

A Train To Nowhere But Bankruptcy

A Brief History Of Why California Lost Faith In Its High-Speed Rail Project

– from the authors of –

The Financial Risks of California's Proposed High-Speed Rail Project

See: <http://www.cc-hsr.org>

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The project to link California's major cities with a high-speed rail system has devolved into an embarrassment – an undefined length of track between Central Valley towns without electrification, a locomotive or passenger cars. Chances diminish daily that this section will become the spine of a LA-SF service as prospects for more Federal grants have diminished. Three State agencies have stated the project is badly managed. But the California High-Speed Rail Authority (CHSRA) continues to spend about \$1million/working day on a project endorsed by politicians who haven't done their financial homework, plus engineering, hardware and software salesmen whose companies will benefit. Unless Californians stop this mad dash to build a project that will cost far more than admitted to, require perpetual subsidies and does not even comply with the law that created it, the California High-Speed Rail project (CHSR) may become the straw that breaks California's fiscal back.

A Brief History of Why California Lost Faith In Its High-Speed Rail Project

This paper chronicles some of the shortcomings and lack of competence of the California High-Speed Rail Authority (CHSRA) its Board, and its many consultants and contractors. The CHSRA's repeated failures, evasion and dissembling has been tolerated through 2010. Despite the State's dire fiscal condition, the race to commit billions in capital spending to trigger billions of perpetual operating and financial losses continues unchecked. It is no wonder that California lost faith in the CHSRA and their project.

2008 – Winner Takes All – The zenith of California's high-speed rail project (CHSR) was shortly after November 2008 when Proposition 1A won with 52.7 percent of the votes cast. Although previously criticized, specifically by the Reason Foundation and the Jarvis Taxpayers Association, a winners' glow surrounded the California High-Speed Rail Authority (CHSRA).¹

Questions Turn Into Doubt Throughout 2009 – A few months later, the Legislative Analyst's Office (LAO), a few members of the State Senate and some private citizens criticized the shoddy nature of CHSRA's 2008 Business Plan, which although legally required before the Prop 1A vote, was only submitted afterwards. But the Legislature didn't ask hard questions about the sources of claims made to voters regarding costs, fares and jobs. Nor did State officials seriously question the \$33 billion Phase One plan to build the San Francisco to Los Angeles link.

At the end of 2009, with the release of the CHSRA's 2009 Business Plan, citizens complained that the Authority had lowered the number of destinations promised in Prop 1A vote; as well as increased ticket prices 90%, reduced the projected ridership volumes, and increased construction costs by 30% to \$43 billion to reflect previously ignored construction inflation. Nor had the Authority complied with the law's demand for an investment grade business plan or a risk management plan. With a ridership forecast beyond being credible, doubts about the Authority's promises and the professionalism began to grow. But no visible action came from the Legislature or Governor's office except to continue to promote and pay for the project.

Early 2010 – Doubts Ignite Frustration – The official State opinion of the Authority's competence and its two business plans remained *status quo ante* until April 2010, when California's Auditor issued a harsh assessment of the Authority's financial management.

The 2009 Business Plan Concerns Analysts, The State Senate And Citizens – A month after CHSRA submitted its 2009 Business Plan, the LAO weighed in again; pointing out that this 2009 Plan again failed to meet the investment grade standards that the LAO and the Senate Transportation and Housing Committee demanded a year earlier. The Senate began to express concern over other legislative demands being ignored such as a risk mitigation plan and the lack of a peer review.

These opinions joined a rising chorus of findings from citizens groups like CARRD (<http://www.calhsr.com/>) and the Community Coalition on High-Speed Rail (<http://cc-hsr.org/>). But these were largely treated as 'systemic noise'. No visible sanctions were taken against the Authority, and its fiscal year 2009–10 budget remained at \$139.1 million for planning, design and public outreach.²

Notably, the Authority's 2009 Plan itself seemed to have lost some of its 2008 swagger. The ridership forecast had dropped nearly two-thirds from about 100 million to 39 million riders per year in 2030; the one-way LA-SF ticket had nearly doubled from \$55 to \$105. Additionally capital costs had increased by nearly a third from \$33 billion to \$43 billion. The CHSRA claims most of the increase was due to having to account for inflation. However, it's hard to believe that, in their many years of relations with the Federal Railroad Administration (FRA) the CHSRA did not know this by the time of the 2008 vote on Prop1A. And while still maintaining the fiction of a first year operating surplus of \$370 million (achieved *inter alia* by ignoring debt servicing costs) this Plan mentioned the need for a revenue guarantee (aka a legally-prohibited subsidy) five times.

Frustration expressed by the State Senate was met by vague answers as to the delivery of legislated work product, while awarding Ogilvy Public Relations \$9 million to centralize public relations. The Federal award of less than half the CHSRA's grant request was 'spun' by their PR agency as a victory, and a forthcoming CEO appointment was portrayed as the route to assuaging all criticism. While some of the luster was gone, California's Legislature still gave the Authority the benefit of the doubt.

The April State Auditor's Report (No. 2009-106) Turns The Tide – In its overview, the politically independent State Auditor's office pointed to provisions that citizens had objected to and the Authority had sidestepped after November 2008. "*According to state law, the entire network, from Sacramento to San Diego, is intended to be complete by 2020.*"³ This is a direct reference to the Prop 1A official ballot initiative's description of serving seven destination cities, which had been abridged eighteen months before to defer four destinations (Sacramento, Oakland, Riverside and San Diego). This substantial change was not explained to voters in the run up to the 2008 General Election.⁴

The Auditor's overview also pointed to the reality of fewer-than-the requisite Federal grant funds, with unlikely prospects for significantly more. *"The Authority's 2009 business plan estimates it needs \$17 billion to \$19 billion in federal funds. However, the Authority has no federal commitments beyond \$2.25 billion from the American Recovery and Reinvestment Act of 2009 (Recovery Act), and other potential federal programs are small."*⁵

Then the Auditor zeroed in on the Authority's poor management and accounting practices –

"The Authority does not have a system in place to track expenditures according to categories established by the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, its largest source of committed funding.

The Authority has not completed some systems needed to administer Recovery Act funds, for example, a system to track jobs created and saved.

Some monthly progress reports, issued by the Authority's contracted Program Manager to provide a summary of program status, contain inconsistent and inaccurate information.

*The Authority paid contractors more than \$268,000 for services performed outside of the contractors' work plans and purchased \$46,000 in furniture for one of its contractor's use, based on an oral agreement contradicted by a later written contract."*⁶

In addition, the Auditor raised other serious concerns such as asking what was a revenue guarantee, where was the mandated Peer Review Group, and why were there were poor or no financial tracking systems.⁷ The Auditor concluded its April 2010 report with ten detailed recommendations to make the Authority's business practices more responsible and credible.

