



**Committee on Transportation and Infrastructure**  
**U.S. House of Representatives**

**Bill Shuster**  
**Chairman**

**Washington, DC 20515**

**Nick J. Rahall, III**  
**Ranking Member**

**May 24, 2013**

Christopher P. Bertram, Staff Director

James H. Zoia, Democrat Staff Director

**SUMMARY OF SUBJECT MATTER**

**TO:** Members, Subcommittee on Railroads, Pipelines, and Hazardous Materials  
**FROM:** Majority Staff, Subcommittee on Railroads, Pipelines, and Hazardous Materials  
**RE:** Subcommittee Field Hearing on "Oversight of California High Speed Rail"

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**PURPOSE**

On Tuesday, May 28, 2013, in Madera, California, the Subcommittee on Railroads, Pipelines, and Hazardous Materials will receive testimony regarding the status of the California High Speed Rail Project (project). The project has fluctuated in its costs, completion dates, and its goals since 2008 and the witnesses will present testimony regarding updates on the project and some concerns that still remain.

**BACKGROUND**

The California High Speed Rail Authority (CHSRA) was created in 1996 as a state entity charged with developing a high-speed train system for the state. Its first plan for a train system was put forth in 2000, and the citizens of California approved bonding authority for the system in the amount of \$9.95 billion through the Proposition 1A ballot measure in 2008. Proposition 1A allowed for \$9 billion in general obligation bonds for pre-construction and construction of the high-speed train system and \$950 million for capital improvements to existing passenger rail systems that would help riders connect to the high-speed train system. Proposition 1A also established certain requirements for the funding, including among other things that: (1) the train be an electric train capable of achieving sustained maximum speeds of 200 mph; (2) the train be capable of operating headway of 5 minutes or less; (3) that the train achieve specific travel times between each station (e.g., San Francisco to Los Angeles -- 2 hours, 40 minutes); (4) that there be no more than 24 stations; (5) that the routing follow existing corridors to the extent feasible; and (6) that it be built in useable segments.

In addition to Proposition 1A funds, the CHSRA has been awarded \$3.896 billion (\$2.952 billion from the American Recovery and Reinvestment Act, and \$945 million from the FY 2010 Appropriations bill) from the High-Speed Intercity Passenger Rail (HSIPR) grant program. The CHSRA plans to use its federal funds and a portion of the Proposition 1A funds to

break ground on the initial construction segment (ICS) of the project from north of Fresno to north of Bakersfield (see attached map) this summer. Beyond the ICS the project has no committed funding.

### *Fluctuating Costs*

The project has undergone a number of different business plans with costs that have varied greatly over time. The first estimate contained in the 2000 Business Plan was \$25 billion with a completion date in 2020. Then on November 7, 2008, three days after Proposition 1A was approved by California voters, CHSRA released its 2008 Business Plan estimating the project would cost \$33 billion, with \$12-16 billion in federal funds, and a completion date of 2020. One year later in 2009, the estimate jumped to \$43 billion, assuming \$17-19 billion in federal funds, with a completion date of 2020. In November 2011, the CHSRA's Draft 2012 Business Plan had the costs skyrocket to a range of \$98-118 billion, with approximately \$52 billion in federal funds, and a delayed completion date of 2033. After significant public criticism, the CHSRA adjusted its costs downward in a 2012 Draft Revised Business Plan to \$68 billion, with \$42 billion in federal funds, and a completion date of 2028. While, on its face it appears the CHSRA was able to save \$30 billion in costs, the CHSRA essentially revised its plan to a "blended approach" that did not assume 200 mph capable infrastructure from end-to-end, but instead used shared infrastructure in the North and South ends. The Revised 2012 Business Plan admits were it to complete a full-build option for Phase I of the project, the cost would be \$91.4 billion.<sup>1</sup>

The Peer Review Group created by Proposition 1A reviewed the CHSRA's Revised 2012 Business Plan and its costs, noting that "[c]ost estimating outside the Valley remains less certain because the scope and alignment are still in flux. ... [and] experience thus far has shown that cost estimates tend to grow. There is certainly a possibility that this trend will continue."<sup>2</sup> Furthermore, the Peer Review Group noted a "significant concern" that overall project costs are based on optimal assumptions, and "[i]f these assumptions turn out to be false, capital costs and construction times will increase due to schedule changes alone."<sup>3</sup> Therefore, it is quite likely the costs could increase above the \$68.4 billion figure estimated by CHSRA in its 2012 Revised Business Plan.

