March 12, 2021

California High-Speed Rai

Re: Business Plan commentary- revised 2020

To Whom it May Concern:

I recognize the concept of high-speed rail can be a great one, providing fast travel between major population centers but the fact is California's project management team has been working on implementing this project for 12 years now and not laid any track yet. Why? Because of poor project planning and lack of funding. What is being done today does not meet the letter or the spirit of what the people approved in 2018 and should be stopped before billions more are poured into the project.

State Project Requirements:

As a background the project began with the passage of Prop 1A in November 2018 which has strict requirements including a train speeds of averaging 200 mph, 2 hour and forty-minute travel time from San Francisco to Los Angeles and most important, each segment may be started when the funding is found or committed to complete each segment. And very importantly, no operational subsidy is allowed by the state, the system must be self-funded.
All these important regulations of Prop 1A, will be violated. In particular, operational subsidy which the Authority admitted in the business plan.

The route was pre-determined before the measure was put on the ballot, kind of a shame since it was steeped in politics. There was an earlier attempt in 2012 by the French National Railways, who believed high-speed rail in California could be profitable. However, because they wanted total control of route selection, the Rail Authority refused their offer. It could have been done successfully both cheaper and better if the Authority had only listened. Read more about what happened. https://transdef.org/tag/sncf-french-railways/

Where are we today?

After spending over $8 billion dollars in Federal, State and Cap & Trade funds, no tracks have been laid after 12 years. The funding has been spent on environmental studies, land purchase, consulting fees, staff expenses and lawsuits. The project was envisioned to have more or less equal funding from the Federal Government, the State bond funds of $9.95 billion and private investment but none materialized from private investment and not enough came from federal grants.

Environmental effects:

The project was promised to reduce emissions green-house gas production and be environmentally friendly but alas the ridership population required to reach environmental benefit in the future has dropped. People are moving out of California and if the population is moving down below the optimistic estimates projected, the ridership of course will also move down. The state's numbers have always been in question by several experts. In addition, a new twist, the pandemic has created a substantial "work at home" population which will also reduce high-speed rail ridership. Nothing should progress without new ridership numbers that consider both the population drop and the trend for at home work.

Not be to overlooked, the building of the rail project itself will cause an increase in green-house gas production due to the massive concrete requirements. The route selection is enormously important and the one the Authority selected is not a winner.

How the Authority continues to get cap-and-trade funds is a mystery. Never was cap-and-trade envisioned to be the only source of state funding in addition to the limited Prop 1A funding.

Competing Technologies:

Over the years, other modes of transportation are being studied such as the Hyperloop by entrepreneur Elon Musk which might provide a cheaper way to move people quickly across the state. In addition, something that may have a dramatic effect on the future success of the project is the pandemic. Unexpectedly, it has given corporate America a real test of how they can continue business effectively with home workers and the all popular Zoom has proven a time and money saver. High-Speed rail has counted on that corporate traffic who can afford the ticket costs. Salesforce, a progressive tech company in the Bay area, recently predicted that work from home is here to stay. https://finance.yahoo.com/video/salesforce-says-home-stay-155726928.html

This "work at home" trend will certainly put a dent in the ridership numbers for high-speed rail.

Estimated cost:

The total capital cost of the program was originally estimated to be $33 billion in 2008 and rose after the vote to $42.6 billion. The latest draft business plan shows $80.3 billion which we believe a greatly under-shot number. Even in a Draft business plan in 2011, put together under then CEO Roelof Van Ark, 10 years ago, he estimated the cost at $98 billion. He said his proudest accomplishment was producing an "honest business plan." After Van Ark was given the boot, the cost suddenly dropped to $67 billion pointing to a blended system which reduced land buying and construction costs and is basically track sharing arrangement with commuter and diesel lines. However, construction costs have not been updated in a couple of years for all but the Central valley. And note that true costs only discovered when one is working on a segment will cause the costs to balloon. Imagine all the glitches and issues that will be found as the Authority attempts to connect the Central Valley with Southern Ca? Tunnels and mountains and other challenges will make the Central Valley look simple. And yet, according to California's Legislative Analyst Office (LAO) reported the Central Valley ballooned 70% as they planned and worked on the segment. The true system wide cost is expected by most to soar well over $100 billion.

