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# Strategy for Reviewing the Draft 2012 High-Speed Rail Authority Business Plan

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

Presented to:
Assembly Budget Subcommittee No. 3
On Resources and Transportation
Hon. Richard Gordon, Chair

## Background

☑ ***Business Plan Requirements.*** As required by state law, the High-Speed Rail Authority (HSRA) submitted business plans to the Legislature in 2008 and 2009. Chapter 618, Statutes of 2009 (SB 783, Ashburn), requires HSRA to submit a business plan to the Legislature by January 1, 2012 and every two years thereafter.

☑ ***Prior Plans Inadequate.*** In general, we found that the 2008 and 2009 HSRA business plans lacked critical information.

- ***Funding Availability.*** Prior business plans lacked details about where the funding for constructing the project would come from. In addition, the 2009 plan proposed to use a public sector revenue guarantee to attract private capital that appeared to violate state law.
- ***Discussion of Project Risks.*** Neither the 2008 or 2009 business plans adequately discussed potential project risks or how risks would be mitigated or managed.
- ***Patronage and Cost Forecasts.*** Methodological details explaining how patronage and costs had been forecasted were missing from the 2008 business plan. Prior forecasts were optimistic.

☑ ***Draft 2012 Business Plan Recently Released.*** The HSRA released a draft of its third business plan on November 1, 2011.

# Proposition 1A Required Certain Elements In the 2012 HSRA Business Plan

Proposition 1A (the High-Speed Passenger Train Bond), as approved by the voters in 2008, requires that the proceeds of the bond may only be spent on planning and constructing a high-speed train system that satisfies certain conditions and criteria.

- ☑ ***No Operating Subsidy.*** An independent financial services firm must certify that the planned passenger service will not require an operating subsidy.

- ☑ ***System Constructed to Achieve Certain Characteristics.*** Minimum speeds, travel times, and train headways are specified. In addition, guidelines for route and station planning must be satisfied.

- ☑ ***Detailed Funding Plans to be Submitted for a Usable Segment.*** At least 90 days prior to an initial request for appropriation of bond proceeds for capital outlay, HSRA must submit to the Director of Finance, the peer review group, and the Legislature a detailed funding plan for an entire usable segment. In addition, before HSRA may commit bond proceeds for construction or right-of-way acquisition, the funding plan for the usable segment must be submitted to the Director of Finance and the Joint Legislative Budget Committee to determine whether the plan is likely to be successfully implemented as proposed.

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# Chapter 618 Required Certain Elements In the 2012 HSRA Business Plan

Chapter 618 requires that the HSRA business plan contain specific elements. Many of these requirements are specific to Phase 1, or the corridor that runs from the San Francisco Transbay Terminal to the Los Angeles Union Station and Anaheim.

- ☑ ***Type of Service.*** Identify the "type of service" (local, express, commuter, regional, or interregional) that it anticipates developing on each segment.

- ☑ ***Primary Benefits.*** Describe the primary benefits of the high-speed passenger rail service.

- ☑ ***Forecast of Patronage and Cost.*** Develop and include, for each segment and combination of segments, a forecast of the expected patronage (considering alternative fare structures) and service levels for the Phase 1 corridor assuming (1) high, medium, and low levels of patronage; and (2) a reasonable operating planning scenario for each level of service. Also, the plan must include forecasts of operating and maintenance costs and capital costs for the system.

- ☑ ***Alternative Funding Scenarios.*** Based on the patronage forecasts, develop alternative funding scenarios for different levels of service. Also, identify the operating break-even points for alternative levels of service.

- ☑ ***Funding Plan.*** Estimate and describe the total anticipated federal, state, local, and other funds that HSRA intends to access to fund the construction and operation of the system. Identify the "level of confidence" for obtaining each type of funding.

# Chapter 618 Required Certain Elements In the 2012 HSRA Business Plan *(Continued)*

- ☑ ***Detailed Timeline.*** Identify the expected schedule for completing environmental review, initiating construction, and completing construction for each segment of Phase 1.

