

Statement of Brian P. Kelly
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Hearing on “*Continued Oversight of the California High-Speed Rail Project*”
Before the Subcommittee on Railroads, Pipelines, and Hazardous Materials
Committee on the Transportation and Infrastructure
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Chairman Denham, Acting Ranking Member Garamendi, and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the California High-Speed Rail program as part of the Subcommittee on Railroads, Pipelines, and Hazardous Materials ongoing oversight. I am Brian Kelly, Chief Executive Officer of the California High-Speed Rail Authority (Authority). I was appointed to my current position by the Authority’s Board of Directors in January 2018 and since I began the job on February 1, I have dedicated myself to producing the Authority’s 2018 Business Plan, the Program Baseline, and a new Project Management Plan that re-organizes the Authority to focus resources on key needs to deliver this project.

In this testimony, I will highlight major areas of progress the Authority has made since this Subcommittee’s last oversight hearing in June 2017. I will also summarize the key elements of the Authority’s 2018 Business Plan,¹ including the challenges we currently face and our plans to address those challenges so that we can deliver the modern, efficient high-speed rail system that California voters demanded ten years ago.

Mr. Chairman and Acting Ranking Member, much has happened since this Subcommittee’s last oversight hearing. Construction of the 119-mile Central Valley segment continues to advance, with completion of several major structures and more becoming clearly visible throughout the region. This construction has put more than 2,000 men and women to work on good paying jobs, and our work to date has been bolstered by more than 400 California-based small businesses, including Disabled Veteran Businesses. All told, the high-speed rail project has already generated between \$5 and \$6 billion in economic activity.

While tremendous progress is being made on the project, we are also facing cost and schedule pressures that are not unusual for megaproject of this scale, but must be addressed by implementing a new way of doing business at the Authority. In this testimony I will outline those issues as well as our approach to applying lessons learned to date to ensure we do not face the same challenges in the future.

Finally, I want to be clear that in this constrained funding environment, one fundamental truth remains evident about this project – as was the case when the voters of California passed Proposition 1A in 2008, the project does not have all of the dedicated funding necessary to complete the entire Phase 1 system. This fact requires us to build the project in stages. While

¹ [The California High-Speed Rail Authority 2018 Business Plan](#)

we complete environmental work statewide and ready all segments for investment as resources materialize, our fundamental objectives remain unchanged from the 2016 Business Plan: to initiate high-speed rail passenger service as soon as possible so we both demonstrate its benefits and begin generating revenues that will then attract private sector participation and help fund extending the system beyond an initial operating line. And while delivering an initial operating line, we will also make strategic concurrent investments throughout the state that will provide early benefits to local communities and regional transportation systems while linking those segments together over time. We believe this approach remains prudent and doable, and I look forward to sharing our plans with the Subcommittee today.

I. Major Areas of Progress

A. Construction, Jobs and Small Businesses

Mr. Chairman, construction has significantly advanced since the last time the Authority appeared before this Subcommittee. Our progress includes:

- Three Construction Packages have advanced to create an overall investment of \$3.08 billion through January 31, 2018 on construction related activities in the Central Valley;
- Bridges, viaducts and grade separations are becoming clearly visible at multiple locations, with 20 major projects currently underway;
- Three major structures have been completed—the Cottonwood Creek guideway structure, the Fresno River Bridge and the new Tuolumne Street Bridge, which opened to traffic in August 2017;

For more detailed construction updates, including videos of our progress, please visit buildhsr.com.

This construction progress has brought with it great benefits to California workers and small businesses, as the Authority maintains its aggressive 30 percent goal for small business participation. I am proud to report that there are 437 small businesses on the project, including 142 DBEs and 52 DVBEs.

Additionally, you may recall that in June 2017 the Authority had dispatched approximately 1,200 craft labor workers to its design-build construction package sites. Mr. Chairman, there are now over 2,000 dispatched workers on the high-speed rail project, a number that has had a decidedly positive impact on the Central Valley's economy.

