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Before the
Committee on Transportation and Infrastructure,
Subcommittee on Railroads, Pipelines, and Hazardous Materials
United States House of Representatives

Field Hearing on the Continued Oversight of California High Speed Rail

August 29, 2016

Chairman Denham, Ranking Member Capuano, and Members of the Subcommittee: thank you for inviting me to today's field hearing on California High-Speed Rail.

Over recent years, much attention has been paid to the urgent need for the United States to modernize its transportation system in order to move our country forward in a mobile, knowledge-based economy. Congress rightfully recognized that to achieve this goal, our transportation system must include more reliable, frequent, and faster intercity passenger rail service when it passed two landmark pieces of legislation: the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) and the American Recovery and Reinvestment Act of 2009 (ARRA or Recovery Act).

PRIIA established the foundation for FRA's High-Speed and Intercity Passenger Rail (HSIPR) Program. The Recovery Act provided \$8 billion in seed money to begin building this stronger passenger rail system while also jump-starting the country's economic recovery from the Great Recession. A year later, Congress provided another \$2.5 billion for the HSIPR Program in its Fiscal Year (FY) 2010 appropriations bill.¹

High-Performance Rail

FRA built the High-Speed and Intercity Passenger Rail Program based on a national vision to be executed by states, similar to how the federal government built the Interstate Highway System more than a half-century ago. The HSIPR Program gave states the ability to seek funding for projects that best reflect the needs and characteristics of their individual markets.

Thirty-nine states, the District of Columbia, and Amtrak submitted nearly 500 applications to FRA that requested more than \$75 billion worth of projects – far exceeding the \$10.1 billion available. FRA awarded the \$10.1 billion to nearly 150 projects, including \$3.5 billion to the

¹ In April 2011, Congress rescinded \$400 million from this total.

California High-Speed Rail Authority (CHSRA) for its effort to build its California High-Speed Rail System between San Francisco and Los Angeles.²

Driving Factors for High-Speed Rail in California

With California's growing population, the state understandably acted to build a modern, high-speed rail system that it can grow with and that will serve the state well into the future. The following few points underscore why this high-speed rail project is important to both California and the country:

- California is the world's sixth largest economy, with 12 percent of the nation's population and 13 percent of the Gross Domestic Product (GDP). California's success is critical to the nation's economic vitality;^{3, 4}
- California's roads and airports are among the most congested in the country. Los Angeles-to-San Francisco is the busiest and most delay-prone short-haul air market in the U.S., with approximately one of every five flights late by an hour; and
- Directly related to the congestion problem, California has very serious air quality issues. According to the American Lung Association, six of the ten cities with the worst air quality are in California, four in the Central Valley (Bakersfield, Visalia-Porterville-Hanford, Fresno-Madera, and Modesto-Merced).⁵

The challenge of moving more people and goods in a safe, efficient and environmentally sustainable way will only continue to grow. During the last five years alone, California gained nearly 1.7 million people—nearly the population of my home state of West Virginia.⁶ And by 2050, California is expected to have 50 million residents.⁷ This growth is equivalent to adding the entire population of Ohio to California's current population.

Without high-speed rail, a study found that “California would have to add between 2,300 and 3,000 miles of highway lanes, approximately four to five new airport runways, and between 90 to 115 airport gates.”⁸

High-speed rail will add a significant amount of transportation capacity to the state's current, congested system and help alleviate the pressure on California's runways and highways. This, in

² An additional \$400 million was awarded to the Transbay Joint Powers Authority for the Transbay Transit Center, which will serve as the northern terminus of the California HSR system.

³ <http://www.bloomberg.com/politics/articles/2016-06-14/california-overtakes-france-to-become-sixth-largest-economy>.

⁴ http://www.lao.ca.gov/reports/2013/calfacts/calfacts_010213.aspx.

⁵ American Lung Association, “State of the Air 2016” report measures ozone and particle pollution across the United States 2012-2014. <http://www.lung.org/our-initiatives/healthy-air/sota/air-quality-facts>

⁶ California Department of Finance, “E-4 Population Estimates for Cities, Counties, and the State, 2011-2016 with 2010 Census Benchmark,” May 2016.

⁷ http://www.ppic.org/main/publication_show.asp?i=259.

⁸ UCLA School of Law and UC Berkeley School of Law, “A High Speed Foundation,” August 2013.

https://www.law.berkeley.edu/files/bccj/Embargoed_version.pdf.

turn, will yield public benefits through economic development that spurs regional productivity and competitiveness, improved safety, reduced emissions of greenhouse gas and other pollutants, and a reduction of wear-and-tear on other infrastructure in the state.

FRA's Investment in California

CHSRA is pursuing a phased approach to implement the entire California HSR System. This approach is consistent with how other high-speed rail and major infrastructure systems have been implemented, both in the U.S. and across the globe.

CHSRA is leveraging the majority of the \$3.5 billion in federal funding to construct the first 119 miles of infrastructure in California's Central Valley between Madera and Bakersfield.