- ☑ ***Risk Management.*** Identify and discuss all reasonably foreseeable risks which the project may encounter, and actions to mitigate and manage those risks.

# Reviewing the Draft 2012 HSRA Business Plan

- ☑ ***Have Each of the Required Elements Been Satisfactorily Addressed in the Plan?*** As previously discussed, it is important that the business plan satisfy all of the requirements and conditions specified in Proposition 1A and Chapter 618.

- ☑ ***Is the Plan Credible?*** A business plan is a marketing document intended to raise capital for the business. In this case, HSRA presents a plan that proposes capital coming from the state and federal government and possibly, in the future, from private investors. In order to attract investors, the plan presented by HSRA must be internally consistent and the numbers credible. Inconsistencies, deceptive numbers, and missing details could be reasons for the Legislature to be concerned about the credibility and adequacy of this business plan.

- ☑ ***Does the Plan Provide a High Enough Level of Confidence to Proceed?*** Risk is a natural part of any large infrastructure project. The potential benefits to society should be commensurate with the level of risk. Thus, the plan needs to provide a sufficient amount of information to allow for confidently weighing the potential risks against the potential benefits to the state for its investment in such a project.

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# Preliminary Issues for Legislative Consideration

- ☑ ***Initial LAO Review.*** In our initial review of the draft plan, we have identified several issues that merit legislative consideration. We are in the process of requesting additional information from HSRA and will be meeting with them to discuss these issues. It is also possible that additional issues will come to our attention as we continue with our review of the draft plan. Overall, it is essential for the Legislature to have adequate information in order to make informed decisions regarding the future of the high-speed rail project.

- ☑ ***Currently Identified Funding Highly Problemmatic.*** According to the draft business plan, between $24.6 billion and $31.6 billion is needed to construct the first usable segment of approximately 300 miles of high-speed train service. However, the business plan only identified the availability of $3.3 billion in federal funds and $2.7 billion in state bond funds that would be used to build a 130 mile long segment in the central valley through Fresno. Although other potential funding sources, such as federally secured tax credit bonds and federal grants, are identified in the plan, these are speculative and lack a firm commitment or assurance as appears to be required by Proposition 1A. Thus, it is unclear at this time how the identified funding is adequate to ensure the completion of a usable segment.

- ☑ ***Economic Impact Analysis Appears Imbalanced.*** Based on our initial review of the plan, it appears that the benefit-cost analysis and the net present value calculations are incomplete and imbalanced. This potentially portrays the project more favorably than it may warrant. For example, some jobs and economic activity will likely be lost as businesses in the right of way are impacted by construction. In addition, while the project may relieve some highway congestion, the construction of new transportation hubs will generate new local trips.

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# Preliminary Issues for Legislative Consideration *(Continued)*

- ☑ ***Few Details About the Proposed Initial Construction Segment.*** The plan includes limited information about the initial 130 mile long construction segment that would run through Fresno. Since this is the only part of the overall project that has been funded, it is critical for the Legislature to have complete information on the capital costs, operating and maintenance costs, the cost of connecting to Amtrak, and an estimate of the net benefits to the state from the construction of this segment.

- ☑ ***Unclear if Business Plan Satisfies Proposition 1A Requirements.*** The draft business plan proposes a new "blended operations" approach that integrates high speed and regional/local rail systems. It is unclear if this approach conforms with the design and operational criteria specified in Proposition 1A.

- ☑ ***Concerns About Cost Comparisons.*** The business plan compares the $99 billion cost of building high-speed rail with the $170 billion cost of building highways and airports with equivalent capacity. The comparison is problematic because it is based on a theoretical maximum capacity of high-speed rail. This comparison ignores existing capacity, future demands for regional travel throughout the state, and the potential benefits from using tools to manage congestion.

- ☑ ***Staffing and Organizational Structure Appears Inadequate.*** We have previously noted that HSRA has inadequate staff and structure for managing this project. The business plan does appear to address efforts to improve staffing, but more information and action seem to be necessary to resolve this problem.