

**STATEMENT OF
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BOARD OF DIRECTORS**

**BEFORE THE
SUBCOMMITTEE ON RAILROADS, PIPELINES, AND HAZARDOUS MATERIALS
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES**

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Chairman Denham, Ranking Member Brown, and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the California High-Speed Rail Program as part of the Subcommittee's ongoing oversight. I am Dan Richard, Chairman of the Board of Directors of the California High-Speed Rail Authority (Authority). In this testimony, I will clarify why this investment is critical to California's future prosperity and, thusly, of national importance. I will then provide a brief summary of the additional benefits associated with the Authority's plans for delivery of the system. Lastly, I will detail the Authority's progress to date and lay out our next steps in developing this critical transportation investment.

WHY HIGH-SPEED RAIL?

Accommodating the Transportation Needs of a Growing Population

The starting point for considering why California is investing in high-speed rail is the reality that California is not only the nation's most populous state, but among its fastest growing. In the 35 years I've lived in California, the population has grown from 22 million to approximately 38 million people. Sometime in the next 35 years, we will exceed 50 million citizens, a gain equivalent to adding the population of Ohio. Clearly, California must make critical infrastructure investments, including adding significant transportation capacity, to accommodate this growth and to keep our economy thriving.

Already, California's 170,000 miles of roadway are the busiest in the nation. Auto congestion drains \$18.7 billion in lost time and wasted fuel from the state's economy every year. Meanwhile, travel on our Interstate system is increasing at a rate five times faster than capacity is added. Flights between Los Angeles and the Bay Area airports – the busiest short-haul market in the U.S. with over 8 million passengers annually – are the most delayed in the country, with approximately one of every four flights late by an hour or more. Meeting the existing transportation demands of our society, as well as accommodating future growth, will require major investments in new transportation capacity. The question is not whether those investments need to be made, but which ones are most efficient, effective, and able to provide the greatest benefits.

One thing is clear: California cannot provide an effective transportation system for 50 million to 60 million residents with a "more of the same" approach.

Yet, as you know well Mr. Chairman, California faces many difficulties in just meeting our current transportation challenges, let alone addressing long-term stress created by population growth. We face serious environmental constraints on growth, from ensuring that our children's air is clean to breathe, to protecting our water resources and preserving our uniquely bountiful farmland. In the face of these environmental realities, it is neither practical nor desirable to expand our existing network of roads and airports. It is also significantly more expensive, more impactful, and more difficult to achieve than expanding our state's transportation system capacity through an investment in high-speed rail.

The leaders of our state, including not only this Governor but many of his modern predecessors, as well as our Legislature and the people themselves, have determined that the development of an advanced high-speed rail system is a wise choice for meeting our mobility needs. The people of our state endorsed this view in 2008, when they voted to support issuing almost \$10 billion in bonds as the first step to develop this system. Shortly after that vote, President Obama and Congress provided additional support to begin developing high-speed rail service in the United States.

As the Chair of the Board of Directors of the Authority, my fellow Board members and I are committed to building and implementing the first high-speed rail system in the United States. While we know this program has been controversial, we enjoy the strong, sustained support of Governor Brown, our Legislature, the bipartisan mayors of our largest cities, business leaders throughout the state, and the opinion of several major metropolitan newspapers.

Our mission is to provide critical linkages between our economic mega-regions, which are vital to the nation's economy, and, by 2030, provide a way for people to travel between San Francisco and Los Angeles - and major cities in between - in under three hours. Our vision is that business commuters, leisure travelers, and tourists will be able to travel quickly, conveniently, and comfortably to and between the hearts of our vibrant urban centers. Like systems in Europe and Asia, when travelers arrive at their destination they will be able to make easy, seamless transfers to urban transit systems like Metro and Metrolink in Los Angeles, Bay Area Rapid Transit (BART), Muni in the San Francisco Bay Area, and the Santa Clara Valley Transportation Authority in the Silicon Valley, or to one of our intercity rail lines, like the Amtrak San Joaquin service and the ACE train in the Central Valley, to continue their journey wherever it may take them.