Recovery Act funding is also being invested in preliminary engineering and required environmental reviews for remaining sections of the California HSR System between San Francisco and Los Angeles. CHSRA committed approximately \$2.9 billion in state matching funds to complete the first 119 miles of the project as well as preliminary engineering and environmental work for San Francisco to Los Angeles portion of the system. This commitment is secured by enforceable cooperative agreements between FRA and CHSRA. To date, CHSRA has spent approximately \$1.4 billion of the \$2.5 billion Recovery Act grant.

Through the 2016 Business Plan, CHSRA announced its plan for initial operation between Silicon Valley (San Jose) and the Central Valley (near Bakersfield) by 2025. CHSRA projects operations from San Francisco to Los Angeles and Anaheim will begin in 2029.

FRA continues to work closely with CHSRA throughout its planning, environmental analysis, and project development processes to identify opportunities for operational and engineering efficiencies. These efforts serve to maximize the value of these investments, meet compliance requirements, and address impacts to communities.

Oversight

Like all major and ambitious transportation projects, whether public or private and no matter the mode, there have been, and remain, important challenges that demand continued attention and conscientious oversight. FRA takes its obligations to protect the taxpayer's investment seriously and closely monitors all of its grantees, including CHSRA.

As CHSRA accelerates its construction activities and expenditures, FRA has a team of staff dedicated to oversight, monitoring, technical assistance, and general programmatic support to protect the federal investment and ensure successful delivery of the project. FRA's monitoring and oversight efforts include a robust, risk-based program to (1) ensure compliance with federal rules and regulations; (2) identify fraud, waste, and abuse; and (3) identify the need for technical assistance. As is true for any FRA funded project, a regional team of interdisciplinary experts manages the CHSRA grants on an ongoing basis.

Consistent with grants management and oversight best practices, FRA works closely with our grantees to ensure that their grant agreements are current. If deemed necessary, FRA will consider amendments to a grant or cooperative agreement as an essential exercise of our due diligence. Complex projects may require more than one amendment to address changes in

timing of activities such as procurement and construction. While a grant may be funding an unprecedented project, amending a grant is common. In fact, FRA has amended 383 of the 433 grants obligated from January 2010 to July 2016 at least once. Given the complexities of the CHSRA grant agreements, FRA has previously executed amendments to these agreements to maintain comprehensive oversight while administering the HSIPR program.

On May 18, 2016, CHSRA and FRA executed the sixth amendment to the CHSRA cooperative agreement that governs the approximately \$2.5 billion in Recovery Act funding. The purpose of this amendment was to ensure that it accurately reflects the project status and planning. This amendment improves FRA's ability to oversee and monitor the grant and further ensures that CHSRA is accountable to deliver the project.

In the last grant amendment, CHSRA also requested FRA's approval of a \$60-million working capital advance for right-of-way acquisitions of approximately 200 parcels needed to allow construction work to progress. Let me take this opportunity to explain this method of payment: A working capital advance is one of the methods of payment allowed under the Federal government's rules involving federal financial assistance⁹. This authority is available, and can be used effectively where timely right-of-way acquisition presents a challenge for large infrastructure project across the country. In this example, CHSRA's ability to efficiently acquire real property is essential to keeping the project on schedule.

FRA reviewed CHSRA's request for a working capital advance and determined that it was appropriate to use this method of payment. Our approval of CHSRA's request includes conditions and limitations to protect the taxpayers' interest. For example, CHSRA will submit monthly reports documenting its expenditures from the working capital advance to FRA. Furthermore, like any grant expenditure, FRA has the right to demand repayment if it finds grant funds were used for an ineligible purpose.

Similar to all grants funded by the Recovery Act, the funds FRA has invested in California are subject to the September 30, 2017 spending deadline, regardless of payment method.

As part of our management of the CHSRA cooperative agreement, FRA is in daily communication with CHSRA to receive up-to-date project information. FRA will continue to monitor and oversee CHSRA as it implements this important infrastructure project throughout the grant's period of performance. We understand the complexity of delivering a project of this magnitude. FRA's close work with CHSRA and our monitoring program allow us to proactively identify potential risks and develop appropriate strategies in collaboration with CHSRA to mitigate those risks and successfully deliver this project.

FRA remains fully committed to its oversight role during the expenditure of grant funds and will also oversee the safety of the system when it is online. For California to continue on its trajectory as the State that attracts talent and generates ideas that fuel innovation with a global impact, it must maintain its commitment to high-speed rail.

⁹ Code of Federal Regulations, title 49 part 18.

Conclusion

For centuries, leaders in California and across the United States have built bold projects. Many of those projects haven't been easy or without challenges; but, in the long run, we as a country must still do big things, and these projects are worth the persistence and dedication because they are necessary to move our country forward.

Thank you, Mr. Chairman, for the opportunity to testify, and I am happy to answer any questions you may have.