

Assembly Budget Subcommittee on Transportation April 28, 2010

Provided by Rita Wespi on behalf of CARRD.

Partial transcript only. NOTE: All text in "quotes" is verbatim. Use the audio or video links to verify before quoting passages where exact accuracy matters.

Video: <https://www.calchannel.com/channel/viewVideo/1322>

Joan Buchanan, Chair;

CHSRA starts at 13:00.

Quentin Kopp, Carrie Pourvahidi.

Kopp: 6 comments with respect to status of projects.

Details that can bog down the committee. I can go on and on about details. This is an important year for this project. Every year from now on is an important year. [] Each of the 9 segments that comprise the project is in the project level design and env review process. Construction will not start for another 2 years. We have deadlines. CA Env Qual Act has its own deadlines. I'm referring to ARRA deadlines. As you probably know 4-5 months ago Sec of Trans of US announced we'd be recipient of \$2.5B dollars – largest amount of any getting money. And another \$900M for existing rail in CA with the idea that would connect to HSR. There are deadlines for that money. The first is September 2011 for environmental clearance for a particular section. n

The 2nd deadline is Sept 30, 2012 – the end of the federal fiscal year. Each of these items be the subject of obligation – contractual. And then the actual use of the money must be completed by 2017. It's axiomatic that delay costs money. I can assure you that we're on schedule. The LAO and staff note that some of the 4 sections are ahead of others. LA-Anaheim [] towards that goal [] They're all going to wind up about the same in 2011 as far as the EIR/EIS.

Our concerns. We're past a cross-roads of being a small organization of 6-9.5 positions to now we're a larger entity with much greater responsibility. One is additional personnel. Because all the analysis and env work is done with contractors. Making sure it's done on time and properly requires personnel. KMPG analyzed the Authority and issued a report which led to a request for appropriations for about 25 new positions. I realize that the request isn't tied to those in the KPMG report. That's in the process of being cured. But it's crucial that e obtain a Chief Financial Officer, a Program Mgmt Oversight personnel, and it's tough to do that with a salary structure that's tied to state personnel practices. And that led to 4

exempt positions. A note that those positions be defined in statute in not just responsibilities but also as far as compensation is concerned. I want to know that the first goal in 2010-11 is to support the environmental review work that's in process – and that's in process not just for the 4 that I mentioned, but for all, and for commencement for all the other sections: to Sacramento, San Diego and Altamont Pass of \$950M for that purpose.

Business Plan. Been subject of discussion for last 2 years in leg and both houses. Completed the third one in December; also issued an addendum 2 weeks ago. It changes with development with the project. And we'll be issuing an additional bus plan at least in the next 3 months. Other report requests.

Rider Forecasts. Are a complicated sometimes perplexing, sometimes vexing enterprise. In answer to comments made, we've entered in an agreement with UC Davis and Caltrans to produce an updated statewide ridership model – not just for HSR but other public trans operators in the state. And signed a contract with Berkeley's ITS Institute of Transportation Studies to conduct an additional peer review of the current ridership forecasts Dec 2009 bus plan, and models by UC Davis and Caltrans.

Conclude. As you know the Streets and Highway Code of AB 3034 has a set of requirements and proscriptions against [] any money until its certified by the Dir of Finance, Chair of Joint Budget committee. There are limitations on how much can be spent of administration, and planning. Not simply because it's the law, but it is our intent and solemn promise that each of the provisions are complied with not only to the letter of the law but also the spirit of the law.

Couple additional points, and I don't want to insult the intelligence of any members of the subcommittee that the appropriation requested will emanate from the proceeds of prop 1A's general obligation fund and not through the [regular state budget]. Now, we also cut the amount for right-of-way acquisition and the most precious from \$ to \$ for that purpose.

\$461M requested. Original request from last fall was around \$958M. So it's been cut about 50%. As we receive ARRA funds, that will be used instead of the GO bond.

Buchanan: Since we have 5 issues, that we take them one at a time with LAO and members asking questions.

Issue 1:

Pourvahidi: Please note that some will be bond or ARRA funded; less impact on bond funds as Judge Kopp described.

Galgiani: Also a placeholder for staff positions.

Eric Thronson: Would like to comment on Addendum. It's an improvement but we still have concerns about the revenue guarantees and operating subsidies, but we can work with the HSR with that. ARRA funding: our understanding is that the money has to be fully obligated by Sept 2011 including the Env Process. The FRA who's administering the program is making things up as they go along, so there could be additional info that the Auth is unaware of. Once they understand, they should [report] that info;

whether the federal government expects the money to be evenly distributed across the 4 corridors; whether the Authority has the ability to switch the money; how the money will be matched; if it's dollar for dollar or whether we spent x amount on a corridor can it be applied to other work. As this info becomes available, it'll definitely help the legislature on how to appropriate the money. As Judge Kopp said, last year there was language that said for [].