Facing the Realities of Transformational Infrastructure Investments

For these reasons, and with the need for high-speed rail abundantly clear, Californians took a bold step toward a better future by passing an initiative approving bonds for construction of a high-speed rail system in 2008. Proposition 1A did not call for more studies. It called for action.

Chairman Denham was then in the State Senate, and voted in favor of putting Proposition 1A on the ballot. The legislation he and the majority of State Legislators approved (along with a majority of state voters) authorized \$9 billion in state bond proceeds to support a program that was projected in 2008 to cost \$45 billion. Proposition 1A assumed that the balance of the program would be funded through federal and private investments. At that time, there had not been a dime of federal funding provided to California or any other state for high-speed rail. Nor was there a clear plan for attracting private investment. But there was an intent and strong commitment to achieve these goals and make the program a reality for California. Furthermore, this approach was based, in part, on how other nations around the world have successfully implemented high-speed rail systems to meet their long-term transportation needs. Today, we have \$3.3 billion in federal funds committed and a clear plan for how to attract and utilize private investment.

In 2011, Governor Jerry Brown declared his solid support for high-speed rail, but only after bringing in a new team to turn it around and provide new leadership going forward. In 2012, we issued the revised Business Plan, which showed a clear path and a framework for implementing the system through a phased, integrated approach. This then provided the basis for the California Legislature to appropriate funding later that year to begin construction on our first usable section in the Central Valley. Since then, we have moved forward aggressively and have made tremendous progress in a short amount of time for such a massive endeavor.

Unfortunately, many people mistakenly believe this can be accomplished overnight. Reality is far different. Those of you familiar with implementing regional rail systems, like the Bay Area Rapid Transit System (BART) or the Metro system in Washington DC, know that these systems are built out over time and as funding becomes available. You also know that advancing once-in-a-generation infrastructure projects is always complicated and never without controversy. BART was called a boondoggle. Over 2,300 lawsuits were filed to stop construction of the Golden Gate Bridge. The California State Water Project passed by a single-vote margin. Decades later, no one in California regrets those tough decisions. Their impact on our economic prosperity has been enormous. Where would California be if leaders at the time had not persevered?

While I do not want to minimize the import of recent decisions regarding the high-speed rail program in California Superior Court, the reality is that dealing with those sorts of challenges is the nature of delivering major, and in this case, generational infrastructure projects. We will address and resolve them.

As we determine the best way to respond to the court rulings, California remains in compliance with the terms of our grant agreement with the U.S. Department of Transportation and we will continue to work closely with them.

Furthermore, it is important to note that California has already issued \$400 million in Proposition 1A bonds that have been used to advance the program to this stage. Since entering into the Grant Agreement with the Federal Railroad Administration (FRA), approximately \$100 million in state funds have been spent against \$275 million in federal dollars. The state is continuing to contribute money to the program and meet its obligations under the Grant Agreement.

STATEWIDE BENEFITS: IT'S NOT JUST HIGH-SPEED RAIL

While many are tempted to view high-speed rail as simply a conveyance system between two urban centers, international experience shows that a well-integrated and well-planned high-speed rail program can produce benefits far beyond quick and efficient intercity travel. We believe that high-speed rail's economic, environmental, and ancillary transportation benefits are an important, if often neglected, topic in the conversation about the California High-Speed Rail Program.

Economic Benefits

Keeping our businesses connected to each other and to other companies around the world is critical for keeping our economy moving. This is evidenced by California's growing demand for intercity travel – both by rail and by air. Over 8 million passengers per year fly between Bay Area and Los Angeles area airports.¹ Even though we lack a critical rail link between Northern and Southern California, which we hope to close as quickly as possible, our Capitol, San Joaquin and Pacific Surfliner corridors rank second, third, and fifth in the nation,

¹ Research and Innovating Technology Administration Bureau of Transportation Statistics

carrying over 5.5 million passengers annually. Between 1997 and 2012, ridership on these three intercity passenger rail corridors grew by 256 percent, 66 percent, and 61 percent respectively.²

Beyond providing these critical linkages to spur the economy, building and operating the high-speed rail system will directly employ tens of thousands of Californians while indirectly generating tens of thousands more jobs throughout the larger economy.