The most current estimate of $80.3 billion is only for San Francisco to Los Angeles and does not include phase 2 which includes Sacramento and San Diego which the original cost projections included. It is safe to assume massive increases will occur in other segments when they are reviewed for cost increases and more closely examined. Tunneling costs through the Tehachapi mountains headed south to LA and the Pacheco Pass will be astronomical.

In the short term, there might be enough funding to build the smaller segment of 119 miles (supposedly electrified, one track system) in the Central Valley but in all probability not achieving it in the time frame promised in the ARRA loan agreement (December 2022), nor meeting the state requirements to build a segment that is self-sustaining and high-speed rail ready. And even if built, the **Legislative Analyst Report states that the Merced-to-Bakersfield interim service would require an operating subsidy of roughly $54 million annually, strictly** forbidden by the California state laws.

Available cash:

There is approximately $4.1 billion in state bond funds and per the Legislative Analyst office with Cap and trade revenues of $3.2 billion for the rail project of which about $750 million has been spent. Using cap & trade dollars, the only source of incoming cash, there might be enough money for the Central Valley segment but perhaps not in time for the building of said section. The $929 million has been withdrawn by the feds though HSR has that calculated into the future revenues yet those 2010 dollars remains in a revenue bucket.

The billion-dollar question is this posed by the Legislative Analyst report, "HSRA has not specifically identified how the over **$60 billion** in estimated construction costs for the portions of Phase I beyond the Merced-to-Bakersfield segment would be funded. Thus, there is significant risk that the state would have to cover the large majority of any funding gap. Additionally, if project costs are ultimately higher than anticipated, this funding gap would be even greater."

Prop 1A and enabling legislation AB 3034 forbids an operational subsidy which is guaranteed in the short term per the Authority's proposed business plan and unless funds are found for the rest of the project, the state and the people of California will be on the hook long term for the project. Again, this is forbidden by legislation.

The Federal contracts differ in that they ask for the start of the high-speed rail system to be built in the Central Valley or as a backup plan, a project that has to have independent utility should Plan A not work out. But the plans are in conflict since California's plan voted on by the public only allowed construction using Bond funds on segments produce high-speed rail There is no formal back up plan whatsoever as required by ARRA. Per the US Inspector General's January 22, 2020 report, "FRA did not define minimum standards for the acceptable interim use of the project's Central Valley segment to ensure that the initial construction segment would have independent operational utility, or ensure that CHSRA developed an acceptable interim use plan—although CHSRA missed the deadline to provide one."

https://www.oig.dot.gov/sites/default/files/FRA%20High%20Speed%20Intercity%20Passenger%20Rail%20Risk%20and%20Oversight%20Final%20Report.pdf

For California law, while that very specifically "high-speed rail ready segment" awaits connection to other segments to complete the entire project the tracks can be used by other rail entities. It can't be built for the other rail systems while the authority waits for money to complete it. Before working on a segment, the Authority must have the funds in hand or committed before they start and the first goal is to finish it completely and it must be ready for high-speed rail. That's what the law says. That is why the Rail Authority is being challenged in court today for violations of this key provision.

No Private Capital:

Another factor pointing to issues is lack of private capital investment. None has materialized despite several attempts to check investors temperatures.

What's going on now: California Peer Review opinion:

Per a transmission dated April 10, 2020, the Peer Review Group charged with giving their opinion on the operational and financial actions of the Authority commented on the 2021 Draft Business plan. They acknowledge the Authority has two segments it could work on in the Central Valley. One 171 miles of electrified track that stretches to Bakersfield or the original Initial Construction Segment (ICS) of 119 miles, recently revealed 1 track), unelectrified. One idea is to provide any excess money remaining to the commuter train systems to the bookends (Los Angeles and San Francisco) of the project. This was a Legislative Analyst suggestion. This would be in hopes that the federal government would not claw back more grant money. The Peer Review Group says they do not discuss the latter further since there is no plan put forward.

