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High-Speed Rail Authority: The Draft 2012 Business Plan and Funding Plan

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Transportation Committee
Hon. Bonnie Lowenthal, Chair

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Background

☑ ***Business Plan Required by Statute***. 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 containing specified elements to the Legislature by January 1, 2012 and every two years thereafter.

☑ ***Funding Plan Required by Proposition 1A Before Appropriation of Bond Proceeds.*** Proposition 1A, the High-Speed Passenger Train Bond Act approved by California voters in 2008, requires the HSRA to submit a detailed funding plan to the Director of Finance and to the relevant policy and fiscal legislative committees at least 90 days prior to requesting an appropriation from the bond act for capital outlay on a high-speed rail corridor or a "usable segment" thereof.

☑ ***Both Plans Recently Released.*** The HSRA released a draft of its third business plan for public review and comment on November 1, 2011. A funding plan for what the HSRA officially identified as two usable segments of the high-speed rail route was submitted to the Legislature on November 3, 2011.

Major Features of the Draft 2012 HSRA Business Plan and Funding Plan

- ***Phase 1 Completion Date Delayed 14 Years.*** The completion date of the entire "Phase 1" corridor has been extended from 2020 to 2034. Defined in Proposition 1A, Phase 1 is the corridor of the high-speed train system between San Francisco Transbay Terminal to Los Angeles Union Station and Anaheim. The HSRA attributes this delay to engineering and funding challenges. The business plan proposes to complete the construction and operation of high-speed rail service on Phase 1 in segments over this period.

- ***Estimated Cost of Phase 1 More Than Doubled.*** The estimated capital cost of the entire Phase 1 system has more than doubled from the $43 billion, in nominal dollars, estimated in the 2009 business plan. The revised estimates range from a low of $99 billion to a high of $118 billion. This cost increase is driven by new engineering plans to construct twice as many miles of viaducts and bridges as previously estimated. The costs of many infrastructure elements have also increased.

- ***Revised Patronage and Revenue Forecasts.*** Changes in planning scenarios and modeling assumptions make an apples-to-apples comparison difficult, but it appears that forecasted ridership under the new business plan is 10 percent lower for Phase 1 compared with the 2009 plan. Revenue forecasts also drop by 21 percent reflecting, in part, assumptions of lower fares than were made before. Despite the reduced revenue projections, the HSRA projects that revenues will exceed operating and maintenance costs even if ridership is lower than forecasted.

- ***"Blended Operations" Proposed.*** A so-called blended operations approach that integrates high-speed rail operations with local commuter rail services is now proposed to complete Phase 1. The plan includes use of the $950 million in Proposition 1A bond proceeds provided to regional rail systems that will connect directly with high-speed rail.

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Major Features of the Draft 2012 HSRA Business Plan and Funding Plan *(Continued)*

- ☑ ***Initial Construction Segment (ICS) Proposed Using Committed Funds.*** As noted earlier, the business plan identifies an approach whereby the high-speed rail system is built in segments. The first segment, the ICS, would lay up to 130 miles of high-speed rail line from south of Merced to north of Bakersfield. The ICS is not defined as a usable segment. The plan proposes to complete construction of the ICS using $3.3 billion in committed federal funds and $2.7 billion in state bond funds. This stretch of track would not operate high-speed trains until the completion of a usable segment. According to the business plan, however, the ICS has independent operational utility as a fully grade-separated section of track for Amtrak service which would reduce travel times for passengers on the existing *San Joaquin* line in the Central Valley.

- ☑ ***Funding Plan Designates Two Usable Segments.*** The funding plan identifies two usable segments—the north Initial Operating Section (IOS) which would run for 290 miles between Bakersfield and San Jose and the south IOS which would run for 300 miles between Merced and the San Fernando Valley. One or the other would be constructed after the ICS is completed, so that high-speed passenger rail service could begin. Additional segments would be rolled out later until the full Phase I route was built.

- ☑ ***Possible Future Funding Sources Identified.*** The draft business plan identifies several potential sources of funds needed to match state bond proceeds. These include the potential for the creation of a dedicated federal high-speed rail trust fund and the enactment of legislation to authorize the issuance of qualified tax-credit bonds. However, the business plan acknowledges that no such additional financial commitments exist at this time. The business plan indicates that HSRA will continue to pursue private-public partnerships to generate funding. However, the plan now does not anticipate private sector funding until a usable segment is operational and its profitability has been demonstrated.