The Central Valley has been hit particularly hard by the national recession, with the construction industry in the area facing some of the highest rates of unemployment in the state. High-speed rail construction will create 20,000 jobs annually for the next five years. These jobs will go to the people who need them the most, providing a significant boost to both the local economy in the Central Valley and the economy of the rest of the state as a whole.

In addition to construction jobs, we anticipate considerable permanent employment associated with operating and maintaining the high-speed rail system. From train operators and maintenance yard workers to station managers and operations planners, high-speed rail will create permanent jobs that will always remain here. For example, the Initial Operating Section, once fully operational, is expected to directly employ an estimated 1,300 people.

Our plan, consistent with the Bond Act, is to follow the State Route 99 alignment and connect the major cities of the Central Valley to the urban hubs of San Francisco and Los Angeles. Some critics have proposed that we follow Interstate 5, preferring to leave the economically challenged Central Valley out of all the benefits associated with high-speed rail. We believe, as the voters did in passing Proposition 1A, that high-speed rail must connect cities like Fresno, Merced, and Bakersfield to major population centers in order to revitalize the state's economy and create a more unified California. While the Central Valley has historically been bypassed by major investments, like I-5, our vision is to connect the entire state for the first time. Not only is this the right thing to do from a public policy standpoint, it's the law.

Furthermore, despite claims of high-speed rail's impact on farmland, we know that the number one threat to California's prime agricultural land is urban and suburban sprawl. Not only will the tangible impact of high-speed rail on Central Valley farmland be relatively small in scope – about 4,500 acres affected, compared to over 100,000 acres lost to sprawl over the last decade – high-speed rail in other countries has been shown to discourage sprawl by revitalizing downtown urban areas. We believe this will also be the case in the Central Valley where encouraging livable urban communities, as opposed to sprawl across farmland would further protect one of our state's most valuable resource and the region's preeminent economic driver.

Economic Impacts and Benefit-Cost Analysis

For the 2012 Business Plan, the Authority conducted the first comprehensive economic impact and benefit-cost analysis of the system. Among other things, these analyses compared the benefits to the state and national economies relative to the costs of building, maintaining, and operating the system and estimated the potential to create short-term construction and long-term jobs.

Last year, after reviewing our economic impact analysis and the benefit-cost analysis, the Government Accountability Office (GAO) found that, “the Authority did a comprehensive job in identifying the potential

² Brookings Institute. [A New Alignment: Strengthening America's Commitment to Passenger Rail](#).

economic impacts of the high-speed rail project.” The GAO, like the International Union of Railways (UIC), offered constructive recommendations on ways that we might improve our analyses and we are working to address those as we prepare to update these analyses for the 2014 Business Plan.

A Statewide Rail Modernization Program for the 21st Century

The Authority’s 2012 Business Plan laid the foundation for a statewide rail modernization program that called for strategic investments in urban, commuter, and intercity rail systems. These investments will provide improved connectivity to the high-speed rail system as part of an integrated statewide transportation network. To achieve this goal, the Authority is working in concert with its rail partners throughout the state, including the Department of Transportation (Caltrans), the Altamont Commuter Express (ACE), the Southern California Association of Governments (SCAG), the Peninsula Corridors Joint Powers Board (Caltrain), and the Southern California Regional Rail Authority (Metrolink), to name a few. Linking rail systems will greatly improve the state’s mobility and economic competitiveness, and reduce greenhouse gas emissions.

