

Statement of Louis S. Thompson
Chairman, Peer Review Group
California Assembly Transportation Committee Oversight Hearing
March 28, 2016

Mr. Chairman and members of the Committee, my name is Lou Thompson and I am Chairman of the Peer Review Group: other members are Marty Wachs, Stacey Mortensen and Gary Gallegos, all of whom I believe are known to the members of the Committee. I appreciate the opportunity to appear before you today. I believe this hearing comes at a very consequential point in the development of high-speed rail in California. Decisions made by the Legislature in this session could have a major impact on the timing and eventual success of California's transportation network and the role of high-speed rail within that network.

As you know, the Peer Review Group was created in Proposition 1A (AB 3034) to advise the Legislature on high-speed rail developments including Business Plans and Funding Plans published by the High-Speed Rail Authority (HSRA). We recently sent a letter (January 14, 2016) commenting on the significance of the Expressions of Interest (EOIs) received by the Authority when it requested the ideas and reactions of the private sector in building, financing and operating the system. We have also sent (March 25, 2016) a letter commenting in some detail on the draft 2016 Business Plan. The Authority will shortly be providing a set of jointly developed "dashboard" indicators meant to give senior level decision-makers a very broad view of how the project is progressing. I have provided copies of all three of these documents for the record. Copies of all Peer Review Group documents can also be found at www.cahsrprg.com

Our recent letters cover these points in more detail but, in brief, we have emphasized a number of important issues.

1. The new construction sequence adopting an IOS north to San Jose rather than south to the Los Angeles Basin was driven by financial limitations and leaves the Bakersfield to Palmdale gap in rail service unfilled until completion of Phase 1. We supported the Authority's decision in the 2012 and 2014 Business Plans to complete the southern gap first and we continue to believe filling the gap should be a priority if funding becomes available.
2. If the initial northern IOS is completed as planned, the lack of a connection into Bakersfield and the lack of a fully functional connection from San Jose to the Transbay Terminal in San Francisco will limit system ridership and passenger revenue: completing the connections should be a matter of priority. At the same time, implementation of the blended service approach on the peninsula poses a number of complex and as yet unresolved institutional and funding issues that we believe the Legislature should keep itself fully informed about.
3. The ability of the Authority to finance the initial IOS north to San Jose depends on important assumptions about: (a) significantly lowered construction costs based on favorable experience and some significant redesign; (b) timing and amounts available of Proposition 1A funding; (c) ability to spend the full amount of federal American Recovery and Reinvestment Act (ARRA) funding; and, most important, (d) the authority's ability to securitize Cap and Trade (C&T) funding when needed in the future. The Legislature will

want to assess the validity of these assumptions, especially because securitizing C&T funding apparently requires action by the Legislature.

4. Completing a full connection from Bakersfield to Transbay will depend on \$2.9 billion in new funding not currently identified, though the Authority suggests applying for federal funds. The outlook for such a request is not clear; and,
5. Despite demand, revenue and cash flow projections that are significantly more favorable than those included in the 2012 and 2014 Business Plans, completion of the full Phase 1 system from Anaheim through Los Angeles Union Station to the Transbay Terminal in San Francisco continues to face roughly a \$19 billion gap in firmly established funding out of the total \$55 billion cost even after projected private investment is included. This is nothing new, as there has been a funding gap beginning with Proposition 1A and continuing in all Business Plans, but it should not be ignored.

The Legislature could most significantly influence the outcome by clearly establishing an adequate and consistent funding stream for the Authority so that it could securitize some income streams and extend availability payment guarantees to potential private sector partners. Expansion of federal participation in the form of RRIF or TIFIA loans also would require reliable repayment mechanisms that the Authority does not now have. Extending the C&T program beyond 2020 and defining the Authority's share of the proceeds would be a way to achieve at least part of the funding objective, but other mechanisms also could be considered, such as granting authority to extend availability payment guarantees or other financing mechanisms including fuel taxes, sales taxes or dedicated taxes such as those used to finance BART. We emphasize that this is a **commitment and priority** issue, not solely a funding issue. If the State wants to follow the process through to completion, there are and will be many ways to put a financing package together.

As a final point, we have repeatedly emphasized that, if this massive project goes ahead, there will be a need for very thorough oversight to ensure that the promised benefits emerge and the potentially large risks to the state are managed. The Legislature may want to consider creating a select committee to ensure legislative oversight continuity. In addition, we believe this requires a dedicated and continuing oversight staff effort with adequate resources, possibly lodged within the LAO, though the exact location can certainly be discussed. The stakes for the state are far too high to rest solely on periodic oversight hearings and audits.

Let me summarize by stressing that none of this is meant to be critical. The Authority has made progress and they are learning from experience. We know far more about the dimensions and challenges of high-speed rail in California than we did even two years ago. With this acknowledged the Authority is now at the point where a lack of resolution of the issues we have discussed will make effective management and planning more and more difficult. The Authority now needs guidance from the Legislature about its plans and its funding. I will be happy to answer any questions you may have.