However, in the past the Peer Review stated Plan B was a no go. While an admirable idea it is in violation of California's proposition which requires when dollars are spent for a segment if results in a financially self-sufficient leg of electrified rail.

For the record the Peer Review group had nixed the idea of building only the ICS, initial operating segment, in a January 3, 2012 letter. https://www.cahsrprg.com/wp-content/uploads/sites/15/2018/08/CHSR-Peer-Review-Group-Comments-on-2011-Funding-Plan.pdf It said, "building the ICS only serves as a vehicle for the use of Federal money that has specific deadlines. Although the ICS is a basic component for either IOS (initial operating segment), it has no independent utility other than a possible temporary re-routing of the Amtrak-operated San Joaquin service during the time period after the ICS is available but before an IOS is opened." Further it explained that the ICS will not be electrified and thus cannot serve as a high-speed test track for future VHSR rolling stock.

Connectivity (the below section is taken from the TRAC commentary that were sent this week)

Although the Peer Review Group identified elements of Draft 2020 Plan that needed to be supplemented, none of these was covered in the Revised Draft Plan:

Description at an appropriate level of detail of the facilities needed to put the interim operation plan into operation along with commitments from all partners on their investment and construction management roles. This should include, for example, the expected station layout needed to achieve the integrated services proposed by the Early Train Operator. Any investment and schedule risks to HSRA from behavior by the partners should be clearly identified. (p. 160.)

The required plans and commitments to construct and operate do not yet exist and the existing services do not operate at the high level of reliability assumed in the plan for interim service. Unless the connecting service is as reliable as envisioned, the demand could fall below estimates and the potential support [i.e., subsidy] could consequently be higher. (p. 154.)

The claim that the Central Valley line would "improve access and connectivity to other California destinations through better connections to the Bay Area and Sacramento..." (p. 51) is false and misleading. As of the time of the Plan, there are no plans and no identified funding for projects that would enable each of the 18 HSR trains a day to be met by a train to the Bay Area. The Service Planning Methodology element of the Plan is devoid of any interim planning to connect HSR to the Bay Area. A mere 4 daily round trips for ACE and 7-9 trips by the San Joaquins will not provide "improve[d] access and connectivity." The transfer-at-Merced concept is inherently inferior to through-trains because the transfer penalty will discourage ridership and negate the advantages of a faster train. It also imposes additional burdens on the handicapped community.

Major time constraints:

The other issues with the project include failing and faulty construction and the lack of proper acquisition of lands needed to continue the project as well as unexpected cost overruns and massive funding shortages. The June 4, 2019 edition of the *Los Angeles Times* features an article detailing a conflict of interest investigation over a $51 million change order approved by a top CHSRA consultant who had a financial interest in the company given the change order. An ethics review has been initiated by the state. More recently $500 million sits unapproved demonstrating the incompetence of the contract execution by the Authority.

In the newest Los Angeles Times article, https://www.latimes.com/california/story/2021-01-12/california-high-speed-rail-delays-contractor-angry-letter they report that “one of the state’s top bullet train contractors sent a scorching 36-page letter to California high-speed rail officials, contradicting state claims that the line’s construction pace is on target and warning the project could miss a key 2022 federal deadline. The letter provided at the end of our letter, alleges issues that have been unresolved for years, including constant turnover of state officials, delays in obtaining land for the rail and agreements with city, private industry, utilities and freight railroads. The delays will result in unproductive work sites and layoffs of field workers, says Tutor Perini, the main contractor and planner for the project.

Also in the LA Times article, “It is beyond comprehension that as of this day, more than two thousand and six hundred calendar days after [official approval to start construction] that the authority has not obtained all of the right of way…” wrote Tutor Perini Vice President of Operations Ghassan Ariqat to Garth Fernandez, the contracting chief at the state rail authority.

Bottom line the California high-speed rail project is a money pit and if Federal infrastructure funds are in the country’s future, perhaps improvement to failing utility grids, highways and bridges are better immediate investments. But if high-speed rail is part of that plan a Risk assessment is necessary. The concept of high-speed rail might be great but it requires picking the right project in order to be successful. Unfortunately, California’s project is not the right project.

Respectfully

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