Ridership growth in California’s urban transit systems demonstrates that there is demand for greater mobility and connectivity through public transportation, particularly by rail. These improvements will build upon already growing ridership, which in turn will increase demand for connections to and with the high-speed rail system when it is implemented. All of these investments in concert will create a new, modern statewide rail network that will keep California moving for decades to come.

One often unheralded aspect of this modernization program is the implementation of Positive Train Control (PTC) not only for high-speed rail, but on many of California’s commuter rail lines. PTC has been mandated by both Congress and the Administration; however its implementation throughout the country has been a complicated, slow, and arduous process. With high-speed rail, not only will Californians receive a more integrated and efficient rail system, they will be able to rest assured that their commutes and long-distance travel are safely in compliance with federal law.

Environmental Benefits

Though I have largely focused on the need for high-speed rail in California and its role in improving the state’s economy, Californians also strongly support the environmental benefits of this transportation project.

As you may be aware, in 2006, California passed the Global Warming Solutions Act, commonly referred to as AB 32, which called for the state to reduce greenhouse gas (GHG) emissions to 1990 levels by 2020, and then by 2050 to further reduce GHG emissions to 80 percent of 1990 levels. One of the key strategies the state is employing critical to reducing GHG emissions is an integrated alternative to single-occupancy vehicle trips. The high-speed rail system, combined with existing transit, commuter, and intercity rail systems, as well as strategic land-use decisions, will result in significant reductions in GHG emissions, improving air quality statewide. In its 2008 Scoping Plan, the California Air Resources Board (CARB) listed the high-speed rail system as “one of the significant state projects” to make a positive contribution on the issue of global climate change.

Indeed, the environmental benefits of the California High-Speed Rail Program are some of the best-kept secrets about the project. The Authority is committed to developing a project that is sustainable and implements best “green” practices from design to construction to operation.

Key environmental benefits associated with the program include:

- Greenhouse gas savings from the first year of operations increasing to over 1 million tons of CO₂ per year within 10 years.
- Conservative estimates show that operation of the high-speed rail system will save an estimated 4 to 8 million metric tons of CO₂ by 2030. This is equivalent to the savings that would be generated by the state turning off a coal fired power plant.
- Operations will result in net GHG emissions diversions that, conservatively, are the equivalent of the GHG emissions created from the electricity used in 22,440 houses, or removing 31,000 passenger vehicles from the road.
- A commitment to offset construction emissions so that there will be a net zero greenhouse gas emissions during construction.
- The Authority's construction mitigation efforts will result in cleaner school buses and water pumps in Central Valley communities.
- A commitment to using 100% renewable energy during operations.
- High-speed rail around the world has proven to be a driver of transit and more sustainable land use practices. The Authority is committed to achieving these goals for greater cumulative benefits for the state.
- The Authority has developed agricultural conservation measures aimed at reducing Central Valley sprawl and preserving valuable agricultural land.
- Implementation of strict guidelines for sustainability best practices for design-build contracts to minimize impacts and improve air quality.

PROGRESS TO DATE AND NEXT STEPS

We are proud of the progress we've made to date and are focused intently on continuing the work that has already begun on the first construction section of the Initial Operating Section (IOS). Completing the IOS will achieve the State's goal of closing the rail gap between Northern and Southern California and our goal of introducing the first fully operational high-speed rail service in the nation. Our efforts going forward are focused on building the Central Valley project and then completing the IOS as expeditiously as possible. The Central Valley project is fully funded, as are bookend projects between San Jose and San Francisco as well as Palmdale and Los Angeles. We are now looking forward to developing solid public private partnerships to implement the IOS and the statewide system.

Getting to Work

At the June 6, 2013 Board of Directors meeting, the Authority awarded the first major design-build contract for Construction Package 1 (CP 1), a 29-mile stretch from Madera County to North Fresno. The contract was awarded to the Joint Venture of Tutor Perini/Zachry/Parsons (TPZP) based on their fixed price bid of \$985,152,530. Work on CP 1 commenced on August 16, 2013 when the Authority and TPZP executed the final contract and a Limited Notice to Proceed (NTP) was issued.