In a recent Government Accountability Office (GAO) review of the project, the GAO echoed some of the Peer Review Group's concerns, finding that "we could not determine whether the [cost] estimates were unbiased. ... To help ensure an unbiased estimate, the Cost Guide recommends conducting a systematic analysis of the potential risks to the project and their likelihood of occurring—called a risk and uncertainty analysis. A risk and uncertainty analysis is also a best practice for developing a credible cost estimate...."<sup>4</sup> Due to the lack of a risk and uncertainty analysis, GAO, like the Peer Review Group, explained "it is not possible to determine how the cost estimates might be affected by such things as delays in acquiring

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<sup>1</sup> CHSRA, "High-Speed Rail Program Revised 2012 Business Plan," April 2012, p. ES-14.

<sup>2</sup> Letter to Hon. Darrel Steinberg, Senate President Pro Tem, et al. from Will Kempton, Chairman, California High-Speed Rail Peer Review Group, dated May 18, 2012, p. 6 (Peer Review Letter).

<sup>3</sup> Id.

<sup>4</sup> GAO, "California High-Speed Passenger Rail: Project Estimates Could Be Improved to Better Inform Future Decisions," March 2013, pp.19-20 (GAO Report).



necessary rights-of-way or having to pay more for property to keep the project on schedule.” Finally, GAO found that “[w]ithout a risk and uncertainty analysis, we cannot be assured that the contingencies are accurately calculated, and more importantly, what level of confidence we can have in the cost estimates.”<sup>5</sup>

<b>California High-Speed Rail Project's Rising Costs Chart (Phase I)</b>			
<b>Plan or Report</b>	<b>Estimated Costs</b>	<b>Federal Share</b>	<b>Completion Date</b>
2000 CHSRA Business Plan	\$25 billion	NA	2020
2008 CHSRA Business Plan	\$32.8-33.6 billion	\$12-16 billion	2020
2009 CHSRA Business Plan	\$42.6 billion	\$17-19 billion	2020
Draft 2012 CHSRA Business Plan	\$98.5-117.6 billion	\$52 billion	2033
2012 CHSRA Business Plan	\$68.4 billion	\$42 billion	2028

### *Funding Sources*

Even if the CHSRA's cost estimates are precise and set in stone, its funding sources are not. Based on the \$68.4 billion cost, CHSRA is planning on \$55 billion in public-sector funding and \$13 billion in private-sector funding. Currently, the CHSRA plans to use \$8.2 billion of its Proposition 1A bond funding to construct the project. In addition, the majority of the federal funding provided for the project, approximately \$3.5 billion, will be utilized in California's Central Valley on the Bakersfield-Fresno-Merced sections of the Phase 1 project.<sup>6</sup>

As noted above, of the \$55 billion in public funds for the project, \$42 billion is expected to come from the federal government, of which CHSRA only has \$3.5 billion. As the GAO noted, “the remaining \$38.7 billion in federal funds have not been identified in federal budgets or appropriations but would amount to an average of more than \$2.5 billion annually over the life of the project's construction.”<sup>7</sup> To put that number in perspective, the Department of Transportation's New Starts transit-funding grant program has averaged \$1.6 billion per year since 2008, while Amtrak has averaged about \$1.5 billion per year since 2008. Though CHSRA notes that it will not need any further funding from the federal government until 2015, both the House and Senate budgets do not include any money for the HSIPR program over the next ten years, much less anything for the project specifically. Even the President's budget, which includes HSIPR funding, does not include any money specifically for the California project. Indeed, the Peer Review Group recognized the uncertainty of the funding, noting that the assumptions “would require the creation of a new federal program to support a national annual HSR program ... [and e]nactment of such a program will clearly be a challenge in today's constrained budget climate.” These facts lead the GAO to conclude that “the largest block of expected funding for the California project is uncertain.”<sup>8</sup>

<sup>5</sup> Id. at 20.