Mr. Chairman, Acting Ranking Member, and Members of the Subcommittee, our Chairman has extended an invitation to you to tour our Central Valley construction sites. That invitation remains open and I would be pleased to take you on a tour to see the structures, talk to the workers, and experience firsthand the effect of this transformative investment on the Central Valley.

B. September 30, 2017 American Recovery and Reinvestment Act (ARRA) Deadline

At the time of this Subcommittee's last field hearing, construction of California's high-speed rail project was being fully supported by the approximately \$2.5 billion in funds made available by ARRA through the Authority's partnership with the Federal Railroad Administration (FRA) and its participation High-Speed Intercity Passenger Rail (HSIPR) program.²

Mr. Chairman, I am pleased to report to you today that the Authority, thanks to its strong partnership with the FRA, was able to meet the September 30, 2017 statutory deadline for expenditure of ARRA funds. Moving forward, construction will be funded by using state resources (outlined in Section C) until the additional Fiscal Year 2010 federal funding can be applied to the project per the Authority's grant agreement with the FRA.

When ARRA was enacted, its stated purpose was to create jobs, aid the economic recovery of the nation's poorest areas, spur technological development, and build new transportation infrastructure that provides long-term economic benefits. Based on my testimony today, we believe it is clear that California's high-speed rail program made a significant contribution to achieving those goals.

C. State Funding: Cap and Trade and Proposition 1A

Mr. Chairman and Acting Ranking Member, while the federal government is a critical and necessary partner in the high-speed rail program both today and in the future, the majority of funding currently committed to the program is being provided by the state of California.

Indeed, the Authority has made significant advancements to access and expend state funds to build high-speed rail. Last year, Assembly Bill (AB) 398 was approved by the Legislature and signed into law by Governor Edmund G. Brown Jr. AB 398 strengthened and extended the horizon of the Cap-and-Trade Program by 10 years through December 31, 2030. This represents a forecast of \$7.5 billion in additional funding, which is another important step taken by the state to solidify funding for the project. Since AB 398 was passed, quarterly Cap-and-Trade auctions have been strong and consistent – an indication that the market has reacted positively to the legislation and that the proceeds will be a more reliable source of funding to advance the high-speed rail program. To date, \$2.04 billion in Cap-and-Trade proceeds has been appropriated for high-speed rail.

Over the last year additional steps were taken to access Proposition 1A funds to continue work and begin to meet the FRA grant's match requirements. The Authority has now accessed \$1.632 billion of Proposition 1A construction bonds and is putting them directly to work in the Central Valley.

² The Authority received a \$2.552 billion Federal Railroad Administration (FRA) High-Speed Intercity Passenger Rail (HSIPR) grant funded by ARRA, a \$928 million HSIPR grant funded by the Consolidated Appropriations Act, 2010 (Fiscal Year 2010 Appropriation Act, P.L. 111-117), and other funds made available through federal appropriations and grants.

Additionally, the Authority has accessed the \$600 million in Proposition 1A bond funds appropriated for Caltrain's Peninsula Corridor Electrification Project. We have also committed \$114 million of Cap and Trade proceeds to this vital project, which represents 36 percent of the total funding. When completed, an electrified Caltrain will provide immediate environmental and service benefits to Bay Area commuters while paving the way for high-speed rail access to San Francisco in the future.

In Southern California, the Authority has accessed \$76.67 million of Proposition 1A bond proceeds to contribute to the \$155.3 million Rosecrans-Marquardt grade separation project cost. The grade crossing is currently rated by the California Public Utilities Commission as the most hazardous in the state. The 2018 Business Plan contemplates that the remainder of the \$500 million appropriated for projects in Southern California will be dedicated to the Link US project that will modernize Los Angeles Union Station to improve passenger rail operations and ready the station for high-speed rail's future integration.

D. Progress on Environmental Clearance and National Environmental Policy Act (NEPA) Assignment

The 2018 Business Plan reaffirms the Authority's commitment to the FRA grant agreement's requirement for completion of environmental review on all segments by 2022.