In October 2013, the Authority issued an NTP-1 for an amount up to \$78,000,000, meaning that pre-construction work could commence. TPZP and the Authority's Project and Construction Management consultant have moved into offices in historic downtown Fresno, bringing 65 full-time jobs to the area. TPZP is currently focused on acquiring properties and equipment, finishing design work, utility relocation, archeological work, permit finalization, and geo-technical surveying. Not only has TPZP's presence been felt in the commercial real estate sector of Fresno, but across the area's economy. This includes contracting with local small businesses such as Precision Engineering, Inc. as well as patronizing the many establishments of downtown Fresno.

We have also made significant strides on the second construction package of the first construction segment in the Central Valley, known as CP 2-3. In October 2013, the Authority started the process of selecting a design-build contractor for CP 2-3 by issuing a Request for Qualifications. On December 18, the Authority received five bids from world-class construction teams to finish the design work on and then build this 60-mile extension from Fresno to north of Bakersfield.

The estimated \$1.5 to \$2 billion contract will also bring thousands of jobs to the Central Valley while continuing completion of the IOS.

Building Partnerships for Success

The last time I appeared before this Subcommittee, we had just recently reached groundbreaking agreements with the Merced and Madera County Farm Bureaus to protect and preserve agricultural land as well as mitigate the effects of high-speed rail construction on the Central Valley's agricultural industry.

Since that time, the Authority has entered into several additional partnerships that will continue to guarantee high-speed rail's added value to the taxpayers of California and the nation. As part of the Subcommittee's ongoing oversight role in the development of this program, I would like to take this opportunity to provide you with an update on these critical endeavors.

In May, the Authority entered into a Memorandum of Understanding (MOU) with the U.S. Minority Business Development Agency to expand the utilization of Central Valley Minority Business Enterprises during the initial construction of the high-speed rail system. We remain committed to ensuring the people of the Central Valley reap the maximum amount of economic benefits associated with construction. This agreement is one of many measures aimed at that goal.

The Authority's Board of Directors also affirmed its commitment to a national high-speed rail network in September by approving an MOU with Amtrak to join forces in the search for high speed rail train sets. This search for trainsets will bring down costs and encourage domestic industry while securing trains capable of speeds up to 220 mph on both Amtrak's Northeast Corridor (NEC) and on California's high-speed rail system.

In June, the Authority took another major step towards developing a modern, integrated statewide rail network by agreeing to transfer work on the Altamont Corridor rail service to the San Joaquin Regional Rail Commission. This agreement will allow for local control of near-term improvements to speed up and increase ACE service on the existing tracks and plan for regional service connections to Modesto and Merced.

Most recently, the Authority entered into a Strategic Partnership Agreement with the California Department of Veterans Affairs that not only makes sure disabled veteran-owned businesses know about the high-speed rail project, but also that those businesses are prepared for the project's many job opportunities. We plan to continue

strengthening this agreement as the project moves into the heavy construction phase to ensure that our nation's veterans benefit from high-speed rail as much as possible.

Administration and Oversight: Government Employees Making Government Decisions

Since completing the 2012 Business Plan, we have made great strides in bringing together a world class team to lead the implementation of the program. One noteworthy criticism of the program in years past was that it relied too heavily on consultants and that key leadership positions were vacant. To that end, since early 2012, we have filled all of the positions on our Executive Team with highly qualified individuals with proven records on infrastructure project management and delivery. We have added critical state employees at the Authority to take over the work formerly done by consultants, yet we will remain lean and rely on support from the private sector, as this strategy best suits the project due to the flexibility and innovation such a structure promotes.

In addition to growing our headquarters team in Sacramento, we have brought on three Regional Directors and regional staff, to ensure we have a strong presence across the state and in local communities as well as guarantee the Authority is working directly with stakeholders and citizens affected by the project. We are pleased to have our Central California Regional Office open in downtown Fresno as well as offices in San Jose and Los Angeles.

