

CHSRA Business Plan Analysis

Overview of 2008 Plan

An updated business plan is due out by the Authority on December 15, 2009. There are currently four major problems that must be addressed in the new business plan in order to make this project successful.

- **Ensure that California's Federal Stimulus Application is compliant with existing California High Speed Rail (CHSR) legislation (AB3034)**, specifically to determine if federal stimulus dollars (ARRA) can be matched by state bond funds under the AB3034 safeguards.
- **The HSR Ridership model is fundamentally flawed** and should not be used in the Business Plan or Funding Plan. An independent ridership study should be commissioned to form the backbone for the business plan, the engineering and construction of the project and life-cycle environmental impact.
- **The HSR Project lacks the crucial element of a Risk Management Plan**, jeopardizing the success of the project and massive public funds. A Risk Management Plan must be developed specific to this project and California's unique considerations.
- **The processes for establishing environmental and safety rules for HSR have not been established.** Accurate costing of this project cannot be determined until these rules are developed.

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 – i.e. if you just get a project started, they will have to give you the money to finish it. In California, bond measures require a 2/3 majority in the legislature AND a popular vote. Tax increases to fund additional costs require a 2/3 majority. Underfunded projects have typically meant draconian cuts in other services or significant downsizing of projects.

As a result, the HSR enabling legislation (AB 3034) included a requirement that the Authority produce a business plan *before* the election for Prop 1A. The plan was not released until *after* the election and was criticized by the Legislative Analysts Office (LAO) as seriously inadequate. This presented a dilemma for legislators responsible for oversight. Should they withhold money for a project that had just won a popular vote given their oversight responsibilities?

A compromise was reached. The CHSRA got half their annual budget, but would have to come back on December 15, 2009 with a revised Business Plan addressing the shortcomings.

Problems with the 2008 Business Plan

- 1) **Ridership forecast has fatal flaws and must be redone.**
 - a. Statistically biased survey methods introduced significant errors that overestimated demand
 - b. Data is unusable in the Statewide Travel Model
 - c. Current planning efforts rely heavily on this inaccurate forecast
- 2) **Funding shortfall of roughly \$20 billion.**
 - a. CHSRA's own finance team determined that private construction loans are unrealistic given insufficient debt coverage ratios and project risks
 - b. Original cost estimates are incomplete and inappropriate for a funding plan. Example: actual construction estimates for Los Angeles – Anaheim are 2.5x November 2008 price tag
 - c. Plan assumes local government's contributions of \$2-3 billion, which is unlikely to materialize
 - d. Bond proceeds are incorrectly assumed to be "inflation proof"
- 3) **Excessive outsourcing.**
 - a. \$137 out of the \$138 million budget is for consultants
 - b. 4 layers of private consultants is wasteful and uncoordinated
 - c. Consultants are overseeing other consultants causing insufficient internal oversight
 - d. Incentives of consultants conflict with those of the state
- 4) **Project presents both typical mega-project risk and 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 (plans complete by 2011, construction begins by 2012) may be unrealistic.**
 - a. Regulatory rulemaking has not even begun for safety and environmental protections for High Speed Rail
 - b. There are now significant community, agency and local government concerns on all three segments which have applied for ARRA funds
 - c. AB3034 strictly requires ALL funding to be in place before construction but state has promised matching funds in its stimulus application and this requirement is not likely to be met in time
 - d. The application 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 guarantees high completion risk

CRITERIA - How to Judge 2009 Revised Business Plan

Clearly, the 2009 Business Plan must fully address the issues highlighted in the previous plan. 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?

Criteria

- 1) Can the new Business Plan even be considered without a new ridership analysis? Will a new, independent, reliable ridership model be completed in time? Are the problems with the current ridership model being acknowledged?
- 2) Is the funding gap adequately addressed? For each funding source, is there reasonable substantiation and what are the timeframes for these sources?
- 3) Is there a plan in place to consolidate the 4 layers of contractors and improve control over the project?
- 4) Is there a project specific risk management plan? Will processes like Context Sensitive Solutions (CSS) be used statewide to get stakeholder buy-in upfront and reduce risk?
- 5) Does the new Business Plan ensure that the state can meet the requirements for federal stimulus applications? Will safety and environmental regulations be in place in order to achieve federal dead-lines?
- 6) Under AB3034 restrictions, can stimulus dollars still be applied to this project?

Resources

KPMG Workshop Briefing October 1, 2009

http://www.cahighspeedrail.ca.gov/images/chsr/20090929132755_KPMGWorkshopPresentation.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