Over the last two years, the Authority reached major milestones in advancing environmental clearances on two Central Valley extensions including:

- The release of the Draft Supplemental Environmental Impact Report/Environmental Impact Statement (EIR/EIS) for the Locally Generated Alternative in the Bakersfield area of the Fresno to Bakersfield Project Section. Final environmental clearance of this section is scheduled for October 2018.
- The selection of a preferred alternative for the Central Valley Wye area of the Merced to Fresno Project Section near Chowchilla.
- This fall, our board will move forward to adopt a final EIR/EIS for the Bakersfield Locally Generated Alternative and will consider the adoption of preferred alignments for the four segments South of Bakersfield.

The Authority and FRA have also been working cooperatively over the last year on the assignment of responsibility for compliance with NEPA to the state of California. In November 2017, a draft application for that assignment was released for public review and comment. In May of this year, the FRA published California's final application for assignment and a draft Memorandum of Understanding (MOU) in the Federal Register, starting a 30-day public comment period that ended on June 1.

The NEPA Assignment Program is designed to streamline environmental reviews, find efficiencies where possible and complete the process faster, without diminishing the rigor of the environmental analysis or the opportunities for the public meaningfully to engage with the program. We look forward to our continued work with the FRA to make those goals a reality. We are anticipating a final decision on the NEPA assignment this summer.

E. Early Train Operator Procurement

The 2016 Business Plan included a procurement strategy that called for an Early Train Operator (ETO) to be brought on as soon as possible to be a long-term partner into the high-speed rail operations and ridership ramp-up phase.

Strategically partnering with a private sector operator will help ensure that the system is designed to enhance its ultimate commercial value and profitability. The ETO will help the Authority reduce any early-year losses as the system is ramping up and optimize system performance while maximizing revenue generation with the goal of creating enterprise value in a financially non-subsidized high-speed rail train system.

In November 2017, the Authority awarded the ETO contract to DB Engineering & Consulting USA. DB Engineering & Consulting USA has extensive international high-speed rail delivery, operations and maintenance experience. The ETO will be a key partner for the Authority moving forward in the areas of: procurements for trains, track and systems; maintenance facilities; station design and passenger operations; revenue collection; market brand; and, financial planning and modeling, including ridership and revenue estimation. Under my direction, the ETO is currently conducting a detailed analysis on the cost estimates included in the 2018 Business Plan and on potential interim service options that I will further detail later in my testimony.

II. Key Elements of the 2018 Business Plan

A. Core Tenets and Commitments in 2016 Business Plan Remain Unchanged

Mr. Chairman and Acting Ranking Member, as you know the Authority is required by California state law to produce a Business Plan every two years. On March 9, we released the Draft 2018 Business Plan beginning a 60-day public comment period before the plan was finalized, approved by our Board of Directors in May, and submitted to the California State Legislature on June 1.

The 2018 Business Plan describes the same developments I have so far shared with you today. It also presents updated ridership, revenue and other forecasts, and discusses the various challenges facing the program that I will detail later in my testimony.

In addition to these updates, the 2018 Business Plan is fundamentally based on the same goals as the 2016 Business Plan. First and foremost, we remain committed to meeting the requirements of our grant agreement with the FRA. Additionally, we maintain the following organizational tenets:

- Initiate high-speed rail service in California as soon as possible.
- Make strategic, concurrent investments that will be linked over time and provide mobility, economic and environmental benefits at the earliest possible time.
- Position ourselves to construct additional segments as funding becomes available.

We believe these key principles remain sound, and they will continue to guide our decision making as I will outline later in this testimony.

B. Changed Circumstances and Challenges Demand a New Way of Doing Business

As you know, Mr. Chairman, in January of this year the Authority announced that costs on the first construction section in California’s Central Valley had risen. This means that the Central Valley segment will cost \$10.6 billion as opposed to the 2016 Business Plan estimate of \$7.8 billion. As described in the 2018 Business Plan, this cost growth is attributable to risks that were identified in previous business plans, but are now being quantified and included in our estimates.