Six months later, on November 4th, the Auditor reported to the Senate on progress towards completing those recommendations. The Authority, while making promises to continue their efforts to conform to the Auditor's demands, had only completed one of the ten recommendations. When asked by State Senator Joe Simitian what grade the Auditor would give the Authority on its efforts, Auditor Elaine Howle said *"Certainly less than fifty percent, Senator"*.⁸

The State Senate Demands A More Plausible Ridership

Forecast – Once as high as nearly 100 million riders by their tenth operating year (2030), the CHSRA forecast, prepared by Cambridge Systematics (CS), was geared down after Californians supported Prop 1A. But even for 39 million riders to pay into the fare box when California's population is to be forty-seven million (2030) still stretched credulity.

The 'Achilles Heel' of the Phase One project always has been the Authority's ridership forecasts. Every financial aspect is dependent on their ridership forecasts – revenues, operating expenses, and their ability to meet debt-servicing requirements. Most importantly, a plausible forecast would decide whether the project would meet its legal restrictions (AB3034) for no operating subsidy.

Citizen groups such as CARRD showed how falsely constructed the CHSRA's expensive macro-economic ridership model was.⁹ In January 2010, CHSRA Spokesman Jeff Barker admitted that what was seen by the public was different from what the Authority had seen, and Cambridge Systematics blamed the Metropolitan Transportation Commission (MTC) for not updating the model with the correct coefficients.¹⁰ This three-way finger pointing exercise allowed the Authority to ignore demands for revised projections but continued to erode confidence in the project and its elected officials' oversight.

In April 2010, California's Senate empowered UC Berkeley's Institute for Transportation Studies (ITS) to review the Cambridge Systematics model's construction. In July, ITS reported to the CHSRA Board that the model should not be used for policy decisions since many of its data sources were questionable; coefficients were used at inappropriate places and it did not follow currently-accepted best practices methodologies. The Board took no action to amend or change the CS model.

Mid-2010 – Frustration With The Legislature Turns Into Citizen Action

– Eighteen months after 'the voters spoke', Sacramento's legislators still proclaimed their allegiance to high-speed rail. But citizens were asking which project did the legislators support. Was it the initial one with a 100 million riders and a \$55 SF-LA ticket that didn't need a subsidy, or was it the 2009 Plan with lower ridership but higher ticket and construction costs, and the need for a revenue guarantee – all antithetical to the ballot promises?

It is puzzling that California's Legislature, in a nearly bankrupt state, has been willing to spend nearly a half-billion dollars (\$484 million) over the last decade on a project with such questionable financial underpinnings.¹¹ The Legislature appropriated another \$221.3 million for FY2010-11 to continue studies along the entire Phase One LA-SF route; a 60% increase

over the FY2009-10 budget of \$139 million. The current fiscal year's (FY2010-2011) appropriation amounts to spending at the rate of about \$1,000,000 (\$1 million) per working day. CHSRA got this increase despite the Auditor's Report, despite neither an investment-grade business plan nor a mitigation plan as required by AB3034, and despite CHSRA's highly questionable ridership forecasts.

However, most shocking was the increased funding despite the Authority's submission on August 5th 2010 of requests to the FRA to fund only one of four segments of the heretofore Phase One project. Why would the State continue to pay for planning all segments of the LA-SF system when the Authority tacitly admitted that only one might possibly be funded at present? By November, it was clear that the first 'section' (not segment which carries a legal definition) would be in the Central Valley somewhere between Merced and Bakersfield. Even if two segments were funded over the next decade, the second must be the least expensive – as legally required by AB3034; suggesting the second segment would also be in the Central Valley.¹² Even if the two were built, the third would be 12-15 years in the future – making most, if not all of the many studies' conclusions 'stale'.

Given those likelihoods, why spend money on engineering, environment and public relations when the FRA was to decide which part to build. This abdication of decision responsibility negates the need for expensive studies such as those being done by the outside engineering firms and managed by Parsons Brinkerhoff. These engineering and environment studies would be near worthless a decade later and certainly open to court challenge. More money wasted.

Continuing to fund the Authority or issue debt to build any portion of it seems counterintuitive in a State obligated to pay about \$5 billion in debt servicing this fiscal year on its more than \$90 billion of outstanding bonds. It makes even less sense in the light of additional, future debt servicing costs on the currently authorized, but as for now unissued, \$40 billion of State bonds.¹³

Citizens Take The Initiative – The continued State funding for the Authority, the CHSRA's shift to a Valley section and; with one exception, the lack of action by the Legislature brought forward both more community activism and a citizen's report on the project's financial risks.¹⁴ CARRD and The Community Coalition continued to work, and High Speed Boondoggle (<http://highspeedboondoggle.com/>) became the statewide grassroots organization that has taken the issue of the train from citizens' and local governments' concerns to a well organized, in-the-streets protest movement.¹⁵

Simultaneously, citizens who are economists, business and financial industry leaders produced a report on the proposed financial viability of

the project. The report, *The Financial Risks of California's Proposed High-Speed Rail Project* concluded that the project will not only not make the \$370,000,000 (\$370 million) in operating surplus its first year, but will have accumulated a minimum of \$4,000,000,000 (\$4 billion) negative cash flow starting in its first four years of operations. Even that conclusion assumes all the financial, construction and operating plans defined in the 2009 Business Plan actually occur as projected. Any different combination of funding for the project's construction or its operations leads to larger peak negative cash flows in the fifteen operating years starting in 2020; the same timeframe CHSRA used.¹⁶ Those conclusions, available in Section 5 of *Financial Risks* (<http://cc-hsr.org/>) show the proposed project could never meet AB3034's restriction to not require a subsidy; aka a revenue guarantee.¹⁷

The Authority Tacitly Admits It Has Little Chance Of Funding Its LA/Anaheim-SF Phase One project – On August 5th the Authority's Board made a strategic shift to face reality. To the surprise of many high-speed rail proponents, the Board announced that the following day it would submit proposals to the FRA to fund only one for the four segments of the heretofore Phase One project.

This wasn't a surprise to those who knew that the Federal Government's FY2011 budget likely – and ultimately did – include only about \$1 billion for a national high-speed rail program; nothing near the FY2010 national stimulus of \$8 billion. Also predictable was that the first part built would have to be in California's Central Valley since AB3034 requires the least cost segments be built first. While there were worries the Chinese or French government would step in to finance all or part of the estimated \$43 billion project, by early August that scenario had faded considerably with China's reassessment of the financial viability of its own high-speed rail commitment. And as both California's precarious financial condition and the US government's fiscal problems began to get 'top of mind' consideration, the entire project began to seem more remote.