As we have been building our team, I am pleased to report that many issues raised by the Legislature, the Peer Review Group and the California State Auditor have also been resolved. Specifically, in January 2012, the California State Auditor, tasked with providing "nonpartisan, accurate, and timely assessments of California government's financial and operational activities in compliance with generally accepted government auditing standards," released a report recommending the Authority take several actions related to the management and implementation of the high-speed rail project. In total, this report made 23 recommendations related to consultant oversight, risk management, expenditure tracking and cost reporting, staffing, information technology, and contracting practices. To date, the Authority has fully implemented 18 of the Auditor's 23 recommendations, with the remainder either partially implemented or pending the release of the 2014 Business Plan. As we continue to improve these processes and implement the recommendations, we are pleased the State Auditor recently stated that, "the Authority has made tremendous progress."

Improved Communications and Outreach with Business and Property Owners

The Authority is committed to working with the communities impacted by, and ultimately benefiting from, the high-speed rail project. By firmly recommitting to working with the residents and civic leaders of those areas along the high-speed rail alignment, we have been able to dramatically change the public's experience when working with the Authority in a positive way.

This has been especially evident in the mending of relationships with residents of the Central Valley. Members of our Board of Directors and staff continue to meet individually with affected property owners, civic leaders, and advocacy groups. In the last 18 months, over 600 meetings have been held in the region. Additionally, we have hosted meetings regarding the Central Valley Wye, which will serve as the junction for high-speed rail trains, in Fairmead and Chowchilla.

We have also worked to develop positive relationships with the communities that will be impacted. One example is our partnership with the City of Fresno and the Fresno Economic Development Corporation to open a "One-Stop Shop" in Fresno City Hall to provide resources to businesses along the alignment. Our Central

Valley staff has also been committed to keeping residents of the area informed and engaged in the process. This extensive outreach will help serve as a model for community interaction for the project in the months and years ahead.

We have continued to work with the agricultural community to mitigate potential impacts in the Central Valley. Specifically, we successfully settled three lawsuits regarding outstanding environmental issues on the Merced to Fresno project section. The most recent settlement, reached in April 2013 between the Authority and several Central Valley farm bureaus, ultimately resulted in agreements to preserve important farmland and mitigate effects of high-speed rail construction on agricultural operations.

Another agricultural partnership success story was realized in spring 2013 when we entered into a contract with the California Department of Conservation (DOC) that represented the culmination of an agreement between the Authority and the agricultural interests in the Central Valley. This agreement had been in the works for several years and will be critical to our commitment to preserve important farmland. This preservation program will guarantee that, for every acre of farmland impacted, at least one acre of farmland will be preserved in perpetuity. This will occur through the purchase of conservation easements. The DOC, which has longstanding experience with land management and easements, will be administering the program.

In addition to the activities in the Central Valley, the Northern and Southern California Regional Directors have been busy making connections with members of the public, property owners along potential alignments, and local leaders while forging agreements with local and regional transportation partners.

Future Funding Including the Role of the Private Sector

Our current plan estimates that the total cost, in fully inflated dollars, to build a high-speed rail system connecting Los Angeles with San Francisco, will be \$68 billion (equating to approximately \$53.4 billion in constant year 2011 dollars). To date, we have assembled approximately \$13 billion in funding, through a combination of state bonds and federal appropriations. We know that this Committee and the public at large are interested in our plans for future funding to complete the system.

As this Committee knows well, any major infrastructure project of this size and complexity would require funding from a combination of federal, state, or local sources. In the case of California's high-speed rail program, we have the additional opportunity to include significant private sector investment in the funding matrix. As outlined in the 2012 Business Plan, our peer-reviewed projections indicate that once we have constructed the Initial Operating Section (IOS) from Merced to the San Fernando Valley, the system's operation will generate net operating cash flows. This has been the near universal experience of high-speed rail systems around the world, namely, that once they are built and are in service (i.e., once the capital is expended) the systems generate net positive operating cash flows. Some high-speed rail systems have generated enough cash to go even further and pay back some of the initial capital expenditure.