<sup>6</sup> The remaining \$400 million for construction of the underground train box at the Transbay Terminal in San Francisco, the north end terminus of Phase I.

<sup>7</sup> GAO Report, p. 39.

<sup>8</sup> GAO Report at p. 40.

If additional public funding does not materialize, the CHSRA has identified the State's newly implemented cap-and-trade program as a potential source of revenue for the project. However, as the GAO has explained, there are a number of challenges that remain with using this funding as a source. GAO noted three specific issues: (1) uncertainty of the amounts that could be raised from the program; (2) CHSRA will have to compete with other State funding priorities and cannot be assured any funding; and (3) the project may not be eligible to receive cap-and-trade funding.<sup>9</sup> These uncertainties about back-up funding create further risks for the project going forward.

Moreover, there is no private-sector funding committed to the project. Indeed, the 2012 Revised Business Plan does not envision any private sector funding until after the initial operating segment (IOS) is complete in 2022. The 2012 Business Plan assumes that once the IOS is operational, it will turn a profit in its first year, and private sector financing will then be raised through a concession. Because private-sector financing is dependent upon operational profitability, the GAO found that "the Authority may face challenges in attracting private-sector funding if its operating cost estimate and ridership forecasts prove to be optimistic."<sup>10</sup> As to those operating and maintenance costs, the Peer Review Group has noted that "[t]he existing model is relatively simple and does not reflect the relationship between costs and the level of operations as well as it could...[and] the overall results of the model appear optimistic[, and i]f the Authority's model is optimistic, the private sector will be less able to augment public investment."<sup>11</sup> Given the questions and uncertainties regarding the costs of the project, as a whole, it is unclear whether the private sector funding source will ever be realized.

### *Routing and Alignment*

While the CHSRA has announced it wants to break ground on the first portion of the Fresno to Bakersfield section of the project in July 2013, it has yet to purchase all of the land to begin that construction. Indeed, though CHSRA noticed its award of the first construction package on May 17, 2013, it is unclear through which parcels of land the CHSRA plans to route this first construction segment. Much of the proposed land parcels outside of the urban areas, are prime agricultural land valued at \$28,000 to \$33,000 per acre. While Proposition 1A stated that the project should reduce impacts on communities by following existing transportation or utility corridors to the extent feasible, such could very well not be the case on the agricultural lands impacted by this first construction segment. The CHSRA plans to settle most real estate purchases through private contract, but it does have the right of eminent domain to take people's private property. The applicable State laws will dictate the process for each party's appraisals and ultimately require a judicial determination of what constitutes just compensation. Depending on the number of disputes and right of way to be condemned, this uncertainty could delay the project and increase costs further.

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<sup>9</sup> Id. at p. 41.

<sup>10</sup> Id. at p. 42.

<sup>11</sup> Peer Review Letter, at p. 8.