Q4 2010 – Prospects Go From Bad To Worse – Two years after 'the voters spoke', Sacramento's legislators still proclaimed their loyalty to high-speed rail. But increasingly frustrated and articulate citizens were asking their elected leaders which project they supported; the initial 100 million riders and a \$55 SF-LA ticket that didn't need a subsidy. Or are they loyal to the 2009 Business Plan with 39 million riders, one-way SF-LA \$105 tickets, costing \$43 billion to construct and needing a State subsidy of \$35 billion to \$60 billion over the Plan's 2020 to 2035 timeframe and probably forever?

California's FY 2010-11 Budget Negotiations Required The CHSRA Submit To More Oversight; But In October Governor Schwarzenegger Vetoes Those Demands – Becoming increasingly wary of the 'good news' syndrome from CHSRA in the face of contrary evidence, the Senate negotiated budget items for more oversight. Specifically the budget provisions required:

- 1) a legal analysis of a revenue guarantee, to answer whether or not it is a disguised subsidy
- 2) a summary of expenditures for community outreach, particularly how the monies for Ogilvy are being used
- 3) a financial plan with alternative funding scenarios, since by mid-2010 it was clear there were no forthcoming private sector monies or local government grants
- 4) both investment grade business and risk mitigation plans demanded by AB3034, but never delivered,
- 5) a response to the April 2010 State Auditor's report, which roundly criticized the performance of the Program Management Contractor, Parsons Brinkerhoff,
- 6) a report on how the Authority has addressed the ten recommendations of the Bureau of State Audits (BSA)

When the budget finally passed in October, these requirements were line item vetoed by Governor Schwarzenegger.¹⁸ Not only was the Legislature outraged, but also several lawsuits from citizens groups were started, challenging the Constitutionality of the Governor's action.

In October, Six Months After The Auditor's Report, California's Inspector General (IG) Concurs With The Auditor's Findings – Governor Schwarzenegger's appointee, Inspector General Laura Chick, issued a letter to CHSRA on October 27th which starts its substantive review with "*The Authority is not fully prepared to distribute and monitor ARRA funds.*" and continues ". . . policies and procedures to ensure the appropriate expenditure of ARRA funds have not been detailed and required language is not included in contracts."¹⁹

The IG, charged with overseeing the use of ARRA funds, evaluated progress towards meeting the Auditor General's April report over the six months since it was released. At first glance, it seems to praise the Authority for implementing half of the ten Bureau of State Audits, (BSA) recommendations. But the praise is highly qualified and the IG concurred solidly with the Auditor's later comments on its ten recommendations:²⁰

While giving the Authority an essentially failing grade for responses to the Auditors report (50%), the Governor-appointed Inspector General made no recommendation to withhold any of CHSRA's FY 2010-11 budget.

November 2010 – The Senate Shifts The Burden Of Proof To The Authority – One hundred days into the start of FY2010-11, California finally got a budget in late October, with CHSRA oversight activities struck from it. The Authority and its Board may have thought they had escaped a 'silver bullet' with the Governor's veto. Not only was the Governor's action inexplicable, considering the Legislature was doing its job in its oversight responsibility, his actions may have been illegal.²¹

The cumulative effect of two years of not being in compliance with the demands of AB3034, evasive or no answers to legislators' questions; and the pressure of citizen groups brought around key senators to publically express their frustration. On November 4th, State Senator Lowenthal convened a hearing on high-speed rail ridership. The hearing started with the State Auditor's testimony (see above) that gave the CHSRA a failing grade. Then the LAO reiterated their lack of success in securing not only the data they needed for analysis, but even basic data to answer key questions asked of the Authority. Then ITS Berkeley was invited to repeat their findings on the Cambridge Systematics' model, after which they were invited to return to the dais to rebut the about-to-be-given CHSRA critique of the ITS. This was an unprecedented move.

Then Senator Joe Simitian, the State Senator who had sponsored AB3034 legislation and continued to express his loyalty to high-speed rail, asked Chair Lowenthal if he might comment. What came next was totally surprising from the cautious, process-oriented senator. His words and body language showed not only how reluctant he is to comment, but also his deep-seated frustration. When CHSRA CEO van Ark tried to persuade the Senator that he was not able to meet two years of demands, Senator Simitian ends the conversation with "I am un-persuaded by your explanation sir." The exchange is documented in a video clip at <http://www.youtube.com/watch?v=ojh2qYa2fmU&feature=related>

This was a pivotal point in the Authority's relations with their key oversight committee. The Chair of that transportation committee, Senator Lowenthal, sits on the budget subcommittee of Senator Simitian. Trust disappeared, and the burden to prove their veracity and professional capability is now the Authority's. On Friday, December 3rd, in a subsequent meeting, Senator Lowenthal said, "*I just don't have any confidence in (authority staff's) judgment that they've demonstrated so far.*"²² Nothing will be the same after that November 4th hearing.

Evidence Emerges Of Improper Conduct By CHSRA's Board And Consultants and Contractors – The CHSRA has had a Conflict of Interest Code since 2001. Some CHSRA Board members as well as CHSRA contractors may have violated various State and Federal laws regarding three issues: holding two offices which are in conflict of interest; accepting gifts and not registering those, and performing consulting contracts for beneficiaries of the CHSR project. And, according

to the former CHSRA Executive Director, some CHSRA contractors were also accepting gifts.

Note that CHSRA has very few State employees, but hundreds of consultants, contractors, and subcontractors, acting as employees. This is critically important as many of these outside vendors and suppliers, both domestic and foreign, probably plan to compete on contracts for the capital development and possibly operations phases of the Phase One.

Authority Board Chair Curt Pringle And Member Richard Katz Held Incompatible Offices – Appointed by Governor Schwarzenegger in 2007, both were held to be in violation of California law by the State Attorney General, Edmund Brown Jr.²³ This December 1st 2010 ruling was preceded by Richard Katz's resignation the week before.²⁴ Even after the ruling, Chair Pringle continued to be both Mayor of Anaheim, a key destination for the high-speed rail, and a member of the Orange County Transportation (OCTA) Board. Although no longer a CHSRA Board member, Richard Katz continues as a board member of the Los Angeles County Metropolitan Transport Authority (LA Metro) and a board member of Metrolink.

