

Informational Hearing

High-Speed Rail Authority 2009 Business Plan

Monday, January 11, 2010
State Capitol, Room 4202

Introduction

The purpose of this hearing is provide an opportunity for Committee members to learn more about the details of the California High-Speed Rail Authority (Authority) *2009 Business Plan*. The Authority submitted the plan to the Joint Legislative Budget Committee (JLBC) by December 15, 2009, pursuant to requirements of the 2009-2010 Budget Act.

Background

The Authority's proposed rail passenger train network consists of an 800+ mile high-speed system capable of a speed up to 220 miles per hour, initially serving the major metropolitan market of San Francisco through the Central Valley into Los Angeles and Orange County (Phase 1). The system is required by statute to transport people from San Francisco to Los Angeles in two hours and forty minutes. Eventually the service would be extended to Sacramento, the Inland Empire, and San Diego. Further, improved rail service over the Altamont corridor would be implemented.

In August 2008, the Legislature passed and the Governor signed AB 3034 (Galgiani) that laid the framework for improving the oversight of the Authority's high-speed rail project. The bill also clarified and modified bond provisions that eventually were approved by the California voters in November 2008 with the passage of Proposition 1A (High-Speed Rail Bond Act of 2008). With that endorsement, \$9.95 billion in state general obligation bond funds were authorized for eventual sale, providing the initial capital seed funds for the completion of the entire statewide system. The law requires the Authority to pursue other federal, local, and private funds to augment the state bond revenues.

AB 3034 established significant oversight processes and control mechanisms for the independent review and approval of financing and engineering plans for the construction of California's high-speed train system. Additionally, among its other provisions, the bill specifically:

- Requires, after a legislative appropriation of bond funds for construction of a segment and prior to committing the expenditure of the funds contractually, the Authority to submit another report to the Department of Finance and the JLBC to determine whether the project plan is likely to be implemented successfully.

- Requires the Authority to establish an independent peer review group for the purpose of reviewing the "planning, engineering, financing, and other elements of the Authority's plans..."
- Provides that any excess revenues from operation of the high-speed train system beyond the amount needed for operating and maintenance costs and financing obligations, as determined by the Authority, to be used for construction, expansion, improvement, replacement, and rehabilitation of the high-speed train system.
- Prohibits the use of proceeds of bonds to be used for any operating or maintenance costs of trains or facilities.
- Requires financing and funding plans to be peer reviewed as well as submitted to various entities such as the budget and transportation committees of the Legislature, Department of Finance, and the JLBC.
- States the intent of the Legislature that the entire high-speed train system "be completed no later than 2020."

2009 Business Plan

In addition to requiring submittal of a revised business plan, the Budget Act also directed the withholding of \$70 million from the Authority's appropriation until after the submittal of a revised business plan to, and a 30-day review by, the JLBC. Specific elements to be addressed in the business plan included, at a minimum:

- A plan for a community outreach component to cities, towns, and neighborhoods affected by this project;
- Further system details, such as route selection and alternative alignment considerations;
- A thorough discussion describing the steps being pursued to secure financing;
- A working timeline with specific, achievable milestones; and
- Strategies the Authority would pursue to mitigate different risks and threats.

The Budget Act also required the Authority to provide additional information related to funding, project development schedule, proposed levels of service, ridership, capacity, operational plans, cost, private investment strategies, staffing, and a history of expenditures and accomplishments to date. It further required the Authority to consult with the appropriate legislative policy committees and the Legislative Analyst's Office to respond to specific aspects in the plan.

The revised business plan was timely submitted to the Legislature and is under review by the JLBC.

The *2009 Business Plan* makes some significant departures from prior estimates developed by the Authority perhaps due in part to the additional information required to be included in the 2009 plan per the Budget Act.

- The 2009 report updates the cost of building the initial phase, reflecting costs of the project when funds are expended, rather than current year costs or value of today's dollar. The year-of-expenditure (YOE-2012) cost estimate provided is \$42.6 billion. The 2008 plan provided a \$33 billion estimate for Phase 1 in 2008 dollars. The Authority's Final Program Environmental Impact Report/Statement indicated "costs to construct the entire system – over \$33 billion (2003 dollars)."
- Estimates 41 million riders per year with annual revenue of \$2.87 billion in 2035 (2009 plan). The *2008 Business Plan* estimated 55 million trips in 2030 with revenues generated at \$2.4 billion in 2008 dollars.
- The 2009 plan sets average ticket prices at 83% of airfares over the same distances as "this percentage establishes the estimating amount that appears to be near the level that will generate the highest revenue, reduces the operating costs, and the number of trainsets needed." The 2008 ridership estimates were established at a 50% rate of airfares. [The 2009 plan projects a train fare of \$105 in 2009 dollars as compared to \$125 air fare, and \$118 cost to drive. The 2008 plan projected a train fare cost of \$55.]
- The 2009 plan targets \$17-19 billion in financial support from federal sources. In the 2008 plan, \$12-16 billion was expected. [In 2009, California requested \$4.7 billion for ARRA-funded high-speed projects. It is still uncertain how much of this California will receive.]
- The 2009 plan targets \$4-5 billion from local funds. The 2008 plan calls for \$2-3 billion from local sources.

- The 2009 plan targets \$10-\$12 billion contributions from potential public-private partnerships (P3) and the 2008 plan targets \$6.5-\$7.5 billion from the same private sources.
- The 2008 plan proposes completion of the full high-speed train system by 2030. The 2009 plan does not indicate a total statewide high-speed rail passenger system build-out date.
- Critics of the project argue that these changes question the ridership figures as well as threaten the viability of the project. They are not convinced that the state should commit to an expensive project that it cannot afford. Project proponents, however, contend that the changes in estimates are to be expected as the project progresses and estimates are refined. They further assert that these changed estimates do not in any way impact the viability of the project.