These risks were primarily generated from issuing construction contracts early in a process that was focused on project development and planning. There were many unknowns remaining, and setting fast-track schedules to meet the ARRA spending deadline increased risk by requiring multiple concurrent activities.

As described in Chapter 4 of the 2018 Business Plan titled *Lessons Learned and Managing Risks*, the Authority has made a number organizational changes and applied new management principles to ensure that these types of issues do not affect future construction segments. For example, the Authority will no longer move into construction without having acquired right-of-way and secured necessary third party agreements, thus reducing the risk of cost and schedule growth.

By applying these lessons learned, the Authority also has new cost estimates for the Valley to Valley Line (San Francisco to Bakersfield) and the Phase I system (San Francisco to Los Angeles). As you can see from the graphic I have provided, the major drivers of new costs on Valley to Valley and Phase I are inflationary growth due to extended schedules, the increase of contingency levels based on our experience to date, and previously identified costs tied to construction delays in the Central Valley.

	2016 CAPITAL COST	CARRYOVER INCREASE	ESCALATION IMPACT	CONTINGENCY INCREASE	NET DESIGN/ SCOPE INCREASE	CENTRAL VALLEY INCREASE	TOTAL	INCREASE SINCE 2016	EXTENSION TO SF, BAKERSFIELD	NEW TOTAL
CV	\$7.8B					\$2.8B	\$10.6B*	\$2.8B	N/A	\$10.6B
V2V	\$20.7B	\$2.8B	\$1.4B	\$1.6B	\$1.1B		\$27.7B	\$7.0B	\$1.9B**	\$29.5B
PH1	\$64.2B	\$7.0B	\$2.1B	\$3.0B	\$1.1B		\$77.3B	\$13.1B	N/A	\$77.3B
Cost Increase Drivers			\$3.5B	\$4.6B	\$2.2B	\$2.8B				

*Updated Central Valley estimate-at-complete
**Represents minimal capital investment to extend Silicon Valley to Central Valley to San Francisco and Bakersfield; full build-out of these sections are captured in PH1 crosswalk numbers
Notes: Totals may not sum due to rounding

Included in these updated capital costs is the introduction of cost ranges to the Authority’s estimates. Delivering the high-speed rail program involves the implementation of a series of highly complex, integrated megaprojects. As we move the program forward there are, and will

continue to be, uncertainties around cost, funding and timing. Apart from the 119-mile Central Valley Segment, which is under construction, most of our current cost estimates are based on preliminary environmental reviews, design and alignment assumptions that are still early in the project lifecycle process. Our past practice has been to provide point estimates too early in the process. In the 2018 Business Plan, we present cost ranges to more accurately reflect where we are in the project development process. I have provided an additional graphic to summarize these ranges.

	LOW (YOE \$ BILLIONS)	BASE (YOE \$ BILLIONS)	HIGH (YOE \$ BILLIONS)
Central Valley Segment	\$10.1	\$10.6	\$12.2
Silicon Valley to Central Valley Line*	\$25.1	\$29.5	\$36.8
Phase 1 System **	\$63.2	\$77.3	\$98.1

*Silicon Valley to Central Valley - YOE\$ based on completion date of 2029
**Phase 1 YOE\$ - 2033 was used as basis for projecting YOE\$

Clearly, the risk and complexity associated with delivering this program of megaprojects requires the Authority to change the way it manages, makes project-level decisions and plans for future construction. We have taken many positive steps over the last year on this front, including bringing in new executive leadership and implementing strengthened programmatic decision making processes – this includes the development of a Program Baseline that I will summarize in further detail later in my testimony.

Finally, our Board’s Finance and Audit Committee continues to hold monthly meetings where the project’s status, including budgets and schedules, are transparently disclosed to the public. Through these measures, our intent is to develop a track record of improved performance.