This ruling was no surprise, since in April 2010 the State's Legislative Counsel had issued a similar opinion to the Secretary of the Senate.²⁵ Nine days after his appointment in 2007, Curt Pringle voted to change the southern terminus to Anaheim as opposed to downtown LA. In May of 2007, he voted to exclude San Diego and Sacramento from Phase One. The CHSRA Board also failed to reveal this 2007 change in destinations of Phase One to voters before they were asked to decide on Prop 1A, eighteen months later in November 2008.²⁶

Board Members Under Investigation For Trips Sponsored By Foreign Governments – The LA Times' wrote articles on trips outside the US paid for by foreign governments in late 2010. Then California's Fair Political Practices Commission (FPPC), charged with enforcing ethics violations in the State government launched an investigation of four of the nine CHSRA Board members (Quentin Kopp, Curt Pringle, Lynn Schenk and Tom Umberg) as well as former Executive Director, Mehdi Morshed.²⁷ Schenk and Umberg have been officially notified by the FPPC that they are under investigation.²⁸

Board members have received gifts, as reported by some on their Form 700, the document on which state employees, officials and consultants declare any income, investments and gifts that might pose a conflict.²⁹ Even listing the gifts seems to be in violation of the Authority's own Conflict of Interest Code. While these are still allegations, they do point to potentially more widespread conflict of interest conduct.

CHSRA Contractors Accepted Gifts – CHSRA’s own ethics policy also forbids any gifts to contractors – current and potential. But in a bit of irony, during the January 6th 2010 Executive Committee meeting on ethics, then CHSRA Executive Director, Mehdi Morshed, admitted the Authority’s contractors accepted gifts. In an exchange with then-Chairman Pringle and attorney George Spanos, Morshed says *“I said let’s hope not because the contractors are accepting gifts all over the place.”* Almost immediately afterwards, Morshed repeats “ . . . well, I know, they’re getting trips and, you know, all kinds of – well, anyway.”³⁰

This kind of gift acceptance is clearly in violation of the California Conflict of Interest Code.³¹ These actions may also be in violation of more serious charges embodied in the provisions of contracts signed by contractors, agents and any party working for the CHSRA which state; *“The Consultant warrants that this Agreement was not obtained or secured through rebates, kickbacks or other unlawful consideration promised or paid to any Authority agency employee.”*³²

Chairman Pringle And Member Katz Had Consulting Contracts From Firms With Interests In The Project – Curt Pringle & Associates is a full-service public relations, public affairs and government relations firm, providing a wide range of services to both private and public sector clients.³³ Pringle has reported the income from firms that have an interest in the project, including a major construction supplier that owns property along the proposed route and a large corporate donor to the 2008 Prop 1A campaign. This seems to violate both CHSRA and FRA ethical practices. Likewise, now former Board member Richard Katz has a public relations firm and has worked for the Walt Disney Corporation, which would benefit from the proposed nearby Anaheim high-speed rail station.³⁴

Both Katz and Pringle have reported receiving more than \$10,000, which under state law is the threshold for disclosing sources of outside income from the special-interest clients. Although both may have reported the income, these contracts may represent violations of the ethics agreements between the Federal Railroad Administration (FRA) and a grantee; ie CHSRA. That code for grantees specifically states:³⁵

“the Grantee’s officers, employees, board members, or agents may neither solicit nor accept gratuities, favors or anything of monetary value from present or potential contractors or subgrantees.” [sic]

California’s Conflict of Interest Code once again may have been breached by the two members’ actions.³⁶

And the FRA code for grantees also states:

"no employee, officer, board member, or agent of the Grantee may participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved."

Similarly, since former CHSRA Executive Director Morshed stated that the Authority's contractors accepted gifts, those contractors would not be in compliance with the Authority's own Conflict of Interest Code, nor would the Authority be in compliance with enforcing that Code. Since the issue of ethics was discussed in January 6, 2010, and the two members apparently continued to perform work for clients with financial interests in the project, their actions could not have been an oversight. Chair Pringle was in the January meeting and could not claim a lack of knowledge of the ethics rules.

The FRA May Have Inappropriately Authorized Grants For CHSRA Without Fully Checking Whether Authority Board Members Or Its Contractors Complied With Both Authority And FRA Ethics Rules – Apparently none of the four Federal grants given to the CHSRA by the close of 2010 has yet been dispersed. Until funds are dispersed, formal Federal investigations cannot be put in motion. At the State level, investigators will link Board members, employees and consultants' actions to the California Conflict Of Interest Code and action taken from those findings.

If the FRA had knowledge about the dual office conflict of interests, or gifts of travel to Board members; or that CHSRA contractors had accepted gifts, or that Messrs. Pringle and Katz performed consulting work for firms with financial interests in the high-speed rail project, there could be legal complications. It would then seem that the FRA would not be in compliance with its own Grant Agreement provisions concerning personal or organizational conflicts of interest.³⁷

Some of the possible questions for the FRA to ask itself in regard to this matter are:

- a) Does the knowledge of ethical violations constitute grounds for the FRA to terminate its agreements with the CHSRA?
- b) Is the FRA required to disperse any of the several tranches of grants to the CHSRA in light of the findings of non-compliance with either the FRA or California's code on conflicts of interest?
- c) What action does FRA take against the CHSRA Board or its employees or agents because they are found to have violated those codes?
- d) What did the FRA signatories know, and when, about the CHSRA's Board and consultants being out of conformance with the ethics codes?

Federal Money Is Not Free Money – The DOT/FRA might wish Californians would appreciate the largesse of the people of the United States. But the grants for the Borden-towards-Bakersfield section are a sharp two-edged sword. For the \$2.987 billion dollars the Federal government has committed to grant to the CHSRA, the State will be required to offer buyers up to a maximum of \$2,578,000,000 (\$2.578 billion) of State bonds to match those Federal grants. In a nearly fiscally stressed state, that simply piles on more debt servicing.

If the Borden-towards-Bakersfield section actually cost only \$5.565 billion, then Californians must sell \$2.578 billion of bonds to investors. At General Obligation bond rates for California of 5.03% for 30 years, the total cost to the State retire that debt is \$5,050,000,000(\$5.05 billion).

Monthly debt servicing on those bonds is about \$14,200,000 (\$14.2 million) or \$168,000,000 (\$168 million) a year. Since debt servicing is the first obligation of the State, the second obligation, to education, must suffer. By way of example, a large California high school's operating costs are about \$50 million per year. In order to fund what has been called a 'Train to Nowhere', the existing Federal grants make the State choose between the train or closing four high schools.³⁸ Are those grants a gift or a liability California cannot afford?

