

Remarks by Louis S. Thompson
Chair, California High-Speed Rail Peer Review Group
Before California Assembly Transportation Committee
Sacramento, CA
March 11, 2024

Chair Wilson, members of the committee, I appreciate the opportunity to speak to you today. As you know, the Peer Review Group (PRG) was created by Proposition 1A and charged to report to you on matters of interest. To date we have covered 8 Business Plans, issued 19 letters of comments and have testified before the Legislature or U.S. Congressional committees 17 times. All of our communications can be found on our website at www.cahsrprg.com, which is maintained for us by UCLA.

Helen Kerstein's excellent analysis is, as always, comprehensive, and accurate. We and the LAO are in close agreement. I can say the same about the briefing paper your staff prepared for this hearing. We fully share the four concerns stated by the OIG in his statement. These papers parallel many of the comments in our letter of March 8, 2024. The Authority continues to learn from its experience, but project costs continue to rise and are subject to considerable risk on the upside because most of the project remains at an early design stage (or less) and there is no experience to date with major elements of the project. Schedules are stretching out, demand estimates have fallen, and financing is inadequate and unstable. There is no point in belaboring what you already know.

I would like instead to focus, as I did last year, on the urgent **DILEMMA** that emerges from these facts. The dilemma is simple. The proposal to build a high-speed, fully electrified segment from Merced to Bakersfield makes no sense without a commitment to build the entire Phase I system: there would be a much more reasonable approach available for the Merced to Bakersfield market by itself. **BUT**, building the Phase I system would have to be based on a commitment to secure funding **FAR** beyond the funding available from existing or reasonably predictable sources.

This is not critical of the current HSRA staff. The project has always been overpromised and underfunded. It got off to a rough start, partly due to inexperience and partly because the "free" federal money encouraged the Authority

to award contracts before they were properly prepared. Managers have learned some hard lessons and the procurement strategies have changed accordingly. That is both the good and the bad news.

From the 2024 Draft Business Plan, we now know that Phase I will cost about 3 times and counting above what was expected when Proposition 1A was passed. Added uncertainty arises because costs estimated for major elements of the projects (50 miles of tunnels, trackwork, electrification, signaling, rolling stock) are not yet based on actual bids, but only on engineering estimates. Phase I will also take 15-20 years longer, will not realistically meet the trip times specified in Proposition 1A, and is now predicted to carry only about 70% of the passengers. These results are significantly below the expectations promised by Proposition 1A, and they raise questions about the viability and priority of the project given the other financing needs the State faces.

In light of the challenges the project faces, we made a series of suggestions and recommendations. The most important ones are:

- The Legislature could commission an **independent** review of the economic and financial justification for the project, including the ability to operate without subsidy as required by Proposition 1A, before recommitting to the full Phase I system. *We continue to urge that this be done because there are and will be many other claims on the State's scarce resources.*
- Request the Authority to issue dashboard-type information in the format used for the ARRA dashboards so that the cost and schedule experience of awarded contracts can be easily evaluated and updated. *This has not been done. We fully share the IG's concern (pg. 114) that project costs and cost updates be published in a format that clearly identifies which costs have been updated and uses a consistent and comparable basis for the numbers presented. Current presentations are complex and difficult to compare with earlier results.*
- Notify the legislature and the IG of the results of the upcoming Track and Systems and Rolling Stock, Stations, and the Merced and Bakersfield extensions contracts showing the contract value and expected completion time as compared with the 2024 Draft Business Plan's values. *We emphasize this suggestion because performance on the new contracts will be an important precursor of future experience.*

- As proposed by the Authority, limit (“phase”) contract awards outside the 119-mile Madera to Poplar Avenue section in accord with actual availability of funding. *It is not clear whether this is still the Authority’s plan.*
- Request development (by LAO or another appropriate agency) of an analysis with options and tradeoffs available to the Legislature for how to fund the potential \$7 billion gap for completion of the Merced to Bakersfield section and the \$93 to \$99 billion gap between this section and the remainder of the Phase I system. **It is critical that any funding approach be fully funded and stable and predictable from year to year.** *This has not been done and is ever more important. We cannot emphasize too strongly that inaction by the Legislature and Governor to identify an adequate and stable source of funding for the project is increasing costs and hindering management’s control of the project. The statement: “No megaproject that will take years to construct and is built to operate for decades can be fully realized with its only ongoing funding source ending in 2030” is particularly relevant. We agree fully.*
- Commission an **independent** study of the experience of the project and the lessons the State should learn that must be applied to future megaprojects the State undertakes or supports. *This has not been done, but it should be. This will not be the last mega-project and it would be a good idea not to repeat the mistakes made on this project.*

We have an additional request for the Legislature’s consideration. Over the past five Business Plans, the roles of the LAO and the Peer Review Group have converged. LAO’s work has been excellent and their conclusions closely parallel ours. The Senate and Assembly transportation staff are unusually experienced and competent. The creation of the OIG adds another voice to the discussion. The Prereview Group has attempted to cooperate closely with all of these, and we believe their work is of great value. The question is what, if any, value the Group can add to the work of these well-staffed and professional agencies. We would appreciate any guidance the Legislature may have.

This was not a welcome message last year and the results of the 2024 Draft Business Plan and the financial implications it has, make it ever more urgent that the State review its commitment to the full Phase I **if it can** find a way to pay for it, or start the process of defining and considering the alternatives.

I will be happy to try to answer any questions you may have.