

## California High-Speed Rail Peer Review Group

Kome  
Ajisi

William  
Ibbs

Fredrick  
Jordan

Stacey  
Mortensen

Bijan  
Sartipi

Beverly  
Scott

Lou  
Thompson  
Chair

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The Honorable Dave Cortese, Chair,  
Senate Committee on Transportation  
1021 O Street, Suite 6630  
Sacramento, CA 95814

The Honorable Roger W. Niello, Vice Chair  
Senate Committee on Transportation  
1021 O St. Suite 7110  
Sacramento, CA 95814

### **RE: SB 1260**

Dear Honorable Chairs,

The views of the Peer Review Group have been requested on legislative changes that the Committee on Transportation is now considering. Because these changes bear on several issues that have appeared many times in past reports and testimony of the Peer Review Group, I respectfully submit the comments below.

### **Independent Review of the Economic Justification for the Project**

In our letters discussing the 2023 Project Update Report (PUR) and the 2024 Draft Business Plan, we noted that the full Phase I system will cost at least three times as much, will take 15-20 years longer, will not meet the trip times specified and will carry only about 70 percent of the passengers – far short of the promises when Proposition 1A was passed. Given that there will be many large claims on the State's budgets in the coming decades, we suggested that the Legislature might want to commission an **independent** review of the economic and financial justification for the project, including the ability to operate without subsidy as required by Proposition 1A, before recommitting to the full Phase I system. Various versions of this recommendation have appeared over the years as the project has developed but its importance may be increasing as the project diverges from Prop 1A goals.

We understand that a framework for the review can be found in submissions by the Authority to the Federal Railroad Administration in support of recent grant requests. What is required is a thorough analysis of the submissions by an independent academic institution and overseen by an independent state agency. We would expect that the Peer Review Group and the Legislative Analyst's Office would be requested to review the report and submit comments to the legislature.

### **Ability to Operate Without Subsidy**

As suggested in our comments, the ability of the Authority to operate without "subsidy" should be a matter of review because proposition 1A mandates that "[t]he planned passenger service by the authority in the corridor or usable segment thereof will not require a local, state, or federal operating subsidy." We have discussed this issue in prior letters and reports and have highlighted the need to develop an agreed definition of "subsidy."

If "operating subsidy" must account for interest on the debt to finance the project or recovery of the debt or grant financing costs of the project from revenues and other income from operations, then it is probable that a subsidy will be required. With the possible exception of the initial lines of the Japanese Shinkansen and the French TGV, none of the major high-speed lines abroad meet this "no-subsidy" standard. If, on the other hand, operating subsidy is defined as the difference between direct and ancillary revenues and operating costs (fuel, labor and maintenance), then the Authority's earlier studies showed they would not require a subsidy. Most high-speed systems, including Amtrak's Acela in the Northeast Corridor, would meet this standard and it is reasonable to argue that the Authority will do so. What is needed is a review of the accounting standards to be used in defining "subsidy" and, if need be, action by the Legislature to state which definition is to be used.

### **Study of Financing Options**

We have repeatedly highlighted the fact that the Project is not adequately or stably funded. This has been true since the beginning of the project. In our letters discussing the 2023 PUR and the 2024 Draft Business Plan, we recommended that the legislature request development by LAO or another appropriate agency of an analysis with options and tradeoffs available to the Legislature for how to fund the potential up to \$7 billion gap for completion of the Merced to Bakersfield section and the \$93 to \$99 billion gap between this section and the remainder of the Phase I system. We argued that it is critical that any funding approach be fully funded and stable and predictable from year to year and then concluded: *we cannot emphasize too strongly that lack of action by the Legislature and Governor to identify an adequate and stable source of funding for the project is increasing costs and hindering management's control of the project.* We urge the Legislature to request a study of options for funding whatever version of the project the Legislature wants to complete.

### **Lessons from Experience so Far.**

As the project has moved forward, it is becoming clear that the lessons learned, often expensive and painful, should be applied to the HSRA project and other megaprojects that will emerge. We recommended that an appropriate agency commission an **independent** study of the experience of the project and the lessons the state should learn from this (and other recent mega-projects) that must be applied to future megaprojects the State undertakes or supports. As an initial step in doing so, the Legislature might want to request that the Peer Review Group and the LAO work with the OIG and HSRA to provide a report to be discussed as part of the 2025 PUR review.

Sincerely,



Louis S. Thompson  
Chair, California High-Speed Rail Peer Review Group