C. New Implementation and Delivery Strategy

Mr. Chairman and Acting Ranking Member, as I described earlier, our key objectives remain the same. However, the changed circumstances I have also laid out have led us to a new implementation and delivery strategy. In the 2018 Business Plan, we now define the Silicon Valley to Central Valley Line as service between San Francisco and Bakersfield. This line has stronger ridership potential and higher commercial value than the shorter line between San José and Poplar Avenue (north of Bakersfield) laid out in the 2016 Business Plan. This is a strategic enhancement that will generate higher revenue which can then be used to help fund expanding the system in Southern California. Connecting Merced as part of this initial line remains a high priority, but, as in 2016, funding for this connection still must be identified.

Due to the increased project scope and the cost challenges I have described, the Silicon Valley to Central Valley line is facing an estimated funding shortfall that is approximately equivalent to the cost to construct the tunnels through the Pacheco Pass—the critical link between the Silicon Valley and the Central Valley. In more detailed terms, our current projections of total Silicon Valley to Central Valley funding available is \$19 billion to \$26.8 billion from federal and state

resources. Our estimate of the cost to build the Silicon Valley to Central Valley Line is \$29.5 billion.

Mr. Chairman, I want to clarify why our estimated available funding is presented in what may seem as a broad range. As you know, a significant amount of state funding dedicated to the project comes from California's Cap and Trade program. While the project is guaranteed 25% of those revenues, the total amount of revenue generated by the program on a quarterly basis is variable. While those revenues have stabilized thanks to the passage of AB 398, they remain subject to projection and estimates.

For the purposes of the 2018 Business Plan we assume that \$750 million in annual Cap and Trade proceeds will be dedicated to the high-speed rail project. We believe this is a reasonable estimate based on the California Legislative Analyst's Office projections contained in their December 2017 report "Cap-and-Trade Extension: Issues for Legislative Oversight".³

Our phasing approach focuses on completing the Central Valley and the San Francisco to Gilroy segments first, working towards beginning interim operations. As I will describe in more detail, over the coming year we will be working with our Early Train Operator as well as other experts to analyze opportunities to begin early service on the Central Valley and Peninsula segments while also seeking input on creative funding and delivery strategies to connect those two lines as quickly as possible

D. High-Speed Rail Remains Necessary to California's Transportation Future

A final aspect of the 2018 Business Plan that is important to note is its enumeration of the reasons why high-speed rail is still the right choice for California's transportation future. Californians voted for high-speed rail because they recognized its unique ability to transform the state for generations to come.

Mr. Chairman and Acting Ranking Member, I have spent 25 years working in the field of transportation policy, and I have never seen a project that matches high-speed rail's ability to positively impact this state. The fact of the matter is California's transportation system, once the envy of the world and a key driver of economic prosperity, is becoming increasingly gridlocked, and it's a problem that will only worsen. While the state has committed significant resources to improving its roads, highways and bridges, simply building more freeway lanes and airport runways is not a practical response to our rapidly growing population.

A new approach is needed, and high-speed rail remains the best option for dealing with the pressures of a growing populace. It is a proven approach that has been successful abroad. For instance, when high-speed rail service was introduced between Madrid and Seville, Spain, the share of trips taken by plane was reduced from 40 percent to 13 percent, and rail trips grew from 16 percent to 51 percent. Additionally, in France, travel habits changed after high-speed rail became an option for travelers between Paris and Lyon, with the share of rail trips growing from 40 percent to 70 percent. Simply put, this type of mode shift will decrease congestion on our roads and airport runways while saving Californians time and money.

³ ["Cap-and-Trade Extension: Issues for Legislative Oversight"](#)

Moreover, connecting our megaregions with a fast, efficient transportation system will provide for sustained economic growth by creating a better jobs-housing balance throughout the state, providing access to new job opportunities, and generating new workforce development possibilities.