Like all projects of this magnitude and at this stage in their development, a precise funding plan for the entire system is not possible; however, we plan on funding it from a combination of sources including the following:

Cap and Trade Funding

This past Friday, Governor Brown released his 2014-2015 budget proposal for the state of California. His proposal features a substantial investment in statewide rail modernization as part of the

Administration's commitment to using cap and trade revenues to reduce greenhouse gases and modernize interregional transportation. These funds will help build out the statewide high-speed rail system while making upgrades to urban, commuter and intercity rail networks—a catalyst for transit-oriented and sustainable communities' development.

Specifically, the budget proposal includes \$58 million for planning and \$191 million for construction and right of way acquisition during the first phase of the high-speed rail program's development. The funding also includes \$50 million for urban, commuter and intercity rail operators. Proposed legislation establishes an ongoing state commitment of cap and trade proceeds to high-speed rail.

For the reasons stated above, we believe that the environmental benefits associated with high-speed rail make our project a worthy recipient of these Cap and Trade proceeds. In fact, the original Scoping Plan produced by the California Air Resources Board in 2008 identified high-speed rail as a targeted, effective use of Cap and Trade proceeds.

The Governor's 2014-2015 budget should further instill confidence in California's commitment to this critical endeavor.

Direct Private Sector Investment

As discussed above, we plan to operate the high-speed rail system as a public-private partnership, with an initial public sector investment. Once this initial investment is made, we would essentially sell the projected future revenue stream to the private sector, giving them the rights to operate the system. Our 2012 Business Plan projects that the Bay Area to Los Angeles Basin system would generate enough revenue to cover approximately 20 percent of its capital costs. This number would increase with higher ridership or a lower discount factor.

We are confident in this model based upon the experience of international high-speed rail operators as well as our discussions with private sector representatives, which will be detailed later in this testimony.

Private Sector Revenues from Value Maximization

The 520 mile Los Angeles/Anaheim to San Francisco high-speed rail system will be a valuable economic resource. We are beginning an assessment of value maximization including leasing of right-of-way for fiber optic cable pathways and energy development. Additionally, ancillary revenues will come from parking, advertising, marketing and other potential sources including real estate development. It should be noted that in Japan, approximately one-third of revenues realized by the private sector operator Japan Rail East, come from rents and leases associated with real estate development at and around high-speed rail stations. The California Legislature is considering legislation to allow tax increment financing for development around our high-speed rail stations and we see enormous opportunities for value capture from transit-oriented development.

Once the IOS has been completed and operational, the opportunity for private investment is greatly increased and those private funds can be used to pay for further system expansion. Additionally, conversations with potential private sector investors have helped us refine our plans to optimize our ability to leverage private sector funds and expertise, while giving the taxpayers the most 'bang for their buck.'

Federal Funding – Reauthorization of PRIIA and Tax Policy

As already noted, we have evaluated how high-speed rail systems are implemented, funded and financed around the world. We continue to draw on international experience and lessons learned – both positive and negative – to develop a business model that fits our national and state context. As previously discussed, we are following the model where the public sector makes the initial investment which then, if done properly, attracts private investment. To that end, we will forge a public-private partnership to implement our program. Further, as the federal government invested in the Interstate Highway System – because it was good for our economy – we believe that it is reasonable for the federal government to continue investing in intercity and high speed passenger rail systems, like California’s.

As the committee looks ahead to reauthorizing the Passenger Rail Investment and Improvement Act of 2008 (PRIIA), we have some general views on how federal assistance should be structured for projects like ours, and would like to offer them for the Subcommittee’s consideration.