Harkey: I got into the by default. [] De service for the bond money does come from the general fund. I'm trying to get with Ms. Galgiani to get the reporting and oversight up to speed. I find it amazing that we're going full speed at spending people's money and the quote-unquote "free" money that we get from Washington on the plan that we're making up as we're going along. Because we don't really know what it's going to cost. There are problems on the peninsula – I discovered that. I'm looking at it strictly from a financial perspective. I've never paid attention to the project. I just was looking at can we afford it – we're eeking out little bits to fund – we're actually taking local transportation money from the state instead of giving them to the local communities. We've borrowed, we've deferred them. School buildings that we're not able to meet. We have a ton of needs in this state and prioritizing them is going to be very important. So I'm working very hard with Ms. Galgiani. AB 389 [sic – it's AB 289] came up which accepts ARRA stimulus funds. When can they be used? When will we know that?

38:00

Kopp: When the FRA and/or [transportation]. I don't like the phrase that 'they're making it up as they go along'. I assume it's an orderly, logical process. But we're not part of htat. We have to wait for it to occur. I repeat that we're still at a very early stage. People keep asking, "when am I going to be able to take the train?" that's why I made the comment that construction starts in about 2 years. And most of those sections

[gap]

48:00

Galgiani: Examples of land being offered, such as Castle Airforce Base at \$1/year. Looking at station locations. You raised a concern about a segment being too expensive to build. In the addendum, the \$46B for full build-out has a contingency for overruns – it's about 20%. For those with greater variables it's at 30%. It's built into the plan. We have one oversees operator who is very interested and willing to give 40% for private investment. Our business plan relies on receiving 25% from the private sector. This would change as we learn more. We have 125 senior planners with worldwide experience. We have the best and brightest talent. MOUs with 7 countries. We're not moving ahead alone.

Harkey: You have received \$B. How much was the request?

Kopp: Request was \$4.7B.

Harkey: Okay, so you got about 50% of what you asked for. What would happen if you only got 50% of what you're anticipating here in federal funding?

Kopp: Something like 48 other applications across the country.

Harkey: That's why I'm asking.

Kopp: And guess what, they're all about 25 grand. And some of them were for gussying up existing rail. [Florida, etc.] And there are a lot of members of Congress, Madame Assemblywoman, 435 of them.

Harkey: That's why I bring it up. I'm questioning whether we're going to be able to meet what we ask for from the federal government. Now the –

Kopp: [trying several times to interrupt] May I just give you one ...

Harkey: Well, you just speak so well, you're just so eloquent, allow me to continue here. There's a publication the bond buyers are talking about HSR – it's a big Wall Street opportunity so a lot of people are making a lot of money on these deals [] so one of the private vs public funding is will the private sector actually finance the building of HSR which is stated here that Truth Policy of America says, “[] Well you can't. In the end it's going to be the public that pays.” And that's what I'm saying: we need to know what the public is going to be paying here. He goes on to say that “private companies will invest to share in the financial risk only with a reasonable return, which we know. How are we going to invest money in the private sector unless they're going to make money on it. [check this] And they're going to have it all calculated out in advance. So we need to know firmly before we get into this, and you said construction isn't going to begin for a couple years, but the people of California need to understand – you promised no subsidies, [] your total investment, and I'm a little concerned that it's [] .

54:35

Kopp: the statute prohibits any operational subsidy. That's the law, flatly. Then there's capital investment part, and there's a conundrum. Because typically that type of money doesn't appear until the project is farther along. So – for example, we put out Expressions of Interest in 2000 and got back 28 responses. Equipment, construction. 5 outfits talked about investment. They're still interested; 4 are still in business, one isn't. [] Another 15 expressions of interest. We sign them up on the dotted line. [] But it's a conundrum.

Buchanan: I'd like to get the agenda moving. The point Asm Harkey wants to make is this: we passed a \$9B dollar bond and the people of California clearly said that they'd like to see HSR in this state. And passing that bond gives us an obligation because we are paying it back with taxpayer funds. It's going to cost us probably \$650M a year for 30 years to pay off those bonds. So we have an obligation to those taxpayers to be transparent and to be judicious with the funds we spend and to do all we can to [] with the project. The project itself relies not just on the \$9B on state funding but also [] it assumes that we're going to have between \$17-19B in federal grants, \$4-5B in local grants, and another \$10-12B in private funding. And there's another page on your addendum that goes, as you were referring to, as the ramping up process. We know that all that money isn't going to be spent at the same time. []

58:00

The point is that within our comprehensive plan that you have and the reporting which must be done on a periodic basis, we have to have a way to make sure the milestones and progress we'll be able to execute based on these assumptions. If you have an operator that wants to

[gap]

1:00:00

Galgiani: Why we can be profitable while others can't? We're the only system that will be operated at true HSR speeds. You need those speeds of 220 mph in order to compete with the airlines.

