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The 2009 High-Speed Rail Business Plan

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Transportation Committee
Hon. Mike Eng, Chair





2008 High-Speed Rail Business Plan

- ☑ **Requirement.** Chapter 267, Statutes of 2008 (AB 3034, Galgiani), required the High-Speed Rail Authority to submit a business plan for the high-speed train system to the Legislature by September 1, 2008. The plan was released on November 7, 2008.

- ☑ **Plan Lacked Specifics.** Information provided in the plan was very general and did not provide specifics that are included in typical business plans. The figure below summarizes our review of the 2008 plan. (See *2009-10 Budget Analysis Series: Transportation*, page TR-47.)

2008 Business Plan Fails to Provide Many Details	
Statutory Requirements	Sample of Missing Details
Description of the anticipated system	<ul style="list-style-type: none"> • What are the expected service levels, by segment? • What is the assumed train capacity?
Forecast of patronage, operating, and capital costs	<ul style="list-style-type: none"> • How are the ridership estimates projected? • What is the operating break-even point? • How will costs be distributed by route segment?
Estimate of necessary federal, state, and local funds	<ul style="list-style-type: none"> • How would funds be secured? • What level of confidence is there for receiving each type of funding?
Proposed construction timeline for each segment	<ul style="list-style-type: none"> • What is the proposed schedule, by segment, for completing design/environmental clearance? • For beginning/completing construction?
Discussion of risks and mitigation strategies	<ul style="list-style-type: none"> • How would each type of risk impact the project? • What specific mitigation strategies are planned to be deployed?



2009-10 Budget Requires Business Plan Revision

- ☑ **2009-10 Budget Requirement.** The current year budget directed the authority to submit a revised business plan to the Joint Legislative Budget Committee by December 15, 2009.

- ☑ **Required Elements.** The revised plan must include, at a minimum:
 - A plan for a community outreach component to cities, towns, and neighborhoods affected by the 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 project milestones.
 - The strategies the authority would pursue to mitigate different risks and threats.
 - 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.



Revised Business Plan Improved



Revised Plan More Informative in Some Areas. The revised plan includes at least some description of all the elements required by the 2009-10 budget. The plan also provides more information than the previous version in certain areas.

- ***Community Outreach.*** Though the authority only recently obtained their public relations consultant, the plan contains a summary description of a community outreach plan.
- ***System Details.*** The plan includes:
 - General route selection and various alternative alignments.
 - Updated cost estimates using year-of-expenditure dollars.
 - Forecasted ridership, revenues, and proposed levels of service.
 - Projected operating and equipment replacement costs.
- ***Funding.*** Descriptions of various types of financing available and possible funding sources for the project are included.
- ***Authority Operations.*** The plan provides a short discussion of necessary future staffing for the authority as well as historic levels of funding.



Some Significant Details Still Missing

- ☑ ***Inadequate and Incomplete Discussion of Risk.*** The plan's discussion of risk management is significantly inadequate, lacking any description of mitigation processes or detailed consideration of many key types of risk.

- ☑ ***Uninformative Timeline.*** Few deliverables or milestones are identified in the plan against which progress can be measured. Also, inconsistencies in the proposed order of events create some uncertainty.



Risk Discussion Incomplete and Inadequate

- ☑ ***No Risk Management Strategy.*** The plan contains no discussion of the authority's plans or processes to (1) identify potential threats or (2) manage, respond, and mitigate those threats. The plan only states that the authority "believes it is aware of all existing threats and is taking the appropriate steps to prevent or mitigate those threats."

- ☑ ***Unknown Confidence in Projections.*** The plan does not provide any numerical ranges nor confidence intervals for projections contained in the plan (such as cost, revenues, or ridership). Without this information, the risk of not realizing the forecasted ridership, revenues, or costs is unknown.

- ☑ ***Inadequate Discussion of Key Types of Risks.*** The plan contains no detailed discussions or consideration of even the most significant risks to the project, such as ridership and funding.



Discussion of Risk—Two Examples

- ☑ **Ridership Risk.** The plan addresses the risk of incorrectly forecasted ridership with one sentence, stating the risk “would be mitigated by policies that continue to draw people to reside in California and encourage high-speed rail as an alternative mode of transportation.”

- ☑ **Funding Risks.** The plan identifies the following types of financial risks, and how these risks would be addressed:
 - **Credit Approval Risk.** To avoid the risk of failing to win credit approval from investors, the authority’s strategy is “to clearly communicate the project and obtain up-to-date feedback.”
 - **Overall Market Risk.** To mitigate the risk that financial markets shut down and stop lending, the authority “has to continually monitor the market and develop strong back-up strategies such as project segmentation.”
 - **Government Funding Risk.** The authority plans to avoid the risk that governments are not able to follow through on their commitments “by carefully assessing how each government funding source affects the build-out of each segment.”



Timelines Very General and Potentially Inconsistent

- ☑ ***Uninformative Timeline.*** The program management and project delivery timelines contained in the plan are very general and provide little opportunity for increased accountability. There are few deliverables or milestones included against which progress can be measured.

- ☑ ***Inconsistent Order of Events.*** Because the timelines in the plan are so general, it is unclear in what order various events will occur. For example, regulatory approvals are expected by 2018 but procurement is scheduled to be complete by 2014. This could mean the train technology and rolling stock will be procured before regulatory agencies approve their use.



Funding Plan Uncertain; Appears to Violate Law

- ☑ ***Operating Subsidy Necessary for Private Funding.*** The Proposition 1A bond measure explicitly prohibits any public operating subsidy. However, the plan expects the following items to be funded by the private sector.
 - ***Revenue Guarantee.*** The plan assumes some form of revenue guarantee from the public sector to attract private investment. This generally means some public entity promises to pay the contractor the difference between projected and realized revenues if necessary. The plan does not explain how the guarantee could be structured so as not to violate the law.
 - ***Operations Insurance.*** The plan anticipates the cost of insurance for operating the system would not be borne by the private operator. If the public sector pays for insurance, that would constitute an operating subsidy in violation of Proposition 1A.

- ☑ ***Federal Funding Expectations Highly Uncertain.*** The plan assumes between \$17 billion and \$19 billion from federal funds by 2016, or nearly \$3 billion per year for the next six years. In comparison, over the past five years California has received roughly \$3 billion per year of formula funding for the state's entire highway system, which is primarily funded through federal gas tax collected in the state