A review of the variety of high-speed rail projects being proposed nationwide makes it clear that there is no single model for developing, financing, and operating intercity passenger rail in this country. In California, we are seeking to develop high-speed rail. So are Texas, Nevada and the states along the NEC. In the Midwest, Northwest and Florida, lower speeds are being considered. Different project delivery methods and different financial plans come along with the choice for the type of service to be provided in a given corridor.

With this diversity in mind, we believe the federal government should make available a variety of forms of assistance to high-speed rail projects around the country. For our program here in California, a blend of federal grants and loans would likely be the most beneficial form of federal investment. But aside from making direct financial assistance available, the federal government can also help us attract private investment by using the tax code to create investment incentives. Tax credits and deductions have been used over decades to induce private equity and debt investment for projects that bring public benefits. When Congress wants to channel investment to worthy infrastructure projects, it has created and enhanced these types of incentives. If Congress is looking – as we are – to bring private investment into our project, sending the right signal to the investment community through the tax code would be one way to help make that happen.

Timing of Private Sector Investment

The high-speed rail system will neither be entirely a public works project nor will it be a fully privatized system. It will be a partnership between the public sector (federal, state, and local) and the private sector. This is an internationally proven investment model and is common to almost all recent high-speed rail projects in the world, where capital investment begins with the public sector and then becomes shared with the private sector. Demonstrating this relationship, systems in France, Spain, and The Netherlands all attracted private investment once ridership was established or by using availability-based public-private partnership structures.

These examples demonstrate that the critical question is not *whether* the private sector will invest in high-speed rail but *when* is the optimal time for the private sector to invest in the program? In the absence of completion and revenue guarantees, the private sector will want to see a proven revenue stream from a completed project prior to their willingness to invest.

If we seek private investment too soon, we will be shifting too much risk to the private sector which would reduce the amount of investment the private sector would be able to provide and require more public funds. Instead, we intend to follow the example of countless systems from around the world that have used an initial investment of public funds to demonstrate the system's financial potential and then leveraged that performance to bring in the private sector. To us, this is a clear choice, it is based on lessons learned from international systems, and we are confident that this approach will maximize private sector investment over the course of the system's development. Let me be clear, our door is certainly open to any alternative private sector investment models that they wish to suggest.

In its review of the Authority's plans, the GAO confirmed that this is the right order for public and private investment. The GAO stated that "our past work on high-speed rail systems has shown that private sector investment is easier to attract only after the public sector has made a substantial capital investment in the system. The Authority's plan is consistent with this funding approach."³

Discussions with Private Investors

To understand the private sector's specific interest in this program, the Authority has had extensive input from and discussions with potential private sector participants. In 2011, the Authority issued a Request for Expressions of Interest (RFEI) and received more than 1,100 responses. The responses identified the capability and interest of private entities related to development, financing, operations, project scale, risk appetite, and other factors.

Following up on the results of the RFEI, in January 2012, the Authority met with eight infrastructure investment firms, which confirmed their interest in investing in the program. We also had extensive discussions regarding the appropriate timing for private sector investment.

Elements of cost, schedule, and delivery risk are already being transferred to the private sector through the use of design-build contracts for the construction that will be starting soon here in the Central Valley. As the system is further developed, the Authority will look to increase its transfer of risk to the private sector by incorporating an operating performance element. The Authority will continue to assess private capital markets, as market conditions, financing tools, and expectations change over time.

CONCLUSION

In closing, I would like to thank you again for allowing me to provide you with an update on the exciting progress the Authority has made towards implementing the nation's first high-speed rail system. I hope I have succinctly conveyed why we believe high-speed rail is not only a critical investment for the future of California, but a common sense investment as well. With the benefits of our program so clearly extending well beyond simple conveyance of Californians from one end of the state to the other, we believe this project is of national importance – as are high-speed rail investments from coast to coast. I look forward to continuing to work with the Subcommittee to ensure that the nation's first high-speed rail system is built correctly, cost-effectively, and in the best interest of the nation's and California's taxpayers.

³ GAO Report 13-304 (<http://www.gao.gov/assets/660/653401.pdf>)