

CHSRA 2009 Business Plan Preview

There are currently four major problems that must be addressed in order to make this project successful.

- The High Speed Rail ("HSR") legislation must be reviewed and possibly amended in order to allow the use of Federal Stimulus dollars to be matched per the Governor's letter to the Secretary La Hood.
- There needs to be an independent ridership study in place which will form the backbone for not only the business plan, but the entire engineering and construction of the project and life-cycle environmental cost or benefit.
- The business plan also needs to be supported by a Risk Management plan in order to ensure this project serves California's transportation needs.
- We must ensure that the rules making process for environmental and safety issues with regard to HSR are established well before plans are finalized. These rules must be developed with the citizens in mind and not driven only by the project needs and made available as soon as possible.

Background

The history of transportation projects in California, particularly since the passage of Proposition 13, is fraught with unintended consequences. Many have followed the traditional "**stake in the ground**" funding strategy - if you just get a project started, they will have to give you the money to finish it. In California, bond measures require an overwhelming 2/3 majority in the state legislature AND a popular vote majority. Tax increases to fund additional costs require a 2/3 majority. The shortfalls that are inherent to underfunded projects have either meant draconian cuts in other services or significant downsizing of project scope.

As a result, lawmakers included a provision in the legislation that put High Speed Rail bonds on the ballot ("AB 3034") to require the California High Speed Rail Authority ("CHSRA") to produce a business plan before the election to address these concerns. The plan was finally released after the election and widely viewed as falling short of that goal, putting those in the legislature responsible for authorizing spending on the project in a bind. Should they withhold money for a project that had just successfully garnered the required popular majority or should they release it, effectively abrogating their oversight responsibilities?

A compromise was reached. The CHSRA got half their money, but would have to come back on December 15, 2009 with a new version of the Business Plan addressing the concerns with the earlier version, in order to get the rest of the money.

Primary issues identified with 2008 plan:

- 1) **Ridership forecast has fatal flaws and must be redone.**
 - a. Highly biased survey methods introduce significant error that overestimates demand; significant other methodological issues
 - b. Unusable in statewide travel model and by bankers; "no information"
 - c. Current planning efforts rely heavily on accuracy of existing forecast
- 2) **Funding shortfall of \$20 billion.**
 - a. CHSRA finance team: private construction loans unrealistic given insufficient debt coverage ratios and project risks
 - b. Construction cost estimates incomplete/ inappropriate for a funding plan; more complete estimates for Los Angeles – Anaheim 2.5x November 2008 price tag
 - c. Local government's assumed contribution of \$2-3 billion not even at proof of concept stage; unlikely to materialize in near future
 - d. Bond proceeds incorrectly assumed to be "inflation proof"
- 3) **Extreme outsourcing.**
 - a. \$137/\$138 million budget for consultants
 - b. 4 layers of private consultants wasteful/ uncoordinated
 - c. Consultants overseeing other consultants; insufficient oversight
 - d. Incentives of consultants conflict with those of State
- 4) **Project has typical mega-project risk plus funding risk yet has no risk management plan.**

"Risk Management Plan documents received from the Authority were in the form of 2007 technical memoranda produced by the private-sector Program Manager, not the Authority, and appeared to be "generic, incomplete and likely out of date." (KPMG Final report, page 36-37)
- 5) **Stimulus deadlines (plan by 2011, building by 2012) may be unrealistic.**
 - a. Regulatory rulemaking for High Speed Rail not even started
 - b. Significant community concerns on all "stimulus" segments
 - c. State has promised match; AB304's strict requirements require ALL funding to be in place before construction
 - d. The application in itself rushes or excludes the proper study of other alternatives and community choices
- 6) **Plan has significant completion risk.**

- a. Serious likelihood that plan will not meet fiscal accountability requirements of AB3034
- b. Funding gap self-fulfilling prophecy

CRITERIA - How to judge new business plan?

The standard by which to judge the new plan is how well it addresses the issues with the old one. Does the project sponsor show the ability to learn from past mistakes of other ventures? Do they demonstrate the operational flexibility that is the hallmark of successful organizations?

- 1) Is the funding gap adequately plugged?
- 2) For each funding source, is there reasonable substantiation? What are the timeframes?
- 3) Is there a non-generic risk management plan? Will processes like Context Sensitive Solutions ("CSS") be used on a widespread basis to get stakeholder buy-in upfront? Are there alternative plans if speeds of 220 mph are not permitted through city centers?
- 4) Is there a plan to thread the needle of AB3034?
- 5) Is there a plan to develop independent and reliable ridership model? Are problems with current one acknowledged?
- 6) As functions are in-sourced with larger organization, is there a plan in place to simultaneously dismantle the 4 layer consultant structure?

Resources

KMPG Workshop Briefing October 1, 2009

http://www.cahighspeedrail.ca.gov/images/chsr/20090929132755_KMPGWorkshopPresentation.pdf

KPMG Final Report October 2009

http://www.cahighspeedrail.ca.gov/images/chsr/20091103104811_11-05-09_Agenda_Item_11_attachment_to_Committee_Mtg_Item_2.pdf

CHSRA Board Financing Workshop September 3, 2009

http://www.cahighspeedrail.ca.gov/images/chsr/20090903095556_FinalVer.pdf