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Over the past year the Peer Review Group[1] , the LAO[2], and the State Auditor[3] have reviewed and reported on the high-speed rail project. Although there were some differences in emphasis, they were remarkably similar in saying that the project is in crisis because of the original and continuing fundamental mismatch between program objectives and available funding. This problem has, among other things, been a cause of the management problems identified in the Auditor's report. There are two critical issues: 1) developing an agreed vision for passenger rail transportation, including high-speed rail; and, 2) matching the vision with an adequate and stable financing plan.

The Governor's State-of-the State address[4] was apparently intended to start a process of thinking about an alternate vision for the project, but it left important questions unanswered. Given that the U.S. DOT and members of the state's congressional delegation are now attempting to withdraw or re-program federal funding commitments to the project, clarifying and committing to the future vision of the project along with a compatible funding plan has become even more urgent.

The Governor said "Right now, there simply isn't a path to get from Sacramento to San Diego, let alone from San Francisco to L.A. I wish there were." It is not clear what he intended to say, but to the extent that he was referring to finance, some context would be useful.

A recent proposition in Los Angeles added a half-cent sales tax and generated $120 **billion** for transport – that is nearly **twice** the cost of high-speed rail. Each 1 cent/gallon addition to gas and diesel fuel taxes would generate $180 million annually. A $1/vehicle addition to the registration tax would add $34 million, and truck weight fees are $1.1 billion annually. Going beyond transportation, as they did in Los Angeles, a 1% addition to the state sales tax would add $6 billion/year, more than financing the HSR project (the 2000 Business Plan called for financing the project with a ¼% sales tax, so it is not a new or radical idea). A 1% surcharge to income taxes would add $1 billion annually, and a 0.1% increment on property taxes or exclusion of business property from Prop 13 limits, would yield between $5 billion and $11 billion annually. A 25% hydraulic fracturing and severance tax would add $3 to 7 billion annually. Even a 2% statewide soda tax would yield over $2 billion annually.

Our review of the issue of real estate and state-wide economic development **does** support the argument that high-speed rail would lead to significant local development in station areas and would have manifest benefits to the state's environment and access to employment. At the same time, it seems unlikely that these benefits, however great, would be able to yield a significant contribution to the **construction cost** of the system.

Finding more **federal** money will be a heavy lift. There is currently little sympathy for a request for more grant money for transportation, California included. Even if this changes, new federal programs to aid high-speed rail would need to be established in the face of large federal budget deficits. Existing grant

[1] Letter of March 30, 2018
[2] Analysis of the 2019-2020 Transportation Budget, Gabriel Petek, Feb 2019
[3] November 2018
[4] Feb 12, 2019

programs (TIGER/BUILD) are being downsized or eliminated, as are the TIFIA loans. RRIF loans might play some role, but they are loans, not grants and the share that any one state project might garner in the $25 billion total program is not likely to be large enough to make a significant contribution.

Projections of demand and costs argue that there will eventually be private investment, but the amounts are not clear and, in any case, the system must be built and operated for some period of time before cost and demand risks can be evaluated. Private activity bonds may also be possible, especially in financing station area development, but not on a significant scale to support construction of the system. At the very least, there is a gap of **several tens of billions of dollars** that will have to be covered before the system could begin generating income.

A simple statement would be that, it we want HSR, the state will need to find a way to cover the financing gap beyond what we already have in hand (if we get to keep even that). There are plenty of options for paying for the system and some combination of the above, or others the legislature might devise, would work. There **is** a path; it is just a **hard** one.

The Peer Review Group has consistently supported the idea of high-speed rail as an appropriate part of a statewide passenger rail system, including transit and local commuter travel. Unfortunately, via Prop 1A and the federal ARRA program, we got the cart before the horse – HSR without linkage to the other parts of the system. The inspiring vision of HSR, replete with dramatic pictures of speeding gold and blue trains, but presented in advance of a credible financing plan, is now meeting reality. Action by the Legislature is needed.

HSR constitutes either a dilemma or an opportunity: we believe it could be the latter. We urge the Legislature to work with the governor to establish a new vision for the role of HSR **within the overall state rail passenger transport system** – get the horse back in front of the cart. With a realistic vision based on experience to date and a better understanding by **all** of what we want out of an HSR system, it should be possible to develop a scope and financing plan that would permit stable management. Experience also shows that a new vision should be accompanied by more effective legislative oversight. There **are** options: the real danger is stumbling ahead with no clear and agreed goal. If the Legislature cannot agree with the Governor on a new vision that **is** acceptable, and provide a credible funding approach based on a commitment from the state, it is very difficult to see how the program can go forward successfully.