In addition to these macroeconomic impacts, the project is and will continue to have extraordinary direct economic benefits. Indeed, a forward-looking analysis shows that a completed Silicon Valley to Central Valley Line will support nearly 240,000 job years of employment and nearly \$50 billion in economic activity over the lifetime of the line's construction.

Of equal importance are the immense environmental benefits that will be produced by the operation high-speed rail in California. The average annual greenhouse gas emissions savings of the system, 1.5 million metric tons of carbon dioxide equivalent, is projected to be the equivalent of taking 322,000 passenger vehicles off the road, and 169 million gallons of gasoline avoided, every year.

Mr. Chairman and Acting Ranking member, I believe that for these reasons it is clear that California high-speed rail is a critically important infrastructure investment for both the state and nation's future. In fact, the need for this program is greater now than when the project was approved by Californians in 2008. The question is no longer "can we afford to build this project?" but, "can we afford *not* to build this project?"

III. Looking Ahead

A. Utilizing the Program Baseline and Management Plan to Advance Construction

Mr. Chairman and Ranking Member, I have made reference throughout this testimony to the need to change the way the Authority conducts its business. In June of this year, we took an important step toward this goal with the implementation of a Program Baseline

The baseline outlines the "what" and "when" for the high-speed rail program. It includes the scope, schedule, costs and budget to deliver the priorities set in the 2018 Business Plan. It is driven by expected environmental Record of Decision dates and identifies key milestones for future procurements leading to operations. In addition, it contains an initial risk assessment which will require further refinement during baseline updates and establishment of a structured risk mitigation management process.

This baseline includes costs associated with the construction of the Silicon Valley to Central Valley Line and all Phase 1 planning and environmental documentation costs required by the grants awarded to the Authority by the FRA. The Authority's revised schedule estimates for achieving environmental clearance, or Records of Decision (RODs), are described in the graphic I have provided.

Project Section	Preferred Alternative Selection (Baseline)	Circulation of Draft EIR/EIS (Baseline)	Assumed Baseline ROD Dates
San Francisco – San Jose	Dec-19	Mar-20	Mar-21
San Jose – Merced	Sep-19	Dec-19	Nov-20
Central Valley Wye	Complete	Sep-18	Jul-19
Fresno – Bakersfield LGA	Complete	Complete	Oct-18
Bakersfield – Palmdale	Oct-18	Jul-19	Jun-20
Palmdale – Burbank	Nov-18	Dec-19	Jan-21
Burbank – Los Angeles	Nov-18	Sep-19	Jul-20
Los Angeles – Anaheim	Nov-18	Nov-18	Oct-19

Implementation of the baseline is an important step to improve program delivery management and enable greater visibility on how future decisions may impact program costs and schedule. Development of the baseline involved the creation of a centralized database that captures all spending to date, as well as schedules and project budgets. From this, the Authority will develop refined reporting that will provide trends related to actual expenditure versus plan and future forecast; schedule critical path elements; and risk/contingency management efforts.

Our management team understands this challenge and has reviewed the organization’s structure, strengthened oversight functions and initiated new business processes to support improved decision-making and risk management, as outlined in our recently completed Program Management Plan.

B. Developing Innovative Approaches to Commence Revenue Service and Construct Pacheco Pass Tunnels

Mr. Chairman, as I have stated previously our number one priority is to initiate high-speed rail service as soon as possible. Over the coming months and years we will be looking to expertise from around the world for innovative approaches to beginning America’s first true high-speed rail operations.

As described in the 2018 Business Plan, we see two fundamental paths toward commencing high-speed rail service: 1. Potential early service on the San Francisco to Gilroy and Madera/Merced to Bakersfield lines; and, 2. Developing innovative approaches to delivering the Pacheco Pass tunnels to commence service on the fully Silicon Valley to Central Valley Line.

Analyzing Options for Early High-Speed Rail Service

The strategy outlined in the 2018 Business Plan to incrementally deliver the Silicon Valley to Central Valley Line would create approximately 224 miles of high-speed-rail-ready infrastructure on two different lines, one in the Central Valley and one connecting San Francisco to Gilroy. Both lines could be ready for service as early as 2027—and delivering early benefits on the way to completing the full Silicon Valley to Central Valley Line.

