STATEMENT OF LOU THOMPSON

Chairman, Peer Review Group for the High-Speed Rail Authority
Before the California Assembly Committee on Transportation
April 2, 2018

Good afternoon. Thank you for the opportunity to appear here today. My name is Lou Thompson and I am Chairman of the Peer Review Group that reports to the Legislature on issues related to the High-Speed Rail Authority's Business Plans.

The Peer Review Group sent a letter commenting on the draft 2018 Business Plan last Friday, March 30th. I would like to summarize our comments here today. The comments broadly fall into two categories: the policy challenge and changes we recommend for the final version of the Plan. The policy issues are much more important than the detailed comments, so I want to address them first.

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 as shown in trip time calculations and schedules
- Continue the emphasis on showing 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.

Thank you. I will try to answer any questions you may have.

STATEMENT OF LOU THOMPSON

Chairman, Peer Review Group for the High-Speed Rail Authority
Before the California Senate Transportation and Housing Committee
and the Senate Budget Committee #2.
April 3, 2018

Good afternoon. Thank you for the opportunity to appear here today. My name is Lou Thompson and I am Chairman of the Peer Review Group that reports to the Legislature on issues related to the High-Speed Rail Authority's Business Plans.

The Peer Review Group sent a letter commenting on the draft 2018 Business Plan last Friday, March 30th. I would like to summarize our comments here today. The comments broadly fall into two categories: the policy challenge and changes we recommend for the final version of the Plan. The policy issues are much more important than the detailed comments, so I want to address them first.

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