The Embarrassments Of December 2010 – the last month of 2010 was a nadir for the Authority: but possibly not its last. CHSRA has participated in a charade that the high-speed rail project was continuing to move forward, but its still-unofficial Peer Review group publically called for a 'Reset Button' on further activities.

Californians Are Laughing At The Train To Nowhere – On December 2nd the CHSRA Board announced the first part of Phase One would be from Borden-to-Corcoran, a route never discussed with local residents or politicians. Merced to Fresno and Fresno to Bakersfield had been discussed, analyzed and presented to community groups over the prior eighteen months. The CHSRA's December 2nd choice brought a strong rebuke to DOT Secretary La Hood and the FRA Administrator from local Democratic Congressman Dennis Cardoza.³⁹

Following the grant of an additional \$616 million (net) from the FRA on December 9th, the southern end point was moved from south of Fresno to an unspecified location north of Bakersfield. On December 20th 2010 the CHSRA Board adopted Borden-towards-Bakersfield as the first section of its project. The possibility of that section choice meeting the 'no operating subsidy' provisions of AB3034 are stunningly improbable.

The day after the initial but unofficial November 24th Borden-to-Corcoran announcement, the CHSRA CEO admitted that there wasn't enough in their present budget for that portion to build the rail bed, install electrification, and buy rolling stock. No explanation has been given for this change, as 2009 estimates had included rolling stock and electrification costs. The increase suggests how inaccurate the entire set of 2009 estimates for other, already more expensive sections or segments, must be: nor is there a guarantee the Borden-towards-Bakersfield track bed's costs will not increase.

CEO van Ark also said that CHSRA would approach Amtrak to operate on the Borden-towards-Bakersfield tracks; legally consistent with FRA grant rules requiring track be useable by some other federally funded entity such as Amtrak, should the rest of the CHSR system not be completed. Amtrak has not stated whether it has either officially heard of that request or whether it will accept the offer.

But van Ark's announcement about Amtrak carries serious technical challenges. If that section must be built to carry heavy Amtrak equipment or freight, won't costs rise because the heavier rolling stock needs more substantial track beds? CHSRA's consultant engineers have explained that the design of the track for lightweight high-speed rail needs to be rigid and on a concrete bed; incompatible with existing conventional track, designed to flex under heavier freight and conventional passenger trains' loads. The conventional rail design parameter would render the Borden-towards-Bakersfield track useless for high-speed rail. Conversely, if the Borden-towards-Bakersfield track design follows high-speed rail specifications and conventional Amtrak trains operate on them, they would soon become unsafe for both conventional and future high-speed rail use.

If conventional rail tracks were installed first, they would need to be completely replaced if Phase One of the CHSR project ever comes to fruition. CHSRA management's objective, to build something rapidly, conflicts with its consulting engineers' knowledge. Pursuing mutually exclusive design parameters would be another example of CHSRA's ineptitude and a colossal (\$5.65 billion) waste of money.

What Price The Glory Of High-Speed Rail Without Trainsets – In January 2010, the Obama Administration awarded California \$2.25 billion for its Phase One (LA/Anaheim to SF Transbay Terminal). Some of those monies were dedicated to complementary projects, so by mid-year the Authority had \$1.65 billion for Phase One.⁴⁰ Three subsequent grants, in October and December (\$715 million, \$16 million and \$616 million net of non-high-speed rail projects) brought CHSRA another \$1.35 billion.⁴¹ The last grant of net \$616,000,000 (\$616 million) made on December 9th, redirected to California the ARRA funds that had been rejected by Governors-elect of two states.⁴²

At the close of December, the CHSRA had \$2,987,000,000 (\$2.987 billion) of Federal grants available for a Central Valley section. If matched with the proper mix of authorized State bonds (\$2.578 billion), CHSRA would have \$5,565,000,000 (\$5.565 billion) to build a Central Valley section. The CHSRA calls it a 'section' because the term 'segment' requires connecting two CHSR stations, and segments must legally meet other AB3034 requirements.

At the December 20, 2010 Board meeting CEO van Ark explained that engineering work over the next few months would determine how far south the Authority can build a section starting in Borden, going through Fresno, and towards Bakersfield. CHSRA's objective is go as far as the \$5.565 billion will allow. CHSRA's current estimates range from a total of about 80 miles, to 110 miles, or up to 123 miles.⁴³ This leads to three estimates of costs per mile, \$70 million, \$51 million, or \$45 million.⁴⁴

At over \$70 million per mile, this would be one of the most expensive civilian infrastructure projects in US history which does not serve a market in it's own right. Whatever its length, and bearing in mind the technical contradictions, that section must be part of a larger CHSRA plan. Otherwise it simply replicates an existing Central Valley Amtrak line.

Californians are asking what were the Federal and State governments thinking about this project? Can these bodies answer:

Why is the Federal Government helping fund about 15% to 20% of the Phase One (SF-LA/Anaheim) tracks, but has made no commitment to continue to grant the remaining plus-\$16 billion required by CHSRA as the Federal portion of its 2009 Business Plan capital allocation estimates?

Why can't the Federal and State governments recognize that as estimates for Borden-towards-Bakersfield section have crept past \$5.65 billion in the least-cost part of Phase One, that the final costs of the LA-SF build out are unlikely to be less than \$55 billion, and may exceed \$80 billion, not CHSRA's proclaimed \$43 billion?⁴⁵ [also see Reference note 44]

Why can't the Federal and State governments recognize the importance of the fact that twenty-five months after Prop 1A, no private sector commitments have been identified for the \$10-12 billion of private debt and equity, called out in the 2009 Business Plan? If the CHSR were even vaguely profitable, major financiers would have found the project long ago.

Why can't the Federal and State governments recognize that the required \$4.5 billion of local government grants or loans, called out in the 2009 Business Plan cannot be met; nor will be met from cash-starved cities?

Why would the Federal Government partially fund a project that, because it has no chance of ever being financially self-sustaining (the AB3034 provision), will exacerbate California's fiscal problems?

Ultimately, the legal question is whether any section of the Central Valley project is really high-speed rail. There is no rolling stock or electrification proposed, and subsidized Amtrak has not committed to using the new rails. So is the Borden-towards Bakersfield section a high-speed rail project as per FRA specifications, and the stipulations of both AB3034 and Prop 1A?

What utility will the Central Valley section serve is hard to fathom, other than pointing to poor Board leadership, the Authority's disconnect between management's goals and engineering parameters, the poor work product of its consultants and management, and the political goals of DOT/FRA officials. It has been and continues to be an embarrassment to the institutions of State government and the people of California.