**INVITED WITNESSES**

Mr. Dan Richard  
Chairman of the Board  
California High Speed Rail Authority

Mr. Kole Upton  
Vice President  
Preserve Our Heritage

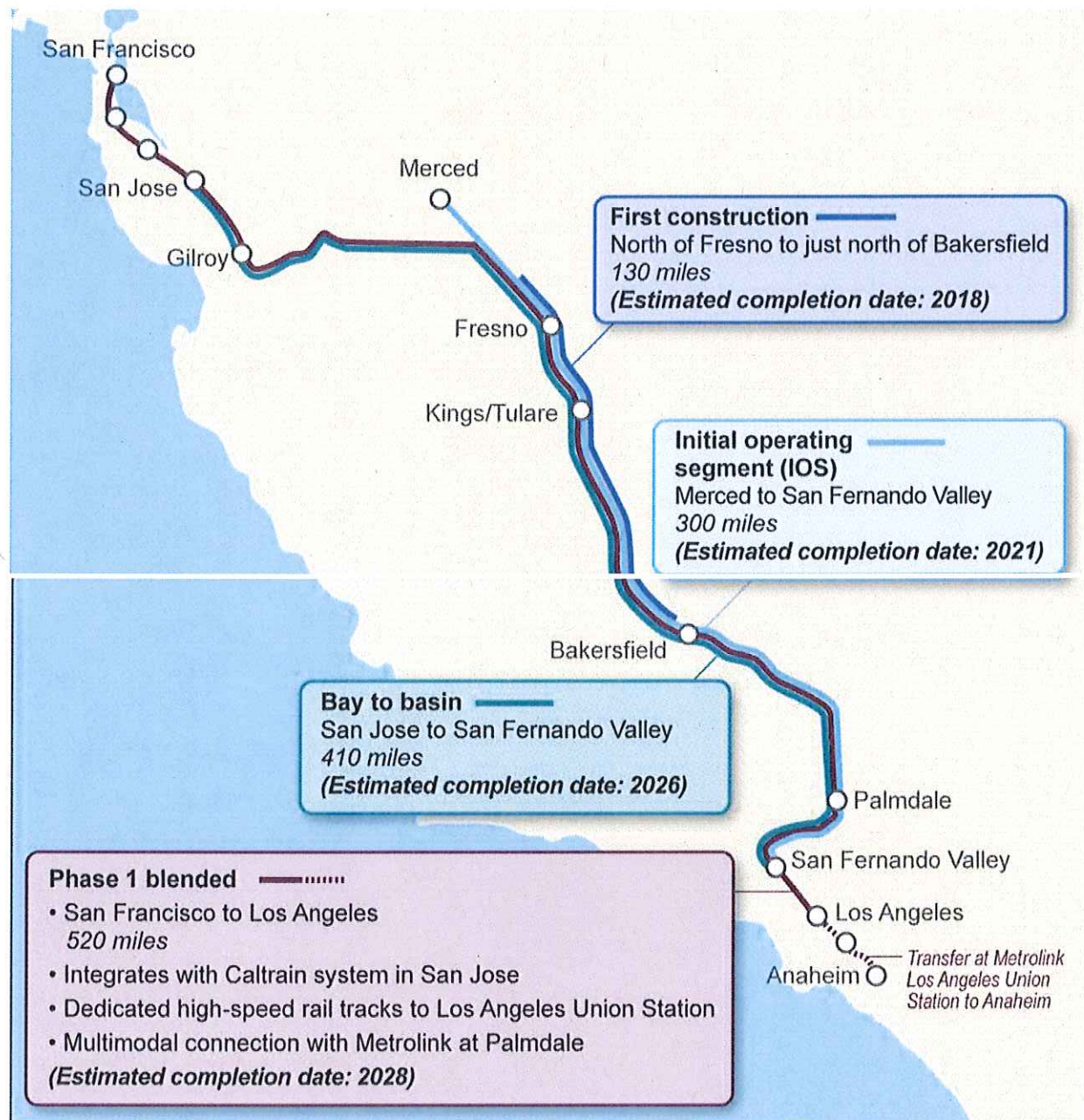
Mr. Doug Verboon  
Chairman  
Kings County Board of Supervisors

Ms. Anja Raudabaugh  
Executive Director  
Madera County Farm Bureau

Mr. Louis S. Thompson  
Chairman  
Peer Review Group for the California High-Speed Rail Project

Mr. Al Smith  
President and CEO  
Fresno Chamber of Commerce





Sources: California High Speed Rail Authority and GAO.