

Subcommittee on Railroads, Pipelines, and Hazardous Materials

Field Hearing in Sacramento, CA entitled

“Continued Oversight of the California High-Speed Rail Project.”

August 9, 2018

Statement of Louis S. Thompson

Mr. Chairman and Members of the Subcommittee, my name is Louis S. (Lou) Thompson, Chairman of the California High-Speed Rail Peer Review Group. I am happy to appear at your invitation and hope that the experience and work of the Peer Review Group (the Group) will be useful to you in your deliberations on this important topic.

The role of the Group is established in State law. When the voters approved the Proposition 1A bond measure in 2006, the State Legislature passed AB3034 that mandated that “the Authority shall establish an independent peer review group for the purpose of reviewing the planning, engineering, financing, and other elements of the authority’s plans and issuing an analysis of the appropriateness and the accuracy of the authority’s assumptions and an analysis of the viability of the authority’s financing plan, including the funding plan for each corridor required pursuant to subdivision (b) of Section 2704.08 of the Streets and Highways Code.” The law provides for eight members, of which there are five currently serving. The members are appointed by various State authorities including the Secretary of the California Department of Transportation, the Director of Finance, the State Treasurer and the State Controller. The law requires that the Group members possess various types of experience including finance, planning and construction of high-speed rail, environmental issues and operation of intercity or commuter passenger train service. The Group began its work in 2009.

The members of the group have very wide experience in transportation planning, project planning and management, and operation of rail passenger services at various levels, including high-speed rail. The Group’s members have not attempted to analyze all the details of the Authority’s designs or plans. Instead, we have focused on broader policy, financial and economic issues where our expertise may have most value.

The Group reports directly to the Legislature. Members of the Group are not employees of the State of California. The Group has no staff or budget and members receive no compensation other than expenses for travel, food and lodging. We conduct our discussion by email, phone and in person as needed and we have met from time to time with members of the Legislature, legislative staff, the Legislative Analyst’s (LAO) staff and the GAO and we have testified at a number of legislative hearings. We have also held a number of meetings with the Authority and with Authority staff and believe we have developed an effective working relationship. The Group has issued a number of reports or letters, all of which have been posted to the Group’s

website at www.cahsrprg.com. The website also includes all responses to questions we have posed to the Authority.

The Group has consistently maintained that we support an appropriate role for high-speed rail in California as a part of the State's overall transportation system. With this said, we have had, and continue to have, a number of concerns about the project. Our objective in expressing these concerns, which we believe is in accord with the purposes of the Act, has been first to strengthen the project and second to ensure that the Legislature and the public fully understand and accept the risks as well as the benefits of the project. Our experience has been that the better a project is understood at the beginning, the better it will be able to weather the inevitable problems that occur along the course of planning, construction and operation.

As you may know, I testified before this subcommittee on May 28, 2013, in Madera in its first field oversight hearing of the Project. What I have to say today is fully consistent with that testimony and with my recent testimony before the California Assembly and Senate Transportation and Budget Committees on April 2, and April 3, 2018, in the Legislature's hearings on the Authority's 2018 Draft Business Plan. An excerpt from that testimony is below:

The Group believes that the high-speed rail project has now reached a point where difficult decisions need to be made about the project's future scope and funding. Quite simply, as a result of cost increases and changes in funding sources, the Authority can no longer complete a link from the Central Valley either to the LA Basin or to San Jose and the Peninsula. Thus, as it stands today, there is little prospect for a system that would generate enough cash flow to contribute to future investment.

This dilemma does not come as a surprise – it happens nearly every time when we try to translate a megaproject from a grand *vision* into a working system and it is not necessarily a reflection on the competence or honesty of the people of the Authority who have been trying to build the system.

The critical question is “where to from here?” The draft Plan doesn't really discuss choices in addressing this question. The Group laid out four very general options in our letter, though we don't pretend that there might not be other or better options others could suggest. First option: we could stop here and go home. Second, we could complete the work in the Central Valley along with the committed improvements on the bookends. Third, we could adopt what is in effect the proposal in the draft Plan and add a connection to Gilroy and Bakersfield and improve LA Union Station while awaiting better command over the design and cost of the Pacheco Pass tunnels and developments that might reveal new possibilities for funding partners. Or, fourth, we could recommit to the full Phase I with the understanding that such a decision would have to be based on adoption of a credible long term plan to finance the system including the possibility that system costs might well come in at the high end of the range.