The Peer Review Group Met And Issued A 'Push The Reset Button' Report – Although required by AB3034 (Section 185035 of the Public Utilities Code) a Peer Review Group never convened in 2008 or 2009. Members of the Peer Review Group first convened in June 2010, then conferred four times subsequently. The Group, chaired by Will Kempton, formerly director of California DOT, reported, "*There is now considerable uncertainty and unreliability of federal funding combined with the state's structural deficit, overreliance on federal funding and budget unpredictability,*" and "*The lack of a clear financial plan is a critical concern,*" and an "*air of unreality*" about expectations that the federal government will grant them \$17 billion to \$19 billion.⁴⁶ Other items from the peers include: ⁴⁷

The "*absence of a credible financial plan*" has become a "*critical concern*". The Authority needs to define more clearly what role various involved parties should play with regard to the project's ownership, construction, financing and general management;

Authority officials need to be more forthcoming about how they think the project will be affected by changing estimates of passenger demand, revenues, investment costs, operating costs and project timing;

A legal opinion is required to distinguish the 2008 bond measure's prohibition on any public "operating subsidy" from the private sector's request for revenue guarantees;

Essentially, the Peer Review Group wishes to re-start the entire project. Whether that requires simple legislative approval, or whether AB3034 and Prop 1A must be rescinded to accomplish that needs to be answered. But even the peers believe the project as presented today is gravely, if not mortally wounded.

An Unfolding Financial and Political Tragedy – The visionary concept of CHSR has been plagued with consultants' and contractors' questionable work product, managed by a small and inexperienced CHSRA staff and overseen by a politically appointed Board with no expertise in building or operating a high-speed rail system. The results have been poor, if not manipulated, work products, badly managed work processes, community alienation throughout the state and shoddy governance by the Board. In their defense, since no high-speed rail system in the world is without financial subsidies, their position has always been untenable. But why this embarrassment has continued so long – and by mid-2011 will have cost Californians nearly a half-billion dollars – is not defensible.

As the *Financial Risks* report shows, the CHSR project is likely headed towards never-ending subsidies. Debt incurred in its first fifteen operating years could range from \$20,000,000,000 (\$20 billion) to \$60,000,00,000 (\$60 billion). Falling on top of California's current debt load of about \$90,000,000,000 it could well contribute to the State's bankruptcy. For a State government, whose fiscal situation is already precarious, this would be a financial tragedy.

But the greatest risk to not being able to build the legally demanded, financially sustainable section, segment or system is yet another loss of faith in government to lead, to plan in the public interest and to provide cost-effective services. Inaction in the face of solid evidence of the unfolding financial tragedy and the intransigence of the Authority to change its behavior makes citizens lose confidence in elected officials' duty to protect their state's best interests. Once lost, that confidence is not regained for decades, if then. Thus the loss of faith in the political process would be the real tragedy that California cannot afford.

REFERENCE NOTES TO TRAIN TO NOWHERE BUT BANKRUPTCY

- ¹ Cox, Wendell. Vranich, Joseph and Moore, Adrian; The California High Speed Rail Proposal: A Due Diligence Report; Reason Foundation, Policy Study 370, September 2008. See: <http://reason.org/news/show/1003044.html/>
- ² California State Auditor Report 2009-106; April 2010; page 7.
- ³ Ibid. CA Auditor Report; page 1
- ⁴ As adopted in August 2008, the final text of AB3034, Article 2. High-Speed Passenger Train Financing Program (c) (2) says "As adopted by the authority in **May 2007**, Phase 1 of the high-speed train project is the corridor of the high-speed train system between San Francisco Transbay Terminal and Los Angeles Union Station and Anaheim." (emphasis is mine) There are two sources for the assertion that there was no explanation to voters about eliminating four destinations. First, The Official Voter Information Guide says "Routes linking downtown stations in SAN DIEGO, LOS ANGELES, FRESNO, SAN JOSE, SAN FRANCISCO, and SACRAMENTO, with stops in communities in between." Yet Phase One is only for funding the LA/Anaheim to the San Francisco Transbay Terminal. See: <http://www.voterguide.sos.ca.gov/past/2008/general/argu-rebut/argu-rebutt1a.htm>. Also see Official Voter Information Guide; California General Election, Tuesday November 4, 2008' a PDF file found at <http://www.google.com/search?q=official+voter+information+guide+california+general+election+Tuesday+November+4+2008&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a>
- ⁵ Ibid. CA Auditor Report; page 1
- ⁶ Ibid. CA Auditor Report; page 1-3
- ⁷ Op.cit. Specifically, these concerns were: a) A 'revenue guarantee' actually being a disguise for a prohibited operating subsidy. This is the same point also raised by the Legislative Analyst's Office (LAO) and the Senate. b) There had been no guidance from a peer review group because only five of the eight members had been appointed. c) The Authority lacked systems to comply with state law regarding bond funds since "the Authority is unsure how it will classify the expenditure of bond proceeds and does not have a system for tracking expenditures by category." d) Contractors accounted for 95 percent of the program's total expenditures over the past three fiscal years, the largest being its Program Manager, Parsons Brinkerhoff. Yet "its processes for monitoring the performance and accountability of its contractors—especially the entity that has been contracted to manage the program (Program Manager)—are inadequate." e) The Authority does not generally ensure that invoices reflect work performed by contractors. Authority staff paid at least \$4 million of invoices from regional contractors received after December 2008 . . .without documenting notification. f) "The Authority made some payments that did not reflect the terms of its agreements" with its contractors.
- ⁸ State Auditor Elaine Howle speaking in response to the question by Senator Joe Simitian; November 4th 2010; Senate Subcommittee on Transportation hearing on California high-speed rail ridership.
- ⁹ *The Financial Risks Of California's Proposed High-Speed Rail Project*; October 2010; pages 49-50. Found at www.CC-HSR.org
- ¹⁰ See: Tomlach, Richard F; "How HSRA gamed ridership data to favor Pacheco Pass route"; September 1, 2010; California Rail News.
- ¹¹ CHSRA 2009 Business Plan, page 8, Project Expenditure History. This table tracks expenditures from FY 1997/98 through 2009/10. In October 2010 another \$231 million was approved for the CHSRA.
- ¹² The announcement of the then-first segment, roughly 54 miles between Corcoran to Borden, CA was on 24 November 2010.
- ¹³ Legislative Analyst's Office, Debt Service Information; Memorandum to Members, Senate Natural Resources and Water Committee; October 30, 2009. According to Bloomberg, California's debt is now considered nearly as risky as Kazakhstan's. In March 2010, California was given a BBB by Fitch Ratings and A- by Standard & Poor's – four levels above non-investment grade. Both rating companies rate Kazakhstan lower, at BBB-, one step above high-risk, high-yield junk. In January 2010, Jamie Dimon, CEO of JPMorgan Chase, said "The cost to insure California's debt with credit default swaps is now higher than debt of developing countries, such as Kazakhstan, Lebanon and Uruguay. It costs \$277,000 per year for five years to insure \$10 million in California debt, compared with \$172,000 for Kazakh debt." See: <http://articles.latimes.com/2010/apr/06/opinion/la-oe-crane6-2010apr06>
- ¹⁴ In March 2010, Assemblywoman Diane Harkey (R - San Juan Capistrano) introduced AB2121, Eliminate Funding for High Speed Rail. While the Bill was amended to include more oversight, it did not become law during 2010.
- ¹⁵ On July 30th 2010 the Bay Area Business Council issued a letter condemning the actions of the Peninsula Cities Coalition, a group of (then) five mayors of Peninsula cities who began to question both the logic of high-speed rail and the impacts it would have on their communities. See: <http://www.bayareacouncil.org/news/2010/08/02/bac-sends-pointed-letter-to-peninsula-cities-consortium-pcc-about-high-speed-rail/>
- ¹⁶ Enthoven, Alain; Grindley, William; Warren, William; *The Financial Risks of California's Proposed High Speed Rail Project*; October 12, 2010. Found at <http://www.google.com/search?q=financial+risks+of+california%27s+high+speed+rail+project&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a>
- ¹⁷ The *Financial Risks* report was cited in the December 11th 2010 lead editorial of the Wall Street Journal. See: *Subsidy Trains To Nowhere* at; http://online.wsj.com/article/SB10001424052748703440004575548494055265092.html?mod=googlenews_wsj
- ¹⁸ See: CARRD, High Speed Rail Legislative Update: October 13, 2010; California State Budget October 2010 Impacts to High Speed Rail Project; at www.calhsr.com
- ¹⁹ Laura N. Chick, Inspector General, State of California; October 27th, 2010
- ²⁰ Office of the Inspector General; State of California; American Recovery Act Funds: Final Review Report—Review of the California High Speed Rail Authority; October 27, 2010; pages 4-6 Legislative Analyst's Office,

