

## CALIFORNIA HIGH SPEED RAIL PEER REVIEW GROUP

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The California High Speed Rail Peer Review Group (PRG) was created by Proposition 1A (AB3034) to review and comment on the High Speed Rail Authority's Business Plans and related documents. Having recently commented on the Draft 2016 Business Plan<sup>i</sup> and having testified before the Assembly High Speed Rail Oversight Committee<sup>ii</sup> we reviewed our earlier statements in light of the Authority's proposed revisions to the 2016 Business Plan, have concluded that they remain valid, and offer this brief statement to complement recent statements based on our analyses.

The PRG recognizes the importance of linking the High Speed Rail Program with other state policies related to enhancing statewide mobility, environmental protection, and economic development. We welcome increased emphasis in the revised draft on integration of the High Speed Rail program with the state rail plan, increasing emphasis on financial partnerships in the improvement of rail operations in southern and northern California, and the increasing financial participation of the Authority in land use planning in the vicinity of planned station sites.

The 2016 Business Plan grapples with but does not resolve major financial challenges that continue to face the Authority if it is to deliver high speed rail operations to California. The Authority has the responsibility to deliver an operational project but has limited control over the potential revenues and financial mechanisms that will be needed to complete the project.

By shifting the Initial Operating Segment to the north and incorporating cost reductions through value engineering the 2016 Business Plan addresses the challenges of proceeding with construction in a world of highly constrained resources. It does so at the cost of deferring some of the most expensive elements of the construction program and accepts that their costs will likely rise in the future. These elements of the program, including crossing the Tehachapis, are also among the most beneficial to California and among the most essential to the completion of the entire project. Striving to complete an operating segment as encouragement to later private participation in financing and to strengthen the case for further investment of federal resources is understandable but very risky.

The assertion that the first IOS section can be financed depends critically on the Cap & Trade program continuing beyond 2020 and the legislature taking the actions necessary to enable Cap & Trade funds to be securitized.

Completing the connection from Bakersfield to downtown San Francisco depends on finding Federal funding from an as yet unidentified source in time for the project to proceed.

The 2016 Business Plan is predicated on private investment capital becoming more available after the start of early operations, but even if demand and revenue forecasts eventually are met, early operations are likely to see slow growth in patronage over a period of many years. It is not obvious that initial operations will attract willing investors of private capital.

The Authority should clearly lay out what can be accomplished, and the alternatives available, should the Legislature NOT act as the Authority assumes with respect to the future availability of Cap & Trade funds, if the Federal funding does not materialize, and if private investment capital is more difficult to access than is assumed in the 2016 Business Plan. The Authority should make clear that its business model - in which the State plans and builds the system, after which it will franchise or concession the system - also means that the entire cost of building the system, including rolling stock, must come from public sources. These most likely will include a combination of State, Federal and local sources. It is important to acknowledge that sources of public funding are yet to be identified. And, even if Authority's demand and revenue projections are valid, there likely will be a period of years between the time that the system is fully constructed and operating and the time when private money might be expected to be invested in its operation.

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<sup>i</sup> <http://www.cahsrprg.com/files/25-March-letter-from-PRG.pdf>

<sup>ii</sup> <http://www.cahsrprg.com/files/Thompson-statement-March-28-2016.pdf>