We do not view the first option – simply stopping – as credible. It would leave California with nothing useful and the state might have to pay back the federal “American Recovery and Reinvestment Act” (ARRA) money. The second option – stopping with the Central Valley plus the existing bookend improvements would work, but would limit the value of the result. The third option – as in the draft Plan – probably makes the best of the situation, especially in bringing near-term benefits to the millions of current passengers on the bookends, but it leaves the state short of a system that would be able to contribute to financing of the remainder of the system. The fourth option, completing Phase I as originally planned, meets the requirements of Proposition 1A, but cannot be done with current funding provisions or sources.

Simply put, we do not believe that it is fair or credible to ask management to deliver a long-term project of this size and complexity with sources of funding that are inadequate in total and unreliable in any given year. If the project is to go ahead beyond essentially the second option, the state will need to develop a source of funding that is up to the task. This is not a new issue: it was clear in the 2016 Business Plan that there was a remaining gap that would have to be funded in order to build the system to the point where it could begin to generate potential investment from the private sector. What is new is the increasing size of the gap along with a clearer understanding of the need to make HSRA’s funding stable and predictable.

There are obvious ways to fill the gap: increase the share of Cap and Trade receipts going to the project and guarantee the Authority’s income or permit the Authority to issue bonds to the state against predicted revenues; a tax on fuels; or a sales tax as was proposed in the 2000 Business Plan. There are other sources that **might** emerge like future federal grant programs, federal loans, etc., but then again, they might not. The problem will need to be addressed in one way or another if even the third option is to be completed.

In parallel with dealing with the need for an improved approach to funding, especially because the state’s role is likely to grow, we recommend that the Legislature revalidate the priority of the high-speed rail in the light of the competing needs elsewhere in transportation and elsewhere in the overall budget. This is a task that the Governor’s Office and the Department of Transportation, along with the communities affected would be well suited to carry out for the Legislature.

We do have some recommendations for specific changes in the final Plan:

- Include inputs from the early operator as soon as possible
- Provide a better explanation of the Business Model
- Put more emphasis on developing detailed agreements with the bookend operators and the freight railroads
- Develop a long-range program for addressing grade crossings
- Clarify the performance of the system in its trip time calculations and schedules
- Continue to show show projections as ranges rather than point estimates
- Provide better back-up for claims for benefits to urban and regional development.

While we hope these can be addressed in the final Plan, we believe the Legislature's immediate focus should be on the funding and policy issues.

In summary, I think the bottom line consists of a few points:

- Building and operating high-speed rail in California is a good example of a “mega-project” that is going to be an immense, enormously complex undertaking. We believe that the Authority has made real progress in establishing a capable and experienced management team, but the team faces many challenges.
- There is nothing in the experience to date that is atypical of a project of this size. Certainly when projects begin to encounter the real world, costs are usually higher than expected, things take longer and unexpected problems emerge.
- Experience to date has mostly been with the type of civil construction for which a lot of expertise to date already exists in the state. Future projections for this type of work will improve based on this experience.
- Many aspects of the project – track construction, electrification, signaling, and especially tunneling, are still to come, and projections for these elements are still subject to a wide range of outcomes.
- Demand forecasts, though professionally conducted, are not related to an existing ridership base, but are instead based on economic modeling. “Greenfield” models like these are inherently subject to a wider range of uncertainty. As a result, forecasts of revenues and operating costs are necessarily subject to the same ranges of uncertainty.
- Having acknowledged all of this, though, the **key** problem for the Authority and the Project is **having a stable and reliable policy and financing framework** within which to plan and manage.

The Peer Review Group has worked hard to assist the Legislature and the Congress in understanding the project's risks and challenges as well as its benefits. Our job is to assist in ensuring that the information you use in making those policy decisions is as complete, objective and unbiased as possible. We hope this is useful as the California Legislature and the Congress work to make the decisions regarding tradeoffs in benefits, costs and risks associated with the California high-speed rail project, as well as other transportation projects in the United States.

Thank you for your consideration. I will be happy to try to answer any questions you may have.