To that end, we will work to identify how to put each segment of the system into service once completed. The Authority, working with our Early Train Operator (ETO), will explore options for how best to put infrastructure into service. Early train service decisions will include the type of service and the operator of those services that will ensure full compliance with our Proposition 1A requirements. We have begun this analysis and our intent is to include the results in the Project Update Report to the California Legislature in March 2019.

Capturing International Expertise for Innovative Delivery of Pacheco Tunnels

Mr. Chairman, as you know our 2018 Business Plan is very clear that the Pacheco Pass tunnels that will connect the San Francisco – Gilroy and Merced/Madera – Bakersfield sections of the Valley to Valley line are unfunded, and that the closing of that gap will be among the highest priorities for the Authority over the coming years. Our first step in delivering the tunnels will be to “de-risk” construction by completing project development and other early works—geotechnical analysis, environmental review, design, right-of-way acquisition—first.

Additionally, we will engage the federal government and public and private sector experts to examine tunnel design options that maximize operational efficiency, safety, environmental stewardship and cost containment.

Tunnels of this magnitude and complexity have been constructed internationally. Five high-speed rail tunnels of the same length and longer have been successfully completed worldwide, and another six are currently in planning and under construction. Our tunnel design and construction approach involves taking advantage of international expertise and lessons learned on other high-speed rail programs worldwide.

By year’s end, we will convene a blue-ribbon panel of internationally recognized experts in various tunnel disciplines. This panel will advise us on a range of issues and questions, with specific early focus on the Pacheco Pass tunnels. In seeking this feedback, the Authority will focus on three primary areas: 1. technical specifications and cost; 2. delivery models, contract packaging and risk transfer; and, 3. procurement and funding strategies.

We believe this is a prudent approach in the face of funding uncertainty and look forward to working with the Committee, the Administration, and the private sector to make this vital connection a reality.

C. Future Funding

Mr. Chairman and Acting Ranking Member, in closing I would like to briefly discuss future funding for the California high-speed rail program. We are very clear in our 2018 Business Plan that aspects of the project remain unfunded. That is why we have devised the incremental delivery approach to build segments with independent utility.

While we understand the budget realities facing the Congress and recognize that the way transportation projects are funded must and has changed, it is also our strong belief that this project is of national significance and is deserving of additional partnership with the federal government.

The state of California is stepping up to the plate to fund this critical investment – over 86% of the funding committed to this program to date has come from the state-level. Given this disproportionality, we believe there should be innovative partnering opportunities between the state and federal government to move this project forward.

Specifically, we believe that over the course of the development of the program, there will be opportunities for significant additional federal involvement in the form of infrastructure financing. One expression of support for ongoing major transportation infrastructure projects is the infrastructure plan proposed by the current administration. Now under consideration in Congress, the plan includes several elements that would make a variety of financing tools for high-speed rail available. This includes infrastructure investment incentives and expanded federal credit programs, such as Railroad Rehabilitation and Improvement Financing (RRIF) and Transportation Infrastructure Finance and Innovation Act (TIFIA) loans.

These programs could provide the high-speed rail project with a low cost of debt and more flexible repayment terms. Should an infrastructure program that includes these and other potentially favorable financing tools be passed into law, it would provide an opportunity to seek and secure additional federal financial support that could coincide with the Silicon Valley to Central Valley Line and/or extensions to complete the Phase 1 System. We believe that the program, using a mix of matching funds from state sources, could deliver the benefits and funding leverage that the federal government is seeking to achieve.

IV. Conclusion

In closing, I would like to thank you again for allowing me to provide you with an update on the exciting progress the Authority has made towards implementing the nation's first high-speed rail system. I look forward to continuing to work with the Subcommittee to ensure that California's high-speed rail system is built correctly, cost-effectively, and in the best interest of the nation's and California's taxpayers.