

December 2, 2009

The Honorable Curt Pringle  
Chairman  
California High Speed Rail Authority  
925 L Street, Suite 1425  
Sacramento, CA 95814

Dear Chairman Pringle,

Thank you for your letter dated November 10, 2009, requesting us, as members of the California High Speed Rail Independent Peer Review Committee, to review and comment on the recently completed *California High-Speed Rail Authority Organizational Assessment* conducted by KPMG (report) on behalf of the California High Speed Rail Authority (CAHSRA).

In your letter you requested that we provide our thoughts on three critical concepts:

1. The KPMG proposed organizational chart
2. The prioritization of first hires from the senior management list; and
3. The proposed staffing plans that need to be fulfilled within the next budget.

We have reviewed the report prepared by KPMG and are in general agreement with the proposed organizational structure as displayed on page 53 of the report. We believe that KPMG has accurately identified the key areas that the CAHSRA should be focusing on as the high-speed train (HST) program moves from the planning to the implementation phase.

We concur with the report's recommendation that certain key functions must be addressed immediately without waiting for the next state budget cycle (page 8). However, we would offer a slightly modified approach. Our recommendation is to focus on five key functional areas consistent with the report:

1. Executive Function
2. Project Development/Program Management & Project Controls
3. Outreach & External Affairs
4. Construction Management
5. Operations Planning

The first three functional areas are clearly identified in the report; however, we would suggest the CAHSRA consider combining the project controls function within the overall Project Development/Program Management function. As currently proposed in the report, it appears to be a separate function reporting to the executive officer, which is

more akin to an audit function as opposed to a program management support function that we believe is critical for the success of the HST program.

In addition, we have identified two other functional areas that we believe should also be accelerated as the CAHSRA prepares for the implementation phase of the program. Specifically, we believe consideration should be given to both construction management and operations leadership positions as early as possible. The construction management function will be invaluable in assisting the CAHSRA in such complex areas as construction phasing, constructability review, and the development of construction procurement documents as related to those parts of the system that CAHSRA decides to construct directly rather than allowing a public-private partnership partner to construct. The operations planning function is critical to ensure that operational aspects such as safe and efficient train operations, dispatching, mechanical servicing, station operations, service patterns (such as express and limited stop services) are coordinated with the development of the infrastructure program. This will have special importance in areas with multiple operators, as in the San Jose to San Francisco segment and the Anaheim to Los Angeles segment.

Finally, while we understand that the CAHSRA has filled other regional director positions and is working diligently to fill the regional director position in Southern California, we must stress that this position is critical and must be filled as soon as possible, even if it is a temporary reassignment from an existing CASHRA staff position or another state department.

In terms of the positions that should be filled as part of the next budget cycle, we assume that key positions in the functional areas discussed above are in place. Under that assumption, we would recommend the next functional areas to be focused on should be the finance function, and additional support in the project management/program development area with a focus on station planning and right-of-way.

We also concur that several key positions identified, including the CAHSRA executive position, must be given exempt status with an understanding that compensation for these positions will be at an appropriate level. It may also be necessary to borrow exempt positions from other state agencies through the end of fiscal year (FY) 2009-10, until additional budgetary authority is established.

While we concur with the basic organizational structure in the report, we also think that some of the organizational and staffing issues discussed above have strong linkage to a series of strategic issues that will need early attention. Decisions made on these strategic issues are likely to have an impact on the organizational structure, the specific skill sets required of an individual for each position, and the prioritization of which positions should be filled first.

We assume that these strategic issues will be discussed in the next version of the CAHSRA's Business Plan that will be submitted to the Legislature on December 15. We intend to provide an in-depth discussion of these issues as part of our review and

analysis of the revised business plan. However, some of these strategic issues are of such importance that we feel compelled to identify them now as you consider the immediate organizational requirements for the CAHSRA. For ease of review, we have grouped these into short-term and long-term categories.

### **Short – Term Strategic Issues**

#### *Federal Funding*

The most important short-term issue will be the management of federal funds awarded to the CAHSRA through the American Recovery and Reinvestment Act (ARRA). The CAHSRA may well find itself under pressure to move forward more rapidly in certain areas than originally planned due to the unexpected availability of federal funds and the competitive pressures to obtain that funding. Hence, key decisions surrounding adoption of an organizational structure are closely tied to the selection of the project delivery method, private partnership solicitation, private partner roles and responsibilities, systems and vehicle selections, maintenance facility locations, long term operations and maintenance of the HST, and the role of local governments and transportation agencies in the development, delivery, and operation of the HST.

### **Long – Term Strategic Issues**

#### *The Role of the Private Sector*

A determination of the integration of the private sector participation in the business plan and the definition of the private sector's role in the HST system should be considered as the organizational structure is put in place. There is a range of options available. One extreme would be for CAHSRA to carry out the entire project, from environmental planning to right-of-way (ROW) acquisition to design and construction of the infrastructure, design and procurement of rolling stock, and operation of the system. At the other end of the spectrum, the CAHSRA could limit its role to environmental analyses and acquisition of ROW and seek a private concession by competitive bids. The concessionaire would be expected to design and construct the entire system, acquire rolling stock and operate the system. There would be a number of other mid-range options with more or less responsibility for the CAHSRA. We believe that a determination of the role of the private sector will be a first order of business for the CAHSRA and the new management team as decisions are made on a permanent organizational structure. One set of skills would be needed for full public control; quite another set is needed if the private sector role is large.

#### *Sources of Financing*

Another issue that the new team will have to consider as the organization is filled out is the question of financing. If the CAHSRA opts for full control of the project, it can expect minimal private financing. If the CAHSRA elects to promote a significant private sector role in the construction and management of infrastructure and rolling stock, then

the questions related to allocation of risk for construction cost, operating cost, and demand forecasts will have to be carefully addressed. The CAHSRA will have to balance the need to get the project started on an efficient scale with the need to build segments that can be completed and will have separate utility while other parts are being planned and constructed. Depending upon the level of external private financing required for the project, a different set of financial staff skills are needed than if the project is funded with the traditional state and federal transportation funds.

### *Risk Management*

The report suggests that risk management is not yet well enough developed to provide confidence that a number of potential uncertainties have been fully evaluated or controlled. Among other items, capital costs, operating costs, demand levels, and significant technical risks related to vehicle design and weight are still subject to significant variation, almost certainly unfavorable.

Risk definition and mitigation will be one of the most important project functions of the new management team. We certainly hope this area receives a high priority for immediate analysis since the size and scope of this \$40 billion plus mega project will have significant financial implications for the State of California.

Again, thank you for the opportunity to comment on the report. We believe the report has accurately identified the current staffing needs of the CAHSRA and identifies the appropriate high-priority positions to be filled as soon as possible. We recommend that CAHSRA move quickly to begin assembling the appropriate executive management team to deliver this project which is so important to the future of California. Should you have any further questions, please do not hesitate to contact us.

Sincerely,



Will Kempton  
Chief Executive Officer  
Orange County Transportation Authority



Louis S. Thompson  
Principal  
Thompson, Galenson & Associates



John Chalker  
Managing Director  
LM Capital Group, LLC

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