challenges.]

Conclusion

As noted above, the February 17, 2017 letter from the Federal Transit Administration deferring the execution of the grant agreement to provide Core Capacity funding leaves a significant gap in the Project's financing plan. Absent this federal decision, the Peninsula funding plan would likely have been successfully implemented as proposed. That is, Caltrain would have been able to enter commitments to expend the Proposition 1A bond funds along with the other sources of funding. However, the federal decision prevents me from reaching a conclusion regarding the Project's financial viability at this time. Therefore, solely due to the federal decision, I am deferring action on the funding plan. This will allow more time for Caltrain to resolve the situation with the federal authorities. When the federal funding for the Project is secured, please inform me so I can make a final determination expeditiously.]

Sincerely,



MICHAEL COHEN
Director