Memorandum to Members of the Senate Natural Resources and Water Committee; From Jason Dickerson; October 30, 2009. Specifically, the ten points noted by the IG were: No. 1 – the Authority had only that month appointed an official financial consultant, despite financial forecasts and plans being part of its 2008 and 2009 Business Plans. No. 2 – The Authority had never clarified what they meant by a revenue guarantee and why that was not a prohibited subsidy. No. 3 – The Authority did not have an in-house Project Control and Risk Management Manager to complete the Legislature's 2008 and 2009 demands for a risk management plan. No. 4 – An informal legal opinion was that the Peer Review group was not subject to the Open Meeting Act, but only three of the eight members were appointed. No. 5 – The Authority contracted with an IT consultant to track documents; but six months on can only promise the database to be operational after another six months. No. 6 – The Auditor recommended the Board be more engaged in policy and procedures. Whether or not they actually follow the Auditor's recommendations is not addressed. No. 7 – The Authority was to amend the Project Management Oversight Consultant's work plan to include a critical review of progress for accuracy and consistency. But there is no independent authority or executive to affirm new documents actually meet those requirements. No. 8 – To respond to the Auditor's critique of CHSRA paying contractors without independent verification of work completed, the Authority developed forms, but the *"recommendation has not been fully implemented . . ."* No. 9 – While the IG said the Auditor's recommendation was adequately addressed, it did not delve any deeper than investigating eleven consulting contracts totaling \$8.9 million. No. 10. The IG cited an addition to the Administration Manual as solving the problem of lack of controls over invoice processing; but with only a month of that Manual being in place, had no basis for concluding the problem was solved. See: <http://www.google.com/search?q=debt+servicing+obligations+State+of+California&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a>.

²¹ The California Supreme Court said, "In the context of the constitutionally prescribed budget process, the power to appropriate public funds belongs *exclusively to the Legislature*."

²² See: "Peer report calls for thorough reassessment of high-speed rail project": December 3, 2010, on Bakersfield.com. See: <http://www.bakersfield.com/news/local/x716461163/Peer-report-calls-for-thorough-reassessment-of-high-speed-rail-project>

²³ For an analysis of the Katz and Pringle appointments and the subsequent decisions favoring Anaheim and eliminating San Diego as a Phase One destination, see CARRD's excellent descriptions and timelines at <http://www.calhsr.com/resources/incompatible-offices-conflict-of-interest/>

²⁴ Attorney General says local transit officials cannot sit on state bullet train board; *Los Angeles Times*; December 1, 2010. See: <http://latimesblogs.latimes.com/lanow/2010/12/attorney-general-concludes-that-local-transit-officials-cannot-also-serve-on-state-bullet-train-board.html>

²⁵ See: Legislative Counsel Diane Boyer-Vine letter of opinion to Secretary of State Gregory Schmidt of April 23rd, 2010. The six pages *inter alia* state "an individual who is Mayor of the City of Anaheim or a voting member of the Los Angeles County Metropolitan Transportation Authority may not simultaneously serve as a member of the High-Speed Rail Authority under the common law doctrine on incompatibility of public offices that is now codified in Section 1099 of the Government Code" Why is took Attorney General, now Governor-Elect, Jerry Brown more than six months to make his ruling has been questioned by citizens groups across the state. Curt Pringle claims the ruling was politically motivated by Democrats and has little merit as he has only a few months to serve.

²⁶ The Official Voter Information Guide says "Proposition 1A is a \$9.95 billion bond measure for an 800-mile High-Speed Train network that will relieve 70 million passenger trips a year that now clog California's highways and airports WITHOUT RAISING TAXES. . . Proposition 1A will protect taxpayer interests." (emphasis in original): See <http://www.voterguide.sos.ca.gov/past/2008/general/argu-rebut/argu-rebut1a.htm>

²⁷ See: <http://articles.latimes.com/2010/nov/10/news/la-highspeed-ethics-m>

²⁸ Both were notified in a letter from Roman Porter, FPPC Executive Director on 29 October 2010. (letter's contents are partially redacted)

²⁹ The High Speed Rail Authority Conflict of Interest Code, based upon the Political Reform Act of 1974, as amended; Government Code Sections 1090 et seq. and 87100 et seq, states: "No Authority member, consultant or employee shall solicit or accept for personal use, directly or indirectly, from any person, corporation or group, any gift, gratuity, entertainment or loan from representatives of any organization which provides, or is desirous of providing, goods or services to the Authority." This clarifies that consultants are bound by the same code of conduct as employees or Board members.