1:09:00

Buchanan: We shouldn't have one private contractor supervising another private contractor. [discussion about approved & filled positions.]

1:13:00 Issue #4, other gov entities.

1:15:50

Buchanan: Caltrain is struggling financially given all the budget cuts we've had and whether we should go up the Peninsula to San Francisco.

Kopp: To stop the system in SJ would require voter approval. Number 2: Caltrain is a problem financially. Caltrain ridership has tumbled – frankly it surprised me. Caltrain for 11 years has a policy of electrifying. You can boost the speeds – for us it's 125mph. So without HSR Caltrain's future is problematic. There's a note in here about their contribution toward this effort. Look, we can't be sugar-daddies all over the state. And I can't give you an answer as to how Caltrain is going to turn out. The basic claim is they have no independent funding source. The regional transportation authority has a funding source usually, sales tax, part of a sales tax. They don't have anything like that. They get their money from San Mateo, probably about half of it, Santa Clara about a little over a third, and what's leftover from San Francisco – like 14%. And each of these three county transportation authorities are now cutting. It's a transmission of money. Unless of course it comes from the fare box. I haven't kept up with their fare box recovery, but it used to be about 25% of expenses. So it's a problem.

1:18: 45 Kopp: "We are the saviors."

Buchanan: That's why I suggest that we need the risk management position. Because we have to be aware of what the risks are as we go forward.

Caltrain rep: Just to clarify – Judge Kopp hit on most of the points. Caltrain doesn't have an operating budget[?] it does rely on the transit agency to fund its operations. Caltrain is not destitute. It has some financial troubles like all transit agencies in the state. It has an MOU with the HSRA, the purpose of the MOU is to ensure that the existing Caltrain service will continue to operate while the HSR is constructed on the Caltrain's own ROW. Caltrain's contribution is that Caltrain owns that ROW. The partnership with the HSR is necessary because there's staff at Caltrain that is working with the authority to ensure that the plans for the HSR can happen and that Caltrain can continue to operate. So the money and the budget is appropriate from our point of view. I wanted to put that on the record.

Harkey: Caltrain currently serves commuter traffic?

CT: Primarily.

H: Cut back on ridership because of funding?

CT: I don't have numbers but assume with budget cuts service will be reduced and as a result ridership will be reduced. It's a downward spiral. You reduce service to meet your budget, and the reduced ridership reduces your budget.

H: That goes to my point. So in essence, the budget cuts and reductions in local transportation dollars [] with the bonds funds we're defunding something that works, that is existing, that serves the commuter population to build something in the future that may or may not –

CT: In Caltrain's view of HSR, the –

H: I understand the jobs, I do understand; I'm just looking at the logic of all this.

CT: The HSR will – the improvements on the corridor will allow Caltrain to increase their service with an elect line they'll be able to move more trains at a reduced cost and their ridership will go up and so HSR is actually integral to Caltrain's success and will reduce the risk of Caltrain having financial problems.

Kopp: The general mgr of Caltrain has said that unless it's electrified it's going to go out of business. And it is looking to this project to pay a substantial part of that cost. I used to have that figure in my head.

123:30

Now I caution about drawing a conclusion about that if it weren't for the HSR project that Caltrain would go on merrily forever. It won't. According to the General Manager.

Buchanan: My only point in bringing it up is that there are a lot of moving parts and it'll evolve and change. Hopefully at the end of this process we can be in LA in a couple hours. But, you know, using Caltrain as an example, it clearly demonstrates the need for a plan that is easy for the public to understand without reading through a lot of different docs in various places; need for risk mgmt; how many more Caltrains will be out there? Makes it imperative on you to have right mgmt & structure to give prj every opportunity to succeed. Only 1.5 years from approval, but with ARRA, we need to know how all this will fit together.

1:26:00

Galgiani: met with Doty. Money in ARRA for elect and grade seps. Firmly believes it'll increase ridership & be successful. Because of fed requirement of indep util, we're going to have regional rail improvement; it's regional rail today, HSR tomorrow. Caltrain, Amtrak, Metrolink. It's looking at taking away regional but it's not that at all.

Kopp: gives \$\$.

5:30 pm.

ITEM 5:

Carrie: outreach of how it'll look in their community. Ridership, we commissioned UC Davis to do statewide ridership in all various modes. Also ITS to do Peer Review.

Buchanan summary: [] It's critical that we have the oversight person in house and that we be paying this person's salary. Any further questions?

Harkey: I think you've summed it up well.

1:38:00

Public Comment

William Grindley: At another hearing Assemblywoman Cathleen Galgiani stood in front of the committee and said, quote, "Not every country with a HSR system was intended to be profitable. Our transportation system here in CA was never intended to be profitable. []" Bragging rights.