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Major Features of the Draft 2012 HSRA Business Plan and Funding Plan *(Continued)*

☑ ***Construction of High-Speed Rail Expected to Result in Many Benefits.*** According to the business plan, construction of a high-speed rail system will result in net benefits that exceed the project's costs. The project is expected to (1) stimulate regional economic growth, (2) reduce airport and highway congestion, and (3) reduce future transportation investment needs. Specifically, HSRA estimates that construction of the Phase 1 corridor will create more than one million jobs (job-years) over the next 22 years and, once fully operational, directly employ approximately 4,500 people on an ongoing basis. The business plan estimates that providing equivalent capacity as the high-speed rail system through expansions of airports and highways would cost approximately $170 billion.

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Draft Business Plan Largely Meets Statutory Requirements

- ☑ ***Insufficiently Detailed Project Chronology and Forecasts.*** Our review of the 2012 draft business plan finds that it satisfies most of the elements required by Chapter 618. However, it is unclear whether the business plan is in compliance with a few of these requirements. Specifically, there does not appear to be a detailed project chronology that identifies the dates when HSRA expects to complete the environmental reviews and initiate and complete construction of each segment of Phase 1. There are also fewer operating and planning scenarios that are used to forecast ridership, revenue, and operating and maintenance costs than appear to be required by Chapter 618.

- ☑ ***The HSRA Can Revise Draft 2012 Business Plan.*** As this current document is a draft, the HSRA could address these remaining elements in the final 2012 business plan.

Funding Plan Does Not Meet Key Statutory Requirements

☑ ***Committed Funding Not Identified and Environmental Review Process Incomplete.*** Proposition 1A identifies certain requirements that must be met prior to requesting an appropriation of bond proceeds for construction. These include identifying for a corridor, or a usable segment thereof, all sources of committed funds, the anticipated time of receipt of those funds, and completing all project-level environmental clearances for that segment. Our review finds that the funding plan only identifies committed funding for the ICS, which is not a usable segment, and therefore does not meet the requirements of Proposition 1A. In addition, the HSRA has not yet completed all environmental clearances for any usable segment and will not likely receive all of these approvals prior to the expected 2012 date of initiating construction.

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Significant Issues for Legislative Consideration

While we still have requests for additional information from HSRA outstanding on a range of issues, we have identified the following major issues with the proposed high-speed rail project for legislative consideration:

☑ ***Availability of Funding to Complete a Usable Segment Highly Uncertain.*** The possible future sources of funding necessary to complete Phase 1 that are identified in the draft business plan are highly speculative. In addition, Congress has approved no funding for high-speed rail projects for the next year. As a result, it is highly uncertain if funding to complete the high-speed rail system will ever materialize.

☑ ***Alternative Cost Estimate Overstated.*** The draft business plan compares the estimated $99 billion to $118 billion cost of constructing high-speed rail with an estimated $170 billion cost of adding equivalent capacity to airports and highways. This comparison is very problematic because $170 billion is not what the state would otherwise spend to address the growth in inter-city transportation demand. The HSRA estimates that the high-speed train system would have the capacity to carry 116 million passengers per year but their highest forecasted ridership is significantly less than that amount—44 million rides per year (roughly 40 percent less than capacity).

☑ ***High-Speed Rail's Priority Over Other Transportation Investments Unproven.*** As the state's population increases, demand for both interregional travel and urban travel will grow. It will be necessary to continue to maintain existing infrastructure, fund urban transit options, and use tools to increase the capacity of existing roadways to accommodate these increased travel demands. In light of this, the Legislature should consider where to invest limited state resources.

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Significant Issues for Legislative Consideration *(Continued)*

- ***Economic Impact Analysis Is Imbalanced.*** Our preliminary review of the economic analysis in the draft business plan is that it may be incomplete and imbalanced, and therefore portrays the project more favorably than may be warranted. For example, the plan does not estimate economic loses from negative impacts to business from right-of-way acquisition and rail construction activities or from increases in urban traffic congestion around train stations.

- ***Independent Benefits of ICS Unlikely to Justify Expense.*** As noted previously, it appears doubtful that substantial additional federal support will be forthcoming anytime soon. This makes it increasingly likely that the ICS may be all that is ever built. The HSRA has not demonstrated that the benefits of the independent operational utility of the ICS exceed the costs. For example, there remain a number of unanswered technical questions regarding whether the ICS may be used to improve the existing *San Joaquin* Amtrak service, as suggested in the business plan

- ***Inadequate Structure and Staffing Persist.*** The HSRA must reorganize and fill key executive positions as it intends to initiate construction in 2012. The successful implementation of this large and complex project becomes increasingly risky without adequate staff to oversee its development. The draft business plan notes the HSRA is considering private-sector organizational structures but provides no specifics. While the HSRA has filled some vacancies over the past several months, three key executive positions remain vacant.