³⁰ Transcript from January 6th 2010 CHSRA Executive Committee meeting. Available through the CARRD web site. The subject is part of the agenda, Item 3, for the regular Executive Committee meeting. See: http://www.cahighspeedrail.ca.gov/2010_January.aspx Or hear:

http://www.cahighspeedrail.ca.gov/images/chsr/20100126133012_Jan_6_2010_Exec_Admin_Cmte.mp3

³¹ See: Contractors' Agreement; Exhibit D, Special Terms and Conditions; Exhibit D, subparagraph C which states "The Contractor and its employees, and all subcontractors and employees shall comply with the Authority's Conflict of Interest Code.

³² See: Contractors' Agreement; Exhibit D, Special Terms and Conditions, paragraph on Rebates, Kickbacks or Other Unlawful Consideration.

³³ See: <http://curtpringle.com/>

³⁴ High-speed rail leaders receive consulting fees from firms with financial interests in project; Rich Connell, *Los Angeles Times*; October 31, 2010. See: <http://articles.latimes.com/2010/oct/31/local/la-me-high-speed-ethics-20101031>

³⁵ Taken from the Grant/Cooperative Agreement; FR-HSR-0009-10-01-00 between the DOT/FRA and the California High-Speed Rail Authority; for Project Performance Period from 08/17/2010 to 12/31/2012. This grant, for \$194 million, carries IRS Vendor Number 91-1879327 and Duns No. 011075376.

³⁶ The High Speed Rail Authority Conflict of Interest Code is pursuant to Government Code Section 87303 and was approved on June 27th 2001. See PDF Appendix A item in Google at

<http://www.google.com/search?q=Conflict+of+Interest+Code+California+High+Speed+Rail+Authority&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a>

³⁷ See: August, 2010 FRA-CHSRA Agreement; General Agreement Attachment 2, Item 3, Ethics (page 12 of 25)

³⁸ The term "Train To Nowhere" seems to appear first in a letter from Congressman Dennis Cardoza (D) to Secretary Ray LaHood and FRA Administrator Joseph Szabo dated November 30, 2010. See:

<http://cardoza.house.gov/index.cfm?sectionid=87&itemid=701>

³⁹ Letter to DOT Secretary Ray LaHood and FRA Administrator Joseph Szabo; November 30, 2010.

⁴⁰ Grant/Cooperative Agreement Number FR-HSR-0009-10-01-00; to IRS/Vendor No. 91-18979327; project performance period 08/17/2010 to 12/3/2012

⁴¹ The January 2010 FRA grant of \$2,250,000,000 grant came from the American Recovery and Reinvestment Act (ARRA) for the then-Phase One from Los Angeles/Anaheim to San Francisco. Of that \$2.25 billion, \$400,000,000 was earmarked for the SF Transbay Terminal and \$194 million for environmental and engineering studies. The net in mid-2010 for the CHSR project was \$1,656,000,000 (\$1.656 billion). In October, the FRA granted CHSRA \$715,000,000 from Fiscal Year (FY) 2010 High-Speed Intercity Passenger Rail (HSIPR) funds. Again in October, FRA granted CHSRA another \$16,000,000 from HSIPR funds. On December 9th, 2010, after the Governors-elect of Wisconsin and Ohio announced they did not want ARRA funds for rail projects, the FRA redirected \$624,000,000 to California, but \$8,000,000 of that was already allocated for non high-speed rail projects. These can be matched with State of California funds, which with the exception of the \$715 million 70% Federal, 30% State match is a dollar-for-dollar match. As of late December 2010, the CHSRA has \$2.987 billion from two Federal sources (ARRA and HSIPR/SPD FY2010) available for is now Corcoran-towards-Bakersfield segment in California's Central Valley. Matched with qualifying State funds of \$2.678 billion, CHSRA would have available \$5.565 billion.

⁴² US Department of Transportation Redirects \$1.195 Billion in High-Speed Rail Funds; a DOT announcement on December 09, 2010. See: <http://www.fra.dot.gov/Pages/press-releases/231.shtml>

⁴³ In the December 20, 2010 CHSRA Board meeting, CEO Roelof van Ark stated that the redirected \$618 million would allow the CHSR to go from south of Merced to Fresno and on towards the northern outskirts of Bakersfield for a total distance of 123 miles. The original December 2, 2010 plan for Borden to Corcoran was 65 miles for a cost of \$4.15 billion without rolling stock or electrification. In the December 20, 2010 Board presentation two alternatives were proposed for the Corcoran to north of Bakersfield extension. Alternative 1A would add 15 additional miles, for a total of 80 miles. This lowest estimate of an additional 15 miles coincides with the per mile costs of the original Corcoran-to-Borden section, announced on December 2nd. Alternative 1B would add 45 additional miles, for a total of 110 miles. CEO van Ark told the Board that he intended to go up to 123 miles, slightly more than the Board's presentation of Alternative 1B. CEO van Ark also told the Board that they have \$5.565 billion available, and that engineering and design decisions over the entire section (starting in Borden and going south) over the next few months will determine if they go a total of 80 miles (Alternative 1A), a total of 110 miles (Alternative 1B), or a total of 123 miles. This last distance is CEO van Ark's stated goal to the CHSRA Board.

⁴⁴ The cost per mile in the 2009 Business Plan for the Merced-to-Fresno-to- Bakersfield segments was about \$45 million per mile (+/-10%). This must be adjusted downward to about \$36 million per mile (+/-10%) to remove costs not reflected in the December 2010 estimate, such as electrification, system elements, testing and commissioning, and rolling stock. Comparing the adjusted downward 2009 estimate of \$36 million per mile estimate to the December 2010 estimate of \$70 million (Alternative 1A), \$51 million (Alternative 1B), to \$45 million (van Ark's verbal statement) per mile range, raises serious questions about the 2009 Phase One estimate of \$43 billion. Those potential 25% to 42% to 95% cost increases in rural areas suggest Phase One estimates should be in the range of \$54 billion to \$84 billion or more (not \$43 billion) to account for building in suburban and urban areas.

⁴⁵ See: Dan Walters: [Sacramento Bee](#); New Study Sharply Criticizes high-speed rail project: December 3, 2010.

Find at <http://blogs.sacbee.com/capitolalert/latest/2010/12/new-study-sharply-criticizes-h.html#ixzz17GBmURAz>

⁴⁷ John Cox; Peer report calls for 'thorough reassessment' of high-speed rail project: [Bakersfield.com](#); December 3, 2010. See: <http